

CHAPTER 2

Protection of Intellectual Property Assets: Patent and Copyright Law

When a firm or an individual develops a new product or service, one of the very first legal issues that arises is protection of that new asset from competitors. If the firm waits until later in the product development or marketing process to consider this issue, it may find that it has lost the right to protect the asset. Thus, those creating a new product or service need to budget for and obtain legal advice on this issue very early in the development process. This chapter discusses ways in which patent and copyright law protect intellectual property assets and the steps that firms must take to obtain those protections.

Overview

Although managers often think of intellectual property issues as arising primarily in the context of high-technology ventures, all firms need to be concerned with intellectual property protection. Intellectual property law can be used to protect assets as sophisticated as computer software or as simple as soft drink formulas or customer databases.

Categories of Intellectual Property Law

Intellectual property assets consist of property rights in intangible products of investment, creative intellect, or labor. “Intellectual property law” is a broad legal term that is used to refer to a number of separate, but related, legal doctrines that relate to these assets. We examine the four basic categories of intellectual property law: (1) patent law; (2) copyright law; (3) trade secret law; and (4) trademark law. These doctrines provide overlapping protection. It is possible, for example, to protect different aspects of a single product through a combination of some or all of these four categories (see Exhibit 2.1). The decision as to which type or types of protection to pursue is a matter of both business and legal strategy and so requires the active participation of both management and its legal counsel.

Patent, copyright, and trade secret law comprise one major branch of intellectual property law. Each of these three mechanisms may be used to prevent others from making or selling protected products or services. The second main branch of intellectual property law, which includes trademark and unfair competition law, allows firms to take action to prevent others from providing false and misleading information to consumers or to protect famous marks (see Exhibit 2.2).

This chapter addresses patent and copyright law. Trade secret law is addressed in Chapter 3, as is the law relating to covenants not to compete, nondisclosure agreements, and other contractual agreements and business strategies used to protect intellectual property assets. Trademark law and unfair competition law are discussed in Chapter 6, Chapter 7, and Chapter 8, which address legal issues related to the promotion of products and services.

EXHIBIT 2.1 Overlapping Forms of IP Protection

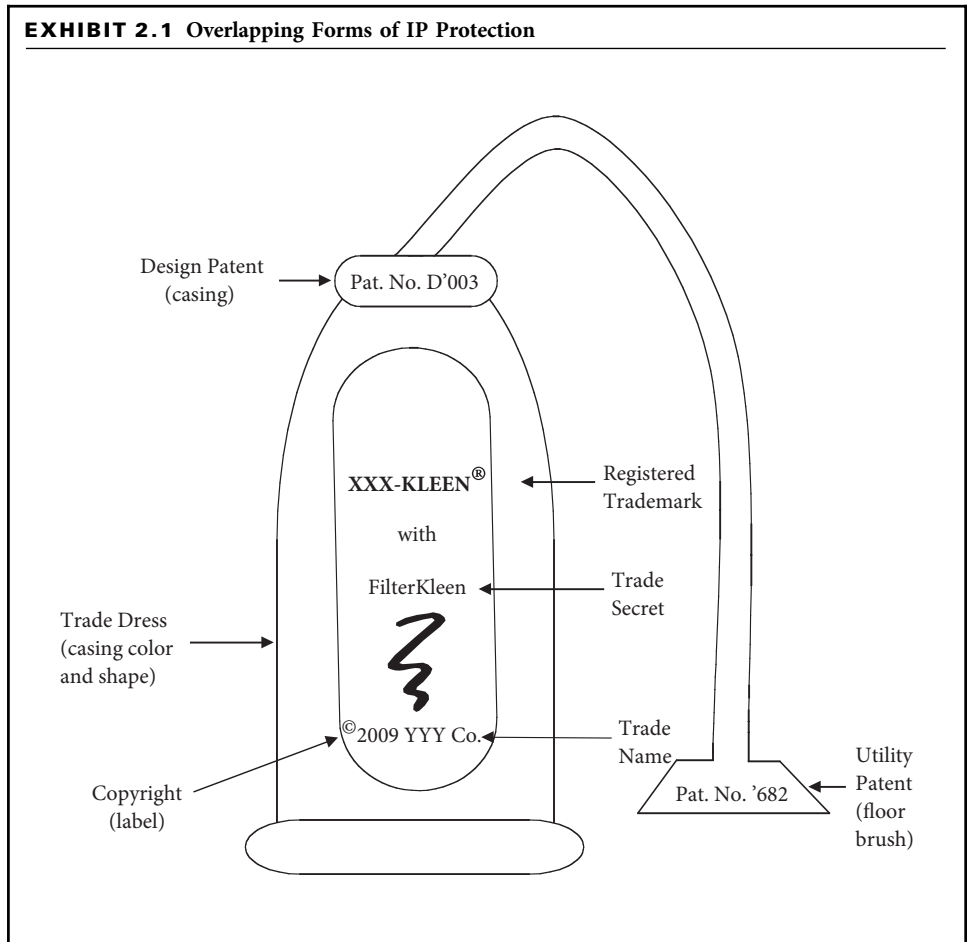
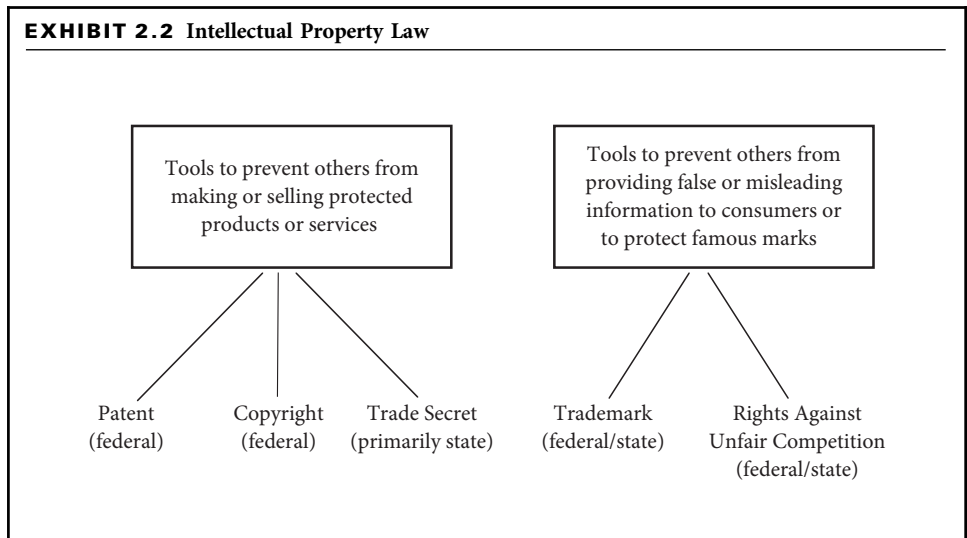


EXHIBIT 2.2 Intellectual Property Law



Managerial interest in intellectual property issues has increased dramatically in recent years as a result of a stunning increase in the value of intellectual property over the past few decades. A number of “pure knowledge” companies, such as Microsoft, now derive much of their value from intellectual property rather than from tangible assets.

The federal government has also devoted much more attention to the international aspects of intellectual property law in recent years. The government wants to protect U.S. intellectual property rights overseas as much as possible. It also wants to harmonize intellectual property laws between the United States and other countries as much as possible to reduce transaction costs for global businesses and to provide a level playing field for American companies competing in foreign countries.

As a result of these initiatives, U.S. intellectual property law is currently changing very rapidly. Although every manager should have an understanding of the basic parameters of intellectual property law, firms should seek the expert advice of legal counsel before undertaking activities in this area.

Underlying Policy Considerations

Intellectual property law hinges on a fundamental policy conflict. The ultimate goal of intellectual property law is to provide a diverse, competitive marketplace. Thus, on the one hand, intellectual property law tries to promote creativity in an effort to encourage the provision of a wide variety of goods and services to the market. By giving inventors, writers, or artists property rights in their intangible creations, the law gives them an opportunity to recoup their investment in the creative process and to earn a profit. On the other hand, the law wants to provide the freest possible public access to new products and services. Intellectual property law represents compromises between the goal of encouraging creativity and that of promoting public access. The net result is that intellectual property law is constantly changing as legislators attempt to strike a balance between these two competing goals.

Patent Law

A **patent** is a grant of an exclusive monopoly for a limited time period from the federal government to an inventor. The theory behind patent law is that the opportunity to obtain such an exclusive monopoly encourages investment in research and development. To receive a patent, the inventor must reveal to the public information about the invention. In return, the inventor may exclude others from making, using, selling, or offering to sell in the United States the patented invention or from making, using, selling, or offering to sell a substantial portion of components that, if combined, would infringe the patent. In addition, federal law prohibits the importation to the United States of products made from any process covered by a U.S. patent.

Patents are issued exclusively by the federal government. Article I, Section 8 of the U.S. Constitution provides:

The Congress shall have power ... 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.

States therefore may not issue patents.

Patents are issued under the auspices of the federal Patent and Trademark Office (PTO), in accordance with the provisions of the federal Patent Act.¹ In addition, Congress

¹35 U.S.C. §§ 1 *et seq.*

created the U.S. Court of Appeals for the Federal Circuit (CAFC) in 1982. The CAFC is a specialized appellate court with limited jurisdiction over certain types of legal issues, including patent law. All patent appeals are heard by this court, which has developed expertise in this area of the law, rather than by the 12 regular circuit courts. As a result, patent law is now much more uniform than it was in the past.

Standards for Patent Issuance

There are three kinds of patents in the United States: (1) utility patents; (2) design patents; and (3) plant patents. As Exhibit 2.3 indicates, utility patents are by far the most common. When people use the term “patent,” they usually are referring to a utility patent.

Utility patents protect the function of articles or processes. *Design patents* protect the ornamental features of articles. *Plant patents* may be issued for asexually reproducible plants that are novel, nonobvious, and distinct. Because plant patents are such a narrow niche, our discussion focuses primarily on utility patents and secondarily on design patents.

An inventor can have only one patent per invention. If the item involved incorporates two or more inventions, however, the inventor can receive separate utility patents for each invention. In Exhibit 2.1, for example, separate utility patents could be obtained for the floor brush and the motor. In addition, an inventor can obtain both design and utility patents on different aspects of a single item. Suppose a company invents a new kind of no-spill cup for children that is unusually effective at preventing spills and leaks and that has a unique and attractive shape. The company could obtain a utility patent on the no-spill lid and a design patent on the shape of the cup.

Utility Patents Utility patents cover *useful* inventions that fall into one of five categories: processes (such as a gene-splicing procedure), machines, articles of manufacture (such as a tire or a chair),² a composition of matter (such as a new chemical compound), or improvements upon existing ideas that fall into any one of these categories. Utility patents protect only processes or tangible products. Patents may not be used to protect expressions of ideas (that is the function of copyright law), nor may patent law be used to obtain a

EXHIBIT 2.3 2008 Patent Statistics

PATENT DOCUMENTS GRANTED (CALENDAR YEAR)	
Utility Patents	157,772
Design Patents	25,565
Plant Patents	1,240
Reissue Patents	647
TOTAL - 2008	185,224

Source: www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm

²“Articles of manufacture” are generally simple objects without moving parts, as opposed to “machines,” which generally have moving parts or electronic circuits.

monopoly on laws of nature, naturally occurring substances, mathematical formulas, or abstract ideas, for such a monopoly would stifle scientific inquiry and advancement.

The distinction between man-made and naturally occurring organisms has important implications for the biotechnology industry in particular. In *Diamond v. Chakrabarty*,³ decided in 1980, the Supreme Court determined that while naturally occurring microorganisms cannot be patented, man-made microorganisms may be.

◀ See Discussion Case 2.1.

The PTO has since interpreted *Chakrabarty* as authorizing patents on higher forms of genetically engineered mammals, such as mice and rabbits. The United States tends to be more liberal on this issue than most countries. Man-made organisms patentable in the United States may well not receive patent protection elsewhere in the world.

The categories of patentable subject matter can shift over time as courts respond to changing technology and circumstances. Recent significant changes involve the patentability of *business methods* (i.e., patents that pertain to a method of doing or conducting business). In a 1998 decision, *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,⁴ the CAFC held that business methods could be patented provided the method involved a practical application (i.e., produced a “useful, concrete and tangible” result). After *State Street Bank*, business method patent applications grew dramatically, though they are still only a small fraction of the total number of patent applications filed each year. In fiscal year 2008, the PTO received 9,563 business method patent applications and issued 1,643 patents.⁵

The issuance of business method patents has been very controversial, as many commentators feel that the PTO is issuing patents for obvious inventions. In particular, many argue that the PTO is issuing patents for ways of doing business on the Internet that are common in the non-Internet business world. They fear that the growth in business method patents will hamper the development of the Internet as a commercial medium.

The *State Street Bank* decision has created problems as well as opportunities for businesses. Many businesses that had treated their business methods as trade secrets and had not attempted to patent them suddenly found themselves facing patent infringement claims from inventors who filed for business method patents long after the method had already been in use by others. Congress responded to this unexpected consequence in the American Inventors Protection Act of 1999,⁶ which created the “first inventor defense.” This defense allows a person who invented and used commercially a method of doing business at least one year before the date another person filed a business method patent application on it to continue using the method without infringing on any patent that might be granted.⁷

In 2008, the Federal Circuit issued a decision in *In re Bilski*,⁸ in which the court significantly reined in the scope of business method patents. The *Bilski* court held that the “useful, concrete and tangible” result test of *State Street Bank* was insufficient to judge patentability of business methods. The inventors in *Bilski* had applied for a patent for a method of hedging certain commodity transactions. The PTO denied their application on the grounds that it lacked patentable subject matter. The inventors appealed the denial. The Federal Circuit, sitting *en banc*, affirmed the denial. The Federal Circuit stated that the test

³447 U.S. 303 (1980).

⁴149 F.3d 1368 (Fed. Cir. 1998).

⁵See www.uspto.gov/web/menu/pbmethod/applicationfiling.htm

⁶Pub. L. No. 106-113, as amended by Pub. L. No. 107-273.

⁷35 U.S.C. § 273.

⁸545 F.3d 943 (Fed. Cir. 2008).

to be applied to determine the patentability of any process, including business methods, is whether the process: (1) is tied to a particular machine or apparatus, and (2) transforms a particular article into a different state or thing. This “machine-or-transformation test,” as it is known, has created its own questions about patentability of business methods, and the PTO and the lower courts are still determining how it applies in specific situations. The U.S. Supreme Court will hear oral argument in *In re Bilski* in November, 2009. So the future of business method patents is still uncertain as this edition goes to press.

A utility patent gives its owner a monopoly of limited duration in an invention in return for full public disclosure of the invention’s details (so that the public may learn from it). Patents currently have a term of 20 years from the date the application was filed. This term can be extended if the PTO fails to grant a patent within three years after filing because of administrative delay. Patent terms cannot otherwise be extended or renewed, however; and, once the term has expired, all members of the public (including competitors) are free to make or use the invention as they wish.

An inventor will not receive a patent merely because he has invented something. Rather, the inventor must show that the invention is worthy of a patent. The Patent Act requires that in order for a utility patent to issue, the invention must be: (1) novel; (2) nonobvious; and (3) useful.

Novelty is covered in Section 102 of the Patent Act. Although Section 102 has numerous provisions covering a variety of types of circumstances, two are particularly important. Section 102(a) provides that a patent must be denied:

if the invention was known or used by others in this country or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for a patent

The focus in Section 102(a) is on the actions of persons other than the applicant prior to the date that the applicant made the invention. Prior to that date, did other persons cause the invention to be known or used in the United States? Did they cause it to be patented or make it the subject of a printed publication anywhere else in the world? The policy behind Section 102(a) is to prevent a second inventor from obtaining a patent if a previous inventor has already placed the invention in the public domain before the second inventor made his invention.

Section 102(b) provides that a patent must be denied:

if the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of application for patent in the United States

Section 102(b) focuses on the actions of the applicant and others more than one year before the application was filed. Essentially, once one of the listed events has occurred, the inventor has one year in which to file an application for patent, or the inventor loses the right to do so. There are several policy reasons behind this provision. First, it ensures that inventions in the public domain for one year remain there. Second, it allows the inventor one year in which to test market reaction before going to the considerable expense of filing for a patent. Third, it prevents the inventor from marketing the product for several years before applying for a patent in an effort to extend the effective patent time.

◀ See Discussion Case 2.2.

The *nonobviousness* standard asks whether the invention would have been obvious to someone skilled in the particular field as of the date of invention. If so, the invention is not patentable.

The *usefulness* standard requires that there be a current, significant, beneficial use for the invention. This is not a particularly high bar, and most inventions have no problem in meeting this requirement.

Design Patents Design patents protect the *ornamental* features of an article of manufacture. As you can imagine, design patents are of great importance to many manufacturers, particularly manufacturers of consumer goods. Many goods—such as athletic shoes, coffeemakers, or chairs—may be virtually indistinguishable from each other except for their design, which then becomes critical to the marketing function.

To receive a design patent, the inventor must show that her design is: (1) novel; (2) non-obvious; and (3) ornamental. With a few exceptions, the novelty requirement applies to design patents just as it does to utility patents. The test for nonobviousness of design patents is whether a professional designer of ordinary skill, viewing the overall appearance of the design as compared to prior designs, would consider the new design obvious. The ornamentality standard requires that the design be primarily ornamental and not dictated by functional considerations. If there are a variety of ways in which the article could be designed and still perform its function, the design is most likely ornamental and not functional. If the design affects the invention's function or performance, however, it must be protected, if at all, through a utility patent, not a design patent. Design patents are valid for a term of 14 years from the date of patent issuance—a much shorter term than that granted to utility patents.

Ownership of Patents

Under U.S. law, the **first to invent** is the only person who can file for and obtain a patent. In virtually every other country of the world, however, the *first to file* is entitled to the patent.

Very often, employees create inventions while at work. This situation raises two issues: (1) Who owns the invention—the inventor or the employer? and (2) Who may file for the patent—the inventor or the employer?

If the employee creates the invention in the context of fulfilling his specific job duties (i.e., the employee was “hired to invent”), the invention belongs to the employer and the employee is obligated to assign all rights to the invention to the employer. It is best, from the employer's perspective, to have a specific employment agreement in place providing that the employee will make such an assignment. In the absence of an explicit agreement, the common law will reach the same result.

If the employee does not create the invention as part of his official job duties but nonetheless invents something closely related to his duties or uses company resources in doing so, the employee will “own” the invention, but the employer will have “*shop rights*” in the invention. Shop rights are an irrevocable, nontransferable, royalty-free license to use the invention. The theory behind shop rights is that the employer, whose resources contributed to the invention, should have the right to use the invention in its business, although the employee retains the right to exploit the invention for all other purposes.

Employers generally are not satisfied with obtaining shop rights, however. Rather, they want to own the invention. Thus, employers often use “invention assignment agreements,” in which the employee agrees in advance to assign all rights in an invention to the employer. (Invention assignment agreements are discussed in more detail in Chapter 3.)

Ownership of the *invention* does not resolve the question of who can apply for the *patent*, however. Recall that under U.S. law, only the *inventor* (i.e., the person who conceived of the invention) is entitled to apply for a patent. Thus, even if the employer has an invention assignment agreement transferring ownership of the invention to it, the inventor must still file for the patent; ownership of the patent can then be assigned to the employer by

the inventor. Thus, the invention assignment agreement should contain a provision obligating the employee/inventor to cooperate in the application for the patent.

Patent Application Procedures

Applications for patents are made to the PTO in Washington, D.C. The PTO will examine the application and, if all of the statutory standards have been met, will issue a patent.

Inventors may represent themselves before the PTO. As a practical matter, however, because of the complexity and technicality of the documents required, it is usually advisable to seek the services of a patent agent or patent attorney who is skilled in drafting an application that is broad enough to protect the invention yet narrow enough to pass the scrutiny of the PTO examiner. Both patent lawyers and patent agents are individuals licensed to practice in patent cases before the PTO. The major distinction between the two is that patent agents cannot represent clients outside the PTO (for example, in litigation resulting from patent infringement), while patent lawyers, of course, can. Both patent lawyers and patent agents must have a degree in a technical or scientific field, such as engineering or physics, and both must pass a PTO exam that tests knowledge of patent laws and rules and the ability to write a patent claim.

The process of obtaining a patent from the PTO is known as a *prosecution*. The application must describe the invention in detail and include diagrams or illustrations. The Patent Act requires that patent applicants fully disclose their inventions to the public as part of the “price” of obtaining a patent. The patent applicant is required to describe how to make and use the invention with sufficient clarity, precision, and detail to enable a person skilled in the relevant art to make and use it without undue experimentation. Failure to do so will result in either denial of the patent or, if the patent has already issued, invalidation of the patent.

The application must set forth the *claims*—statements that describe the invention in a very formal and stylized manner and that articulate the basis for the monopoly that is to be granted to the inventor. Typically, a number of negotiations take place between the patent examiner and the patent lawyer or agent, which often result in the patent application being rewritten to result in a narrower monopoly being granted to the inventor. On average, it takes eighteen months to two years to obtain a patent, although the process can take much longer for complex or disputed patents.

Before filing an application, the applicant should conduct a *prior art search*. “Prior art” refers to any printed publication, prior patent, or other document, or prior invention that references or makes use of the invention that is the subject of the patent application. The PTO may find that such prior art renders the applicant’s invention obvious or non-novel, making the issuance of a patent improper. A careful search for prior art helps the applicant to avoid the expense of filing an application that the PTO is unlikely to grant and helps the applicant to prepare responses in advance to issues likely to be raised by the PTO examiner. The applicant must disclose to the PTO all of the prior art of which it is aware. There are a number of professional firms that specialize in searching for prior art; there are a number of online databases available as well. Because the consequences of an improper prior art search can be both expensive and time-consuming, it is wise to seek professional assistance in this area. The PTO examiner also conducts a search for prior art in the course of evaluating the application.

The filing fee for a patent is relatively modest—typically, \$330.⁹ Of course, the filing fee is only one small part of the entire process. The PTO charges additional examination and maintenance fees as well. The largest expense the applicant is likely to face, however,

⁹For a complete and current PTO fee schedule, see the PTO’s webpage at www.uspto.gov/

is for expert counsel throughout the prosecution process. If the inventor hires a patent agent or patent lawyer to represent the inventor in the preparation of the patent application and in the negotiations with the PTO examiner, the inventor is likely to spend several thousand dollars to obtain his patent.

Historically, U.S. patent applications were kept secret and were not released to the public. That practice differed significantly from practices in the rest of the world, in which patent applications are typically published, or “laid open” to the public, within a specified time period (usually 18 months after filing). The American Inventors Protection Act of 1999, however, changed the U.S. practice of holding patent applications secret. Now, all U.S. utility patent applications that are also foreign-filed and published abroad are published 18 months from their first effective filing date. The PTO will still hold utility patent applications that are filed solely in the United States and not abroad secret if the applicant so requests. If the patent application is made public, the inventor gains several advantages, including enhanced damages for infringement. The inventor loses the opportunity to treat the invention as a trade secret in the event that the PTO does not issue the patent, however. (This topic is discussed further in Chapter 3.) Therefore, the inventor should discuss the implications of publishing the application versus holding it secret with legal counsel before proceeding with the application.

If a patent is issued, the patent is summarized and published in the *Official Gazette*, which is an official U.S. government publication.¹⁰ At this point, the patent becomes a public document and anyone can examine it to determine the details of the invention. The theory is that, in return for receiving the limited monopoly granted by the patent, the patentee must make the invention available to the public so that others can make technological improvements upon it. At the end of the patent period, the invention is available to the public as a whole and anyone can make or use it without incurring liability.

If the patent examiner determines that the invention is not patentable, the applicant may take an administrative appeal to the PTO Board of Appeals. If the Board provides no relief, the applicant may appeal on the administrative record directly to the CAFC or may file suit against the Commissioner of Patents and Trademarks in the U.S. District Court, where a *de novo* review of patentability will be made. Appeals go to the CAFC (see Exhibit 2.4).

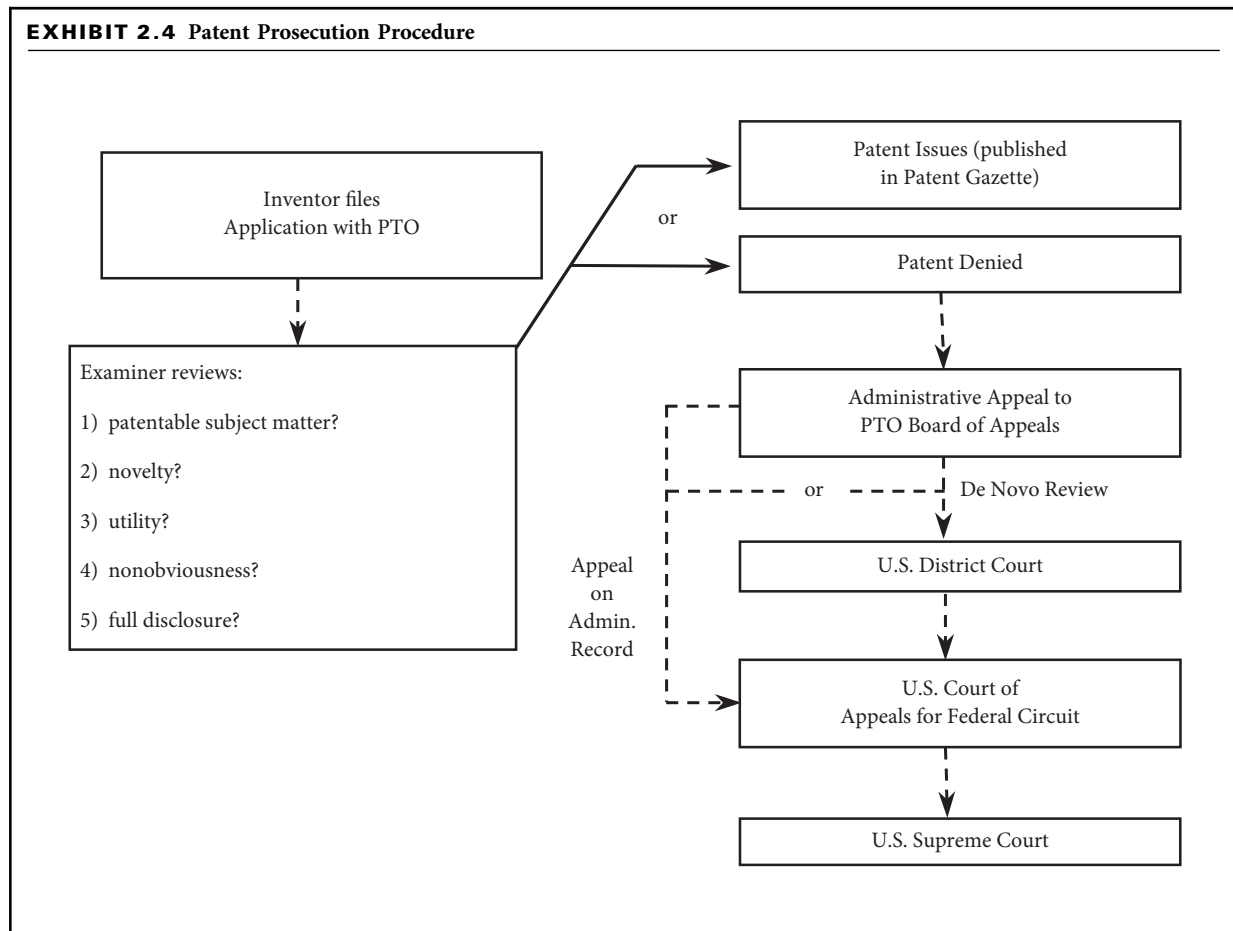
It is important to realize that issuance of the patent does not guarantee that the patentee has a valid patent. The PTO’s issuance of a patent provides a *presumption* of validity, but this presumption can be overcome. For example, if the patentee attempts to enforce the patent in an infringement action, the alleged infringer can raise patent invalidity as a defense. A party can also challenge the validity of a patent through a *declaratory judgment action* before it has been charged with infringement by the patentee.

The standards for obtaining a valid patent are strict. The PTO denies many applications for patents, and, of the ones granted, a significant percentage are later invalidated by a court. A patentee cannot be complacent just because a patent has issued.

Rights Granted by a Patent

A patent grants the patentee an exclusive monopoly (for a limited time period) to prevent others from making, using, selling, offering to sell, or importing the invention, even if those others independently create the invention. In most instances, the patentee may “work” the invention (i.e., put it into commercial use), license others to work the invention, or simply hold the patent and refuse to make the invention (or allow others to make it) during the patent period. Firms may use this latter tactic as a strategic measure to prevent competitors from entering specific markets.

¹⁰Recent issues of the *Patent Official Gazette* are available online on the PTO’s webpage at www.uspto.gov/



Patentees do not automatically have a right to “work” their inventions in every instance, however. A patent does not grant the inventor the right to make, use, or sell the invention; rather, it grants the patentee the right to exclude others from doing so. Suppose that Inventor A holds a patent on a new type of widget that will revolutionize the widget-using industries. To make the widget, however, Inventor A must use a specific manufacturing process that has already been patented by Inventor B. Inventor A therefore cannot manufacture her widgets without infringing upon Inventor B’s patent. Inventor B’s patent is known as a *blocking patent*, and it will have the effect of preventing Inventor A from commercializing her widget invention. Inventor A will have the right to prevent others from making her patented widget, but will be unable to make the widget herself unless she is able to negotiate a license with Inventor B for the use of the patented manufacturing method.

Infringement

There are two dimensions of patent infringement issues that are relevant to marketers. First, a marketer may find that its patent has been infringed by another and may want to pursue legal remedies to protect the patent. Second, a marketer may find itself defending against an infringement action brought by a competitor. The marketer may have unintentionally infringed upon another’s patent. Alternatively, a marketer may deliberately infringe a patent, believing that if its actions are challenged in court, the patent will be declared invalid.

Types of Infringement The Patent Act provides that a person can be held liable for infringement if she: (1) directly infringes a patent; (2) induces another to infringe a patent; (3) contributorially infringes a patent; (4) manufactures or sells certain components of a patented invention to be assembled abroad; or (5) imports, sells, offers to sell, or uses a product made abroad through a process protected by a U.S. patent.

The last provision prevents a business from avoiding a patentee's U.S. process patent by using the process abroad to manufacture products, then importing the products into the United States to sell or use. The use of the *process* abroad is not infringement, because U.S. patent laws do not have extraterritorial reach; however, the subsequent importation, offer for sale, or use of the *products* in the United States is infringement. Theoretically, retailers and noncommercial users are subject to liability under this provision. However, the Patent Act provides that retailers and noncommercial users are held liable only if there is no adequate remedy against the primary manufacturers, importers, distributors, or wholesalers on the theory that the most culpable parties should be held liable first.

Direct infringement is most common. It occurs when the defendant makes, uses, sells, or imports the patented invention in the United States during the patent term. For example, in *Snuba International, Inc. v. Dolphin World, Inc.*,¹¹ Snuba International held a patent on a diving system. Snuba's invention consisted in part of a lightweight raft that carried compressed air tanks and that was attached to the diver by a harness and towline. Dolphin World sold a competing product called the "Free Diver," which used a "pod" and harness mechanism. Although Dolphin World attempted to argue that a "pod" was not a "raft" and that its system therefore did not infringe, the CAFC disagreed and found that Dolphin World had directly infringed Snuba's patent.

Inducement to infringe occurs when the defendant actively, intentionally, and knowingly solicits or assists a third party in directly infringing a patent. Direct infringement by a third party is a prerequisite to finding inducement to infringe. In *Snuba International*, for example, the CAFC found that the use of the Free Diver system by Dolphin World's customers constituted direct infringement and that Dolphin World had induced this infringement by disseminating sales information and promotional materials that encouraged consumers to purchase its Free Diver system.

Contributory infringement occurs when the defendant sells, offers to sell, or imports a material component of the patented invention that has no substantial use aside from use in the patented invention, provided that: (1) the defendant knows that the component he sold was specially made or adapted for use in the patented invention, has no other substantial use, and is likely to be used to infringe the patent; and (2) his actions contribute to another's direct infringement. Direct infringement is a prerequisite to finding contributory infringement. In *Snuba International*, the CAFC found that Dolphin World had notice of the Snuba patent and admitted that its Free Diver pod had no noninfringing use. Because the use of the Free Diver system by Dolphin World's customers was direct infringement, Dolphin World was liable for contributory infringement (in addition to inducement to infringement and its own direct infringement).

Finally, managers should be aware that the courts have held corporate officers—but not non-management employees—personally liable for the infringing activities of their corporations in certain instances. While a corporate officer is not automatically held personally liable merely because of her status as an officer of the corporation, an officer may be held personally liable in instances in which she personally took part in the commission of the infringing act or specifically directed other officers, agents, or employees of

¹¹2000 U.S. App. LEXIS 16946 (CAFC, July 11, 2000).

the corporation to infringe the patent of another.¹² Often, officers can avoid this personal liability by showing that they obtained the advice of legal counsel and relied in good faith on that advice in structuring their behavior. Failure to obtain such advice or to heed it may well result in personal liability.

Defenses to Infringement Claims A defendant charged with patent infringement can raise four basic defenses. First, the defendant can raise *patent invalidity*. If the defendant can show by clear and convincing evidence that the invention was not novel, non-obvious, and useful (for a utility patent) or not novel, nonobvious, and ornamental (for a design patent), the court will find the patent invalid and the defendant will not be liable for infringement.

Second, the defendant can raise *patent misuse* by the patentee. The patentee has misused his patent if he uses it to obtain more market power than Congress intended the patent to convey. Generally, this involves some sort of antitrust violation. Where patent misuse is shown, the patentee is denied enforcement of the patent until the misuse ceases; the defendant is not liable for infringement. Antitrust issues are discussed in more detail in Chapter 4.

Third, the defendant is relieved of liability for infringement if the defendant can show *inequitable conduct* on the part of the patentee. For example, if the patentee intentionally made a misrepresentation or withheld material information about the patentability of the invention during patent prosecution, the patent is unenforceable.

Finally, the defendant can raise the *experimental use defense*. This is a very narrow defense that permits a person to make or use a patented invention if that person's purpose is only to satisfy her scientific curiosity or to engage in an intellectual exercise. The experimental use defense does not apply if the defendant has any commercial motivation.

Remedies for Patent Infringement

Two basic forms of remedies are available for patent infringement: injunctions and monetary damages. In addition, patentees may recover attorney fees and treble damages under certain circumstances.

Injunctions An *injunction* is a court order to a party requiring that party to either do something or to refrain from doing something. When infringement is found, the court usually awards the patentee both monetary damages and a *permanent injunction* against further infringement.

The patentee often seeks a *preliminary injunction* as well, which is harder to obtain. This is a court order issued during the lawsuit that prevents the defendant from continuing its alleged infringing activities until the lawsuit is resolved. Courts traditionally have been reluctant to grant preliminary injunctions because they fear that if the defendant is ultimately found not to be infringing the plaintiff's patent, the defendant's market position might have been impaired or lost altogether. However, the CAFC has become much more liberal in recent years in granting preliminary injunctions. Generally, to receive a preliminary injunction, the patentee must show that: (1) the patentee has a reasonable likelihood of success on the merits; (2) irreparable harm to the patentee will occur if the injunction is not granted; (3) the balance of hardships tips in the patentee's favor; and (4) the impact of the injunction is in the public interest.

Monetary Damages The Patent Act requires the court to award monetary damages to a prevailing patentee in an amount "adequate to compensate for the infringement."

¹²See, e.g., *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565 (Fed. Cir. 1986).

The preferred measure of damages is the patentee's *lost profits* attributable to the infringement. To recover under this measure of damages, the patentee must demonstrate a reasonable probability that, but for the defendant's infringement, the patentee would have made the sales that the defendant made. Thus, the patentee generally must show: (1) sufficient demand for the patented invention, and (2) an absence of noninfringing substitutes.

For example, suppose that Inventor A has a patent for a telephone answering machine. Several of Inventor A's competitors sell comparable, noninfringing answering machines. Inventor B infringes Inventor A's patent. Inventor A must show that, absent Inventor B's infringement, Inventor B's customers would have bought from Inventor A, not Inventor A's competitors.

Obviously, many patentees find it difficult to meet this standard. In such instances, the patentee may still recover damages in the form of a *reasonable royalty*. This is the amount that a prospective licensee seeking a license to make, use, sell, or import the patented invention would be willing to pay and a reasonable patentee would be willing to accept in an arm's-length transaction at the time of the infringement.

The Patent Act requires the patentee to give *notice* to the public of its patent. Notice is given by putting the word "patented" or the abbreviation "Pat.," along with the patent number, on the items being marketed. If the patentee fails to provide notice, the patentee may still obtain injunctive relief against infringers. However, the patentee will receive monetary damages only if the defendant had specific notice that the defendant was being charged with infringement. In addition, damages will be limited to the infringement that occurred after the defendant received the notice. Thus, patentees should be careful to place the required notice on their goods.

While damages for infringement traditionally have been measured from the date of patent issuance, under the American Inventors Protection Act of 1999, an inventor may collect "reasonable royalties" for infringement that occurred during the period after publication of the application but before issuance of the patent. To take advantage of this remedy, though, the patentee must bring the published application to the infringer's attention.

Attorneys Fees and Treble Damages Generally, under U.S. law, each side must bear its own legal costs in litigating a case. Thus, even a winning party is ordinarily required to pay for its own attorneys fees. Some statutes, such as the Patent Act, alter this rule by allowing the winning party to recover its legal fees from the losing party. The Patent Act authorizes the court to award *attorneys fees* to the prevailing party in exceptional cases, such as those in which: (1) the patentee has won and there was willful or deliberate infringement by the defendant, or (2) the defendant has won and there was bad faith conduct by the patentee in obtaining the patent or in suing for infringement. A few statutes also provide for increasing the damage award in certain circumstances. Under the Patent Act, the court may award up to *treble damages* to the patentee if the defendant willfully infringed or acted in bad faith.

Filing for Foreign Patents

No single patent protects an invention in every country around the world. Rather, the inventor must obtain a patent in each country in which the inventor wants to protect her intellectual property asset. Because of the expense and effort involved in filing for patent protection, the inventor generally must choose the countries in which patent protection makes the most commercial sense. To a large extent, this is determined by the inventor's assessment of potential markets and potential competitors and depends upon the inventor's plans for future marketing of the product.

The United States adheres to the Convention for the Protection of Industrial Property, more commonly known as the *Paris Convention*.¹³ This is a multilateral treaty to which over 170 countries, including most industrialized countries, belong. The key provision of the Paris Convention is that it requires each country to grant “national treatment” to foreign patent applicants. This means that foreign applicants must be treated the same as domestic applicants and cannot be discriminated against. However, the Paris Convention provides little in the way of substantive rights to inventors, and no enforcement mechanisms apply if a member state does not comply with its obligations.

Inventors thus must look to the specific laws of the countries in which they seek patent protection. In general, all countries grant patents to new inventions and give the patentee some sort of limited monopoly in the invention. The length of the patent term varies from country to country, although 20 years is becoming the norm, at least in industrialized countries. Patentable subject matter also varies from country to country. As noted earlier, the United States tends to be more liberal than most countries. An inventor cannot assume that, just because a patent issues in the United States, the same invention is patentable elsewhere. The process of obtaining a patent varies from country to country as well. It is always important that an inventor have, in addition to whatever U.S. legal counsel the inventor may hire, a local legal representative who is familiar with the language, laws, customs, and procedures of the country in which the inventor wants to seek a patent.

U.S. patent law is different from that found in most of the rest of the world in several key respects. First, the United States has a first-to-invent system, not a first-to-file system as exists in virtually every other country around the world. (The United States is considering legislation that would implement a first-to-file system, however.) Second, applications in the United States that are not also filed abroad may be held secret unless and until a patent issues. As we see in Chapter 3, if the PTO denies a patent application that is held secret, the inventor still has the option of treating the invention as a trade secret. In most countries, however, all patent applications are made public, either immediately or within 18 months after filing, making trade secret protection impossible if a patent is not issued. Third, in many countries, the inventor is required to “work” the invention within a certain time period. Some countries also impose “compulsory licensing,” in which the inventor is required to license other parties within the country to produce the item at reasonable royalty rates. The United States does not require either “working” or compulsory licensing of inventions.

An inventor wishing to obtain patents in foreign countries can follow one of two paths. First, the inventor can file directly in each country in which the inventor wants patent protection. This process can be expensive, as the inventor must pay filing fees, translation costs, and prosecution costs in each country in which the inventor applies. However, the inventor can target specific countries. Depending upon the nature of the invention, such targeting may be the best business strategy.

Second, the inventor can seek patent protection indirectly through a *convention filing*. The two most widely known conventions are the *European Patent Convention* and the *Patent Cooperation Treaty*. The European Patent Convention permits an inventor to file a single patent application with the European Patent Office. If the patent is granted, patent rights arise in all member countries designated by the inventor in her application.¹⁴

¹³Information on the Convention can be found at www.wipo.int/treaties/en/ip/paris/summary_paris.html

¹⁴For information on the European Patent Convention, see www.epo.org/patents/law/legal-texts/epc.html

The Patent Cooperation Treaty has over 140 member countries, including the United States.¹⁵ Under this treaty, the inventor can file an international application with one of several specified receiving offices (which include the PTO and the European Patent Office). A patent examination is conducted and the results sent to all member countries designated by the inventor. At that point, the inventor has to hire translators and local attorneys to complete the patent application in each country and has to pay local filing fees.

Using a convention filing tends to be cheaper up front than directly filing in foreign countries, although the registration fees at the end can be very high. Filings can generally be done in English, however, which makes the examination process quicker and cheaper.

Copyright Law

Copyright law gives the owner of a creative work of authorship the right to keep others from using the work without the owner's permission. The purpose of copyright law is similar to that of patent law: to encourage creativity. Specifically, copyright law seeks to encourage creation of works of art, literature, music, and other "works of authorship."

We find the same type of fundamental policy tension in copyright law as in patent law. On the one hand, the law wants to encourage creativity by giving creators exclusive rights in their works through copyright protection. On the other hand, the law wants to foster a competitive marketplace by giving the public the freest possible access to works of authorship and the ideas they express.

Copyright law balances these two interests by limiting the author's property rights to the author's particular method of expressing an idea or information. The author can copyright only the *expression* of an idea and not the idea itself, facts, or information.

This is a key distinction between copyright and patent. Patent law gives the inventor an exclusive monopoly in an invention. In return for that monopoly, patent law imposes very strict substantive standards in the form of rigorous application procedures and standards. Copyright law, on the other hand, gives the author a monopoly in one way of expressing an idea—and even that monopoly is limited, because copyright law does not prohibit independently created works, as does patent law. As a result, the requirements for obtaining a copyright are much less stringent than those for obtaining a patent.

Sources of Copyright Law

Like patent law, the foundation of copyright law is the U.S. Constitution. The first copyright statute was passed in 1790 and underwent several major revisions. The current statute was adopted in 1976 but has been amended numerous times since then. Many of the most recent amendments resulted from the United States joining the *Berne Convention*¹⁶ in 1988 and as a result of the *Trade-Related Aspects of Intellectual Property Rights (TRIPS)*¹⁷ agreement of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which was completed in December 1993. The Berne Convention is an 1886 international treaty that standardizes basic copyright protection among its 160-plus member countries.

Prior to the Copyright Act of 1976, the United States had a dual system of copyright. Unpublished works were protected under state common law copyright. Once the works were published, state protection ceased and federal copyright law applied, provided that proper copyright notice was affixed to the works.

¹⁵For information on the Patent Cooperation Treaty, see www.wipo.int/treaties/en/registration/pct/

¹⁶See www.wipo.int/treaties/en/ip/berne/index.html

¹⁷See www.wto.org/english/tratop_e/trips_e/trips_e.htm

In the 1976 Copyright Act, Congress provided that federal copyright protection attaches automatically as soon as a work is fixed in tangible form. Thus, federal law now covers unpublished as well as published works. Today, very little, if any, state copyright law survives.

Generally, copyrighted works today are covered by one of three laws, depending upon when the work was copyrighted and the issues involved: (1) the Copyright Act of 1909; (2) the Copyright Act of 1976, as originally enacted; or (3) the Copyright Act of 1976, as amended. Our discussion focuses on the latter category as it is applicable to the most recently copyrighted works.

The U.S. Copyright Office¹⁸ registers copyrights, issues certificates of registration, keeps records of assignments and licenses, and regulates deposit of copyrighted material. It does not engage in the extensive, comprehensive review that the PTO undertakes in a patent application, however. Rather, the Copyright Office looks merely to see if the submitted work falls within a copyrightable subject matter area and whether the formal registration requirements have been met. As we will see below, works do not need to be registered in order to be protected by copyright. Rather, copyright arises automatically once the work is created and fixed in a tangible form. Registration merely provides additional rights to the copyright owner.

Subject Matter of Copyrights

The Copyright Act provides for a long list of works that may be copyrighted, including literary works (which include computer programs, flowcharts, and advertising items such as catalogues, product labels, and directories); musical works; dramatic works; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion pictures and other audiovisual works; sound recordings; and architectural works. This is not an exclusive list, and the courts can extend copyright protection to new forms of work if the legislative history of the Copyright Act suggests that Congress would have intended to cover those works had it known of them at the time it passed the Act. Thus, the Copyright Act adjusts quite well to advances and changes in technology.

Section 102 of the Copyright Act defines copyrightable subject matter. It states that copyright exists

in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

Thus Section 102 contains two important requirements: the work must be: (1) “original” and (2) “fixed” in a tangible medium.

Originality *Originality* simply means that the author must have created the work herself (as opposed to merely copying from someone else). Copyright law, unlike patent law, does not protect against independent creation. If a second person independently creates an identical form of work, the second person is entitled to a copyright as well as the first (provided there truly is no copying going on).

Originality also requires that the work contain some minimal amount of creativity, although the work does not have to be unique, novel, or of high quality. Thus, even product descriptions or labeling directions can qualify for copyright protection. There must be *some* level of creativity involved, however. For example, a person could not copyright the word “the” because there is no creativity on the part of the purported author. Moreover,

¹⁸The webpage of the Copyright Office can be found at www.copyright.gov

granting such a copyright would remove an important word from common usage and make it difficult, if not impossible, for others to engage in normal expression.

According to a rule issued by the Copyright Office, words and short phrases (such as names, titles, and slogans), listings of ingredients or contents, and familiar symbols or designs are not copyrightable. Some of these things may be protected by trademark law, however, as discussed in Chapter 6.

The U.S. Supreme Court addressed the originality requirement in *Feist Publications, Inc. v. Rural Telephone Service Co.*¹⁹ (see Case Illustration 2.1). The Court's decision that a phone company's compilation of names, addresses, and telephone numbers in its white pages was not entitled to copyright protection caused a great deal of consternation in the business world. Databases are a multibillion-dollar industry in the United States. *Feist* is viewed as leaving the industry with little, if any, protection for these valuable assets. Data itself may not be protected by copyright. Rather, only the selection and

CASE ILLUSTRATION 2.1

FEIST PUBLICATIONS, INC. v. RURAL TELEPHONE SERVICE CO., 499 U.S. 340 (1991)

FACTS Rural Telephone Service published a standard telephone directory, with “white pages” listing Rural’s subscribers in alphabetical order, and “yellow pages” listing business subscribers by category and offering classified advertisements. Feist Publications, a publishing company specializing in area-wide telephone directories, sought a license to use Rural’s white pages listings. When Rural refused permission, Feist used the listings without Rural’s consent. Rural sued for copyright infringement, arguing that Feist was not permitted to copy Rural’s information, but rather had to obtain the information directly via telephone surveys or door-to-door solicitations of Rural’s subscribers. Feist argued that the information that it copied was not protected by copyright law. The lower courts ruled in Rural’s favor; Feist appealed.

DECISION The U.S. Supreme Court noted that “[t]his case concerns the interaction of two well established propositions. The first is that facts are not copyrightable; the other, that compilations of facts generally are.” The Court went on to explain:

*The key to resolving the tension lies in understanding why facts are not copyrightable. * * * To qualify for copyright protection, a work must be original to the author. Original, as the term is used in copyright, means only that the work was independently created by the author (as opposed to copied from other works), and that it possesses at least some*

*minimal degree of creativity. * * * [E]ven a slight amount will suffice. * * * Originality does not signify novelty; a work may be original even though it closely resembles other works as long as the similarity is fortuitous, not the result of copying.*

By contrast, compilations of facts (as opposed to facts themselves) may have sufficient originality to be copyrightable material: “The compilation author typically chooses which facts to include, in what order to place them, and how to arrange the collected data so that they may be used effectively by readers. These choices as to selection and arrangement, so long as they are made independently by the compiler and entail a minimal degree to creativity, are sufficiently original that Congress may protect such compilation through the copyright laws.” But, as the Court emphasized, “[i]n no event may copyright extend to the facts themselves.”

Here, Feist had copied the names, towns, and telephone numbers of Rural’s subscribers. These were merely uncopyrightable facts, however. Moreover, Rural had arranged this information in alphabetical order by last name within its own white pages. This arrangement was not original and creative, but rather “is an age-old practice, firmly rooted in tradition and so commonplace that it has come to be expected as a matter of course.” Because Rural’s white page listings were not copyrightable material, Feist’s copying of those listings was not copyright infringement.

¹⁹499 U.S. 340 (1991).

arrangement of data may be so protected and only then if that selection and arrangement contain sufficient creativity.

Congress has several times considered legislation that would close the gap on the protection of databases caused by **Feist** but no legislation has been enacted. The European Union, by contrast, passed a Database Directive in 1996 that provides for a 15-year protection period for databases created “through substantial investment.”²⁰

Fixation The *fixation* requirement prevents works that are not put into a tangible form—such as oral statements or unrecorded, unwritten musical improvisations—from receiving copyright protection. For example, if you hear jazz improvisation, those works are neither copyrighted nor copyrightable unless and until they are written down or recorded. The Copyright Act permits works to be fixed in a wide variety of tangible media, including paper, floppy disks, fabrics, records, tapes, and compact discs.

Rights Provided by Copyright

The Copyright Act sets forth several exclusive *economic rights* that are granted to the copyright owner. Section 106 provides that the author, or the person to whom the author has transferred the copyright, has the exclusive right to do or authorize the following:

1. reproduce the copyrighted work;²¹
2. prepare derivative works based upon the copyrighted work;
3. distribute copies or phonorecords of the copyrighted work to the public;
4. publicly perform certain types of copyrighted works;
5. publicly display certain types of copyrighted works; and,
6. in the case of sound recordings, perform the copyrighted work publicly by means of a digital audio transmission.

In addition to these economic rights, Congress amended the Copyright Act in 1990 to provide for protection of *moral rights*. Many nations, especially civil law nations, view a work of authorship as an extension of the author’s personality. These nations grant the author: (1) *the right of attribution* (i.e., the right to prevent others from claiming authorship in the work, the right to be known as the author, and the right to avoid having others’ works falsely attributed to an individual); and (2) *the right of integrity* (i.e., the right to prevent others from distorting, mutilating, or misrepresenting the author’s work).

The United States traditionally did not recognize the moral rights of attribution and integrity. The Berne Convention requires member countries to provide protection for such rights, however, so the United States amended the Copyright Act so that it would be in compliance with its treaty obligations. Section 106A of the Copyright Act now provides that, in the case of works of visual art (which are narrowly defined as works of fine art but not objects of utility or mass production), the artist (not the copyright owner, who may be a different individual or entity) has the moral rights of attribution and integrity. Specifically, the artist has the right to:

1. claim authorship in the work;
2. prevent the use of her name as the author of any work she did not create;

²⁰The Directive can be found on the EU Law webpage of the European Union Publications Office, available at http://publications.europa.eu/eur_lex/index_en.htm

²¹This right is subject to certain exceptions. For example, the lawful owner of a copy of a copyrighted computer program may make a backup copy. In addition, public libraries and archives are permitted to copy in many instances that would constitute infringement if done by a private party.

3. prevent the use of her name as the author of the work if the work has been distorted, mutilated, or otherwise modified such that the work would be prejudicial to her honor or reputation;
4. prevent any additional distortion, mutilation, or other modification of her work that would be prejudicial to her honor or reputation; and
5. prevent any intentional or grossly negligent destruction of her work, if the work is of recognized stature.

Ownership of the Copyright

Initially, the copyright is owned by the author of the work. If there are two or more authors, they are considered joint owners of a single copyright in the work. Unless the authors have agreed otherwise, each has an equal ownership share.

The author can transfer some or all of the economic rights in the copyright to others. Transfers of exclusive rights must be made in writing and signed by the author. Transfers of nonexclusive rights may be made through oral agreements. (As a practical matter, however, oral agreements are seldom a wise business practice.)

The exception to the rule that the author is the owner of the copyright involves two categories of works known as *works for hire*. First, when a work is prepared by an employee within the scope of his employment, the employer owns the copyright. Second, when a work is created by an independent contractor, the copyright belongs to the hiring party, provided that: (1) the parties expressly agree in a written, signed agreement that the work will be considered a work for hire, and (2) the work fits within one of nine broad categories listed in Section 101 of the Copyright Act. It can often be difficult to determine whether an individual is an employee or an independent contractor. The Supreme Court addressed this issue in *Community for Creative Non-Violence v. Reid*,²² in which it set forth the types of factors a court should consider in making this critical determination.

↔ See Discussion Case 2.3.

As a practical matter, a firm should always require anyone who creates copyrighted works for it (whether an employee or an independent contractor) to sign an agreement assigning any intellectual property rights that that individual might have in the works to the firm. This topic is discussed in further detail in Chapter 3.

Copyright Procedures

Copyright Creation As previously noted, copyright arises automatically once an original work is expressed in a tangible form. This distinguishes copyrights from patents, which involve a lengthy and detailed application process.

Although an author need not do anything to obtain a copyright, there are certain steps that the author should take to strengthen the copyright protection he receives under the law. In particular, the author can provide a *copyright notice* on the work and can *register* the work with the Copyright Office.

Copyright Notice Before 1989, the United States, unlike most of the rest of the world, had very strict requirements regarding the use of copyright notices. If the author failed to place the correct notice on his work, he lost his copyright protection.

Once the United States joined the Berne Convention, however, it was required to re-draft its copyright laws in order to meet its treaty obligations. For works published after 1989, U.S. copyright arises automatically and attaches to the work without any formal

²²490 U.S. 730 (1989).

action being required on the part of the author. Thus, the author is not required to register the work or place a copyright notice upon it in order to obtain copyright protection. Nonetheless, it is a good idea for authors to include a copyright notice on their works, as the notice tells the public who owns the copyright in a particular work. In addition, some foreign countries do not protect works that do not contain a copyright notice.

To encourage authors to include notices on their works, the Copyright Act provides a special remedy: where a proper copyright notice has been affixed to a work, a defendant may be barred from claiming an innocent infringement defense to mitigate actual or statutory damages. This defense is discussed in more detail below.

The form of copyright notice required is very simple. For example, an author named Jane Smith who created an original work in 2010 would place one of the following notations on her work:

“Copyright, 2010, Jane Smith” **or**

“Copyr. 2010, Jane Smith” **or**

“© 2010 Jane Smith.”

The notice should be placed on the first page or on a visible part of the work or copy.²³

Deposit and Registration Under the Copyright Act, the copyright owner of a published or unpublished work may register the work with the Copyright Office at any time. The purpose of this provision is to create a comprehensive record of U.S. copyright claims. The registration procedure is very simple:

1. the copyright owner fills out a very short application form;
2. the copyright owner mails the form and a filing fee (\$50 for paper filing; \$35 for on-line filing) to the Copyright Office; and
3. the copyright owner deposits one copy of an unpublished work or two copies of a published work with the Copyright Office.

Copyright application forms and a current fee schedule may be obtained from the Copyright Office’s webpage.

The Copyright Office reviews the application only for obvious errors or lack of copyrightable subject matter and then issues a certificate of registration. The process is relatively simple and can be accomplished by most individuals without the assistance of a lawyer.

Prior to adopting the Berne Convention, the United States required all copyright owners to register their works before suing for infringement. However, the Berne Convention prohibits member states from imposing formalities such as registration as a prerequisite to copyright protection. As a result, U.S. law now provides that only authors of works whose country of origin is the United States must register before they can bring suit for infringement. A work’s country of origin is the United States if: (1) the work was first published in the United States; (2) the work was simultaneously published in the United States and another country; or (3) if unpublished, the work was created entirely by U.S. authors. Authors of works whose country of origin is another Berne Convention member state need not preregister.

Note that registration need not occur prior to the infringement but, rather, only prior to filing of the lawsuit. If the copyright owner waits to register until after infringement

²³Although in the past it was customary to add the words “all rights reserved” as well in order to obtain complete protection around the world under a specific international copyright treaty, current international agreements have made the phrase unnecessary.

EXHIBIT 2.5 Copyright Duration

PRE-1/1/78 WORKS	POST-1/1/78 WORKS	MORAL RIGHTS IN VISUAL WORKS CREATED AFTER 6/1/91
95 years	Life of Author + 70 years Work for Hire: 95 years after first publication or 120 years after creation, whichever expires first	Life of Author

has occurred, however, she may be barred from receiving certain remedies. This is discussed more below. As a practical matter, then, a copyright owner who wants to ensure that she will have access to the greatest range of potential remedies in the event of an infringement should register her work promptly.

Copyright Duration Prior to the 1976 Copyright Act, federal copyright protection began when the work was published, assuming proper notice had been affixed. Under the 1976 Copyright Act, copyright protection begins when the work is created and fixed in a tangible medium. Publication or registration is not necessary.

Moreover, Congress has extended copyright terms significantly through the Sonny Bono Copyright Term Extension Act.²⁴ This Act extended all existing copyrights by 20 years, thus harmonizing U.S. law with European Union law. Copyright duration for pre-1978 copyrighted works is now 95 years. For works created after January 1, 1978, copyrights now generally last for the life of the author plus 70 years. If there are joint authors, the copyright is measured by the life of the last to die plus 70 years. If the work is published anonymously or under a pseudonym or is a work for hire, copyright protection lasts for 95 years after first publication or 120 years after creation, whichever expires first. Moral rights in visual works created after June 1, 1991, last for the life of the author or, in the case of joint authors, for the life of the last to die (see Exhibit 2.5).

Copyright Infringement

Direct Infringement An individual becomes liable for *direct infringement* if the individual violates any of the exclusive rights of the copyright owner or illegally imports copies of a copyrighted work into the United States. The most common form of violation is an infringement of the copyright owner's exclusive right to reproduce a work.

To prove copyright infringement, the plaintiff generally must show that the defendant's work was: (1) copied from the plaintiff's work, and (2) "substantially similar" to the plaintiff's copyrighted work. The alleged infringer can then attempt to demonstrate one of the defenses discussed later in the chapter.

Copying is usually shown in one of two ways. First, the plaintiff may have direct evidence of the defendant's copying. This is relatively rare, as it requires an eyewitness or documentary evidence showing that the defendant copied or an admission of copying by the defendant. Second, the plaintiff may produce circumstantial evidence that the

²⁴Pub. L. No. 105-298.

defendant had access to the copyrighted work and that the defendant's work is similar to the plaintiff's work. This is known as the *access plus similarity test*.

◀ See Discussion Case 2.4.

Vicarious and Contributory Infringement With one narrow exception,²⁵ the Copyright Act does not specifically provide for liability for infringement based on acts committed by another. Nonetheless, the courts have determined that a defendant may be liable for vicarious or contributory infringement (collectively known as *secondary liability*).

Vicarious liability attaches in cases in which the defendant: (1) had the right and ability to supervise the infringing acts of another, and (2) had an obvious and direct financial interest in the exploitation of the copyrighted materials. For example, owners of nightclubs have been held vicariously liable for unauthorized public performances by bands that they had hired, even though they did not direct the bands to engage in infringing behavior.²⁶

Contributory infringement occurs when the defendant: (1) knew or had reason to know of someone else's directly infringing activity, and (2) actively participated by inducing, materially contributing to, or furthering that other person's directly infringing acts. As with patent law, however, contributory infringement does not attach in situations in which the products or materials supplied are capable of "substantial noninfringing uses." The Supreme Court clarified this rule in a 1984 decision, *Sony Corp. of Am. v. Universal City Studios*, in which the Court held that the manufacturer of a VCR could not be held liable for contributory infringement even if some (or many) of the users used the product to infringe because the VCR was capable of commercially significant noninfringing uses (such as time-shifting for personal viewing) (see Case Illustration 2.2).

In 2005, the U.S. Supreme Court, in *MGM Studios, Inc. v. Grokster, Ltd.*,²⁷ again considered secondary liability for copyright infringement, but this time in the more complex context of the Internet and digital technology. Advances in technology make it possible for infringing copies to now be made very rapidly and inexpensively. In *Grokster*, the Supreme Court held 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."²⁸

Corporate officers should be aware that they can be held personally liable for the copyright infringement of their employees even if they had no knowledge of the infringing activities. For example, the courts have held corporate officers vicariously liable in situations in which: (1) the officer personally participated in the actual infringement; (2) the officer derived financial benefit from the infringing activities, either as a major shareholder in the corporation or through some other means such as receiving a percentage of the revenues from the activity giving rise to the infringement; (3) the officer used the corporation as an instrument to carry out a deliberate infringement of copyright; or (4) the officer was the dominant influence in the corporation and determined the policies that resulted in the infringement.²⁹ A corporate officer who fails to adequately monitor the activities of employees may well find herself personally liable for copyright infringement (see Case Illustration 2.3).

²⁵This exception involves semiconductor mask works. See 17 U.S.C. § 905(3).

²⁶See, e.g., *ITSI T.V. Prods., Inc. v. California Auth. of Racing Fairs*, 785 F. Supp. 854 (E.D. Cal. 1992); *Cass County Music Co. v. Vineyard Country Golf Corp.*, 605 F. Supp. 1536 (D. Mass. 1985).

²⁷545 U.S. 913 (2005).

²⁸*Id.* at 919.

²⁹See *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Assoc., Inc.*, 423 F. Supp. 341 (D. Mass. 1976), *aff'd*, 554 F.2d 1213 (1st Cir. 1977).

CASE ILLUSTRATION 2.2

SONY CORP. OF AM. v. UNIVERSAL CITY STUDIOS, 464 U.S. 417 (1984)

FACTS Universal City Studios and Walt Disney Productions, which owned the copyrights on a number of television programs broadcast on the public airwaves, sued Sony Corp., the maker of Betamax, a brand of VCR. The plaintiffs alleged that individuals directly infringed upon their copyrights by using Betamaxes to copy some of plaintiffs' copyrighted works that had been aired on commercially sponsored television. Because it would be impossible to find and sue those anonymous people, the plaintiffs sued Sony for contributory infringement for marketing a product that makes such direct infringement possible. The trial court ruled for Sony. The appellate court reversed and Sony appealed to the U.S. Supreme Court.

DECISION The Supreme Court noted that the Copyright Act does not specifically address liability for acts committed by others, but found that the Act's silence on this issue was not conclusive:

The absence of such express language in the copyright statute does not preclude the imposition of

liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a subspecies of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.

While the Court held that the Copyright Act does allow recovery for contributory infringement, it determined that contributory infringement of a copyright does not exist where the item in question has some substantial noninfringing use as well. Betamaxes could be used for home "time-shifting" (e.g., recording a broadcast program for private, noncommercial viewing at a later date or time), which the Court found to be a fair use. Because Betamaxes had a substantial noninfringing use, Sony's sale of them did not constitute contributory infringement (even though some purchasers of Betamaxes may have put them to illegal uses).

Defenses to Copyright Infringement

A defendant charged with copyright infringement can raise a number of defenses, including that: (1) the later work was independently created; (2) the use of an earlier work was permitted by statute; or (3) the earlier work was not copyrightable (e.g., because it did not contain sufficient originality (see Case Illustration 2.4).

The most common defense, however, is the *fair use defense*. Because this is an equitable doctrine, it is purposely vague and must be applied on a case-by-case basis, depending upon the facts before the court. Essentially, the defense states that, although technically infringement did occur, it should be excused under the circumstances.

A court evaluating a fair use defense is to consider all of these factors and is not to treat any of them as conclusive. In addition, these factors are not exclusive and a court should consider whatever other factors are relevant under the circumstances before it.

➡ See Discussion Case 2.5.

Parodies are a special category of fair use. Parody is considered an important form of social commentary within U.S. society. Because the authors of serious works are unlikely to authorize others to parody their work, the courts have recognized that the fair use doctrine is important in ensuring that parodies will be created.

In determining whether a parody is a fair use, the courts consider: (1) whether the defendant's purpose was at least in part to parody the plaintiff's work; (2) the amount

CASE ILLUSTRATION 2.3

**NETBULA, LLC v. CHORDIANT SOFTWARE, INC.,
2009 U.S. DIST. LEXIS 25372 (N.D. CAL. MAR. 20, 2009)**

FACTS Plaintiffs Dongxiao Yue and Netbula, LLC sued Defendants Chordiant Software, Inc., Steven R. Springsteel, and Derek P. Witte, alleging that Defendants infringed Plaintiffs' copyrights by reproducing copyrighted computer programs.

Plaintiffs sued Springsteel and Witte in their individual capacities for vicarious copyright infringement, alleging that Springsteel, as CEO of Chordiant, had the right and ability to supervise Chordiant's infringing activities and that Witte, as Vice President and General Counsel, had the right and ability to supervise the infringing activity by giving advice to other Chordiant officers and employees and directing others as their superior officer. Each had a compensation package under which they personally profited from Chordiant's profits.

Defendants Springsteel and Witte moved to dismiss the claims against them on the grounds that Plaintiffs failed to state a claim for vicarious copyright infringement.

DECISION The court granted Springsteel's and Witte's motion to dismiss. The court reasoned: "To state a claim for vicarious copyright infringement, a plaintiff must sufficiently allege that a defendant has (1) the right and ability to supervise the infringing conduct and (2) a direct financial interest in the infringing activity. Knowledge of the infringing activity is not a requirement of vicarious liability."

Individual officers of a corporation can be liable for vicarious copyright liability if their actions meet this two-prong test. Here, however, neither prong was met.

First, Plaintiffs failed to adequately allege that that Springsteel and Witte had a direct financial interest in the infringing activity. The court stated:

The essential aspect of the direct financial benefit inquiry is whether there is "a causal relationship between the infringing activity and any financial benefit a defendant reaps," irrespective of the magnitude of the benefit. There must be an obvious and direct financial interest in the exploitation of copyrighted materials. The mere fact that a defendant is an officer and shareholder of an infringing corporation is "too

attenuated" to show a "direct' financial interest in the exploitation of copyrighted materials."

**** However, where a defendant is a high ranking executive with majority ownership, or receives payments directly related to the infringing activity, he can be held vicariously liable.*

While Plaintiffs alleged that Springsteel personally owned shares in Chordiant and that both Springsteel and Witte were compensated in part based on Chordiant's performance, Plaintiffs did not allege "a direct relationship between [Springsteel's and Witte's] compensation and Chordiant's acts of primary infringement." Thus, Plaintiffs did not adequately plead that Springsteel and Witte had a *direct* financial interest that was causally related to Chordiant's alleged direct infringement.

Second, Plaintiffs failed to adequately allege that Springsteel and Witte had the right and ability to supervise the alleged infringement:

Vicarious copyright liability—even of corporate officers—does not require knowledge that the conduct is infringing. Corporate officers, shareholders and employees have the right and ability to supervise a corporation's infringing activities when they are "a moving active conscious force behind the corporation's infringement." However, a plaintiff must allege more than an officer's mere right and ability to supervise the corporation's conduct generally. A plaintiff must allege that the defendant had supervisory power over the infringing conduct itself.

Here, Plaintiffs' allegations against Springsteel and Witte were directed against their general ability to supervise arising from their respective corporate positions, and was not directed toward any particular oversight or participation that either individual had in the allegedly infringing conduct.

The court thus dismissed Plaintiffs' complaint against Springsteel and Witte "with leave to amend" (thus giving Plaintiffs the opportunity to cure the defects in their allegations and file a new complaint against the individual officers).

CASE ILLUSTRATION 2.4

**TODD v. MONTANA SILVERSMITHS, INC.,
379 F. SUPP. 2D 1110 (D. COLO. 2005)**

FACTS Plaintiff Kathleen Todd designed, manufactured, and sold “western-themed” jewelry, as did Defendant Montana Silversmiths. Todd created a barbed-wire style bracelet and a set of matching earrings. She filed for and received copyright registrations on these items.

After Montana Silversmiths began selling similar bracelets and earrings, Todd filed suit for copyright infringement. Montana Silversmiths moved for summary judgment, arguing that Todd’s jewelry lacked sufficient originality to be the subject matter of a valid copyright.

DECISION The court granted Montana Silversmith’s motion for summary judgment.

The court first set forth the general legal rules governing the dispute:

To prove copyright infringement, Plaintiff must show that: (1) she held a valid copyright, and (2) that Defendants copied protectable elements in her work. Possession of a copyright registration certificate creates a presumption of validity, although that presumption is rebuttable. Defendants may rebut the presumption ... by presenting evidence which casts doubt on the copyrightability of the work in question.

The court further explained, “[f]or an item to be copyrighted, it must exhibit some form of originality. *** Novelty is not required for originality, but the author

must have made some contribution to the work which is irreducibly his own.” In addition:

Copyright protection only extends to expression, never the underlying idea. Even an item that possesses a valid copyright may contain both protectable and unprotectable types of expression. The former consists of the author’s original creative contributions, while the latter consists of (among other things): purely functional elements, public domain elements, scenes a faire, forms of expression which are inextricably linked to the underlying idea, and simple changes of medium.

The court found that Todd’s barbed-wire jewelry lacked sufficient originality to be copyrightable subject matter: “While Plaintiff is no doubt a skilled artist capable of making jewelry with a certain aesthetic appeal, she has failed to show what copyrightable feature(s) she has added to her work to separate it from ordinary public domain barbed-wire. * * * [F]or all her aesthetic choices, the final arrangement of the elements in her jewelry still corresponds to the arrangement of public domain barbed-wire.” As the court explained: “when dealing with items derived from the public domain, a work is copyrightable only if the creator has added “some substantial, not merely trivial, originality.” Thus, Todd did not hold a valid copyright and Montana Silversmiths was not liable for copyright infringement.

of the copyrighted material taken; and (3) the effect of the parody on the plaintiff’s market (including the effect on the market for derivative works). The Supreme Court addressed these issues in a 1994 case, *Campbell v. Acuff-Rose Music, Inc.* (see Case Illustration 2.5).

Remedies for Copyright Infringement

Copyright law, like patent law, provides for two basic forms of remedies: (1) injunctions and (2) monetary damages. The Copyright Act also allows infringing materials to be impounded and destroyed under certain circumstances.

Injunctions Preliminary and permanent injunctions are available against both copyright infringement and violation of moral rights.

Impoundment Under Section 503 of the Copyright Act, the court may impound allegedly infringing materials prior to judgment and may destroy them if a final judgment is entered against the defendant.

CASE ILLUSTRATION 2.5

**CAMPBELL v. ACUFF-ROSE MUSIC, INC.,
510 U.S. 569 (1994)**

FACTS 2 Live Crew, a popular rap music group, released a parody of Roy Orbison's rock ballad, "Oh, Pretty Woman." Acuff-Rose Music, Inc., which held the copyright to Orbison's song, sued for copyright infringement. 2 Live Crew defended on the grounds that its parodic use was a fair use under § 107 of the Copyright Act. The District Court granted summary judgment to 2 Live Crew. The Court of Appeals reversed. 2 Live Crew appealed to the U.S. Supreme Court.

DECISION The Supreme Court reversed the decision of the Court of Appeals. The Court noted first that 2 Live Crew's song would clearly infringe Acuff-Rose's rights absent a finding of fair use through parody.

The Court examined the role of § 107's four-factor test in fair use cases:

It is uncontested that 2 Live Crew's song would be an infringement of Acuff-Rose's rights in "Oh, Pretty Woman" but for a finding of fair use through parody. The task [of evaluating fair use] is not to be simplified with bright-line rules, for [Section 107] calls for case-by-case analysis. Nor may the four statutory factors be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright.

The Court thus found that the appellate court had erred in treating the first factor, the purpose and character of the use, as determinative. Although 2 Live Crew's use was commercial, the commercial character of the use is but one factor to consider under § 107.

The Court then stated that the second factor, "the nature of the copyrighted work," is "not much help in this case, or ever likely to help much in separating the fair use sheep from the infringing goats in a parody case, since parodies almost invariably copy publicly known, expressive works."

The third factor, which "asks whether 'the amount and substantiality of the portion used in relation to the copyrighted work as a whole,' are reasonable in relation to the purpose of the copying," looks not only to the quantity of the material copied from the original, but to its quality and importance as well. This factor requires careful application in a parody case. As the Court noted:

Parody's humor, or in any event its comment, necessarily springs from recognizable allusion to its

object through distorted imitation. Its art lies in the tension between a known original and its parodic twin. When parody takes aim at a particular original work, the parody must be able to "conjure up" at least enough of that original to make the object of its critical wit recognizable. What makes for this recognition is quotation of the original's most distinctive or memorable features, which the parodist can be sure the audience will know. Once enough has been taken to assure identification, how much more is reasonable will depend, say, on the extent to which the song'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. But using some characteristic features cannot be avoided.

The fourth fair use factor examines "the effect of the use upon the potential market for or value of the copyrighted work." Under this factor, the court must consider not only harm to the market for the original work but also harm to the market for derivative works.

Parody can affect market demand in ways that do not violate the Copyright Act. The Court 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, that is, by acting as a substitute for it. This is so because the parody and the original usually serve different market functions.

We do not, of course, suggest that a parody may not harm the market at all, but when a lethal parody, like a scathing theater review, kills demand for the original, it does not produce a harm cognizable under the Copyright Act. Because "parody might quite legitimately aim at garroting the original, destroying it commercially as well as artistically," the role of the courts is to distinguish between "biting criticism [that merely] suppresses demand [and] copyright infringement[, which] usurps it."

Because 2 Live Crew's parody was also rap music, the lower court should have considered the impact of the parodic rap song on the market for a nonparodic rap version of "Oh, Pretty Woman." Thus, the Supreme Court remanded the case to the lower court for further proceedings.

Monetary Damages Section 504 of the Copyright Act gives the copyright owner the choice of recovering either: (1) actual damages and any additional profits of the infringer or (2) statutory damages.

The plaintiff can recover any actual damages she incurred as a result of the defendant's actions, plus any of the defendant's profits attributable to the infringement that are not taken into account in calculating actual damages. Actual damages are usually measured by either: (1) the *lost sales* that the plaintiff suffered as a result of the defendant's infringement, or (2) the *reasonable royalty* that the plaintiff would have received had the defendant purchased a license to carry out its infringing activities.

In situations in which it is too difficult to prove actual damages, the plaintiff may elect instead to receive statutory damages, provided that the copyright owner registered the work within the proper time frame (i.e., before infringement occurred for unpublished works or within three months after first publication for published works). Statutory damages are set by the court and must be between \$750 and \$30,000. If the defendant willfully infringed, the court may increase the statutory damages up to \$150,000. If the defendant can show that its infringement was innocent (i.e., that it did not know and had no reason to think that it was infringing), the court may reduce the statutory damages to not less than \$200. However, the defendant may not use this defense if a proper copyright notice appeared on the copy of the work to which the defendant had access.

Attorneys Fees and Costs Section 505 of the Copyright Act provides that the court, in its discretion, may award costs to either side if the opposing side acted in bad faith. In addition, prevailing parties may receive attorneys' fees, although copyright owners who failed to register their works in a timely manner are barred from this relief.

Criminal Penalties Section 506 of the Copyright Act also allows for criminal penalties for willful infringement: (1) for commercial advantage or private financial gain or (2) "by the reproduction or distribution, including by electronic means, during any 180-day period, of 1 or more copies or phonorecords of 1 or more copyrighted works, which have a total retail value of more than \$1,000." The Act provides for fines and imprisonment for up to 10 years, depending upon the nature of the offense (e.g., how many copies were made or whether it was a first offense), as well as forfeiture and destruction of the infringing works and all equipment used to produce them. Section 506 also provides for criminal sanctions (of fines of up to \$2,500) for fraudulent copyright notice, fraudulent removal of copyright notice, and false representations in applications for copyright registrations. Criminal sanctions are not provided for violations of moral rights, however.

PRO-IP Act of 2008 A new federal statute, The Prioritizing Resources and Organization for Intellectual Property Act of 2008 (PRO-IP Act),³⁰ seeks to improve federal enforcement of intellectual property rights by increasing penalties for violating U.S. copyright and trademark rights and by allowing trademark and copyright owners to respond to infringements faster. The Act enhances existing forfeiture penalties by providing that property subject to forfeiture includes not only the infringing goods, but also the property used to facilitate the infringement and property derived from proceeds directly or indirectly obtained as result of infringement.

Copyright Law on the Internet

The Internet, with its ability to enable millions of people to instantaneously access, reproduce, and disseminate information, including copyrighted material, is having a significant impact on copyright law. While the Internet makes distribution of copyrighted

³⁰Pub. Law 110-403.

works much easier and cheaper, it also makes it far more difficult for a copyright owner to protect its copyright and prevent piracy of its works. Commentators are currently debating whether copyright law will, or should, survive the Internet. Some argue for the free and unhindered flow of information; others maintain that individuals who engage in creative endeavors should continue to be rewarded for their efforts through the use of copyrights. This debate is a complex and highly controversial one and is beyond the scope of this book. Several types of webpage-related activities, such as linking, framing, and the use of metatags, can have very real effects upon businesses and their marketing activities. These topics also implicate trademark law and so are addressed in Chapter 6.

Several new technologies are available to assist businesses in identifying and halting copyright and/or trademark infringement on the Internet. In particular, several providers now offer online business intelligence services that use specialized software to track trademark and copyright infringement, counterfeited goods, and bootlegged videos and music.

International Copyright Law Issues

There is no “international copyright” that automatically protects a work around the world. Copyright protection within a specific country depends upon the laws of that country. The United Nations’ World Intellectual Property Organization (WIPO) has been working to harmonize national copyright laws, and there is a substantial amount of international cooperation in this area. Nonetheless, some countries provide little or no copyright protection to foreign works, and foreign piracy of copyrighted works can be hard to combat.

There are two principal international copyright conventions: (1) the Berne Union for the Protection of Literary and Artistic Property (*Berne Convention*), initiated in 1886,³¹ and (2) *the Universal Copyright Convention* of 1952 (UCC).³² The United States was initially a member of the UCC and became a signatory of the Berne Convention in 1989. Even if a work is not protected under one of these two conventions, it may be protected by a bilateral agreement between the United States and the other country or under the other country’s national laws.

International copyright issues are particularly relevant to copyrighted materials appearing on the Internet. While the Internet is global in reach, copyright law is inherently national. The Berne Convention provides some protection in this area, however, because it states that member countries must provide at least the same protection to citizens of other member countries as they do to their own. In addition, once copyright protection is obtained in one Berne Convention country, it is automatic in all other member countries as well. The Berne Convention has few substantive restrictions and weak enforcement provisions, however. Its only enforcement mechanisms are nonmandatory provisions for the seizure of infringing materials.

Generally, an author should check to see what protection is available for foreign authors in each country in which the author wants copyright protection. The author should do this before the work is published anywhere because in some countries copyright protection depends upon the facts existing at the time of first publication, regardless of where that publication occurred.

In 2008, global software piracy alone was estimated to exceed \$50 billion.³³ Obviously, international intellectual property piracy is a major concern for companies and managers. Although there are practical steps a company can take to protect its intellectual property, companies are often limited to seeking remedies for such piracy in the country

³¹See www.wipo.org.int/treaties/en/ip/berne/index.html

³²The text of The Universal Copyright Convention can be found on the website of The United Nations Educational, Scientific and Cultural Organization, <http://portal.unesco.org/>

³³See <http://global.bsa.org/globalpiracy2008/studies/globalpiracy2008.pdf>

or countries where such activities are taking place. These countries may not have copyright protections equivalent to those of the United States. In addition, pursuing these remedies in distant lands may prove too time-consuming, difficult, and/or expensive for many companies. As a result, much international intellectual property piracy goes on unhindered.

If pirated goods that violate U.S. patents, copyrights, mask works, trade secrets, or trademarks are being imported, the injured party can file a complaint with the International Trade Commission (ITC) under Section 337 of the U.S. Tariff Act. If the ITC determines that the imported goods do violate U.S. intellectual property rights, it can direct the U.S. Customs Service to prevent importation of the infringing goods. Section 337 does not provide for monetary damages to injured intellectual property owners, however.

If the piracy is occurring completely overseas—for example, a foreign company is making bootlegged copies of copyrighted books or films and is selling them in foreign markets—the aggrieved copyright owner often finds it difficult to obtain a meaningful remedy. At the governmental level, the U.S. government can bring pressure to bear upon countries in which piracy is rampant. Thus, companies and industry groups can lobby the United States Trade Representative (USTR) for trade sanctions against countries that fail to take effective action against intellectual property piracy within their jurisdictions. Similarly, the U.S. government can (and has) opposed membership in the World Trade Organization (WTO) by countries who fail to adequately protect intellectual property.

At the firm level, intellectual property owners faced with international piracy can directly pursue certain types of measures abroad. For example, some foreign countries have censorship offices that may require a marketer to demonstrate title to a copyrighted work before the marketer can obtain a license to sell the product. Some countries also require duplication licenses for copyrighted works. For example, in China, the central government requires that all copies have a certification sticker.

DISCUSSION CASES

2.1 Patent Law—Patentable Subject Matter

Diamond v. Chakrabarty, 447 U.S. 303 (1980)

OPINION: MR. CHIEF JUSTICE BURGER We granted certiorari to determine whether a live, human-made micro-organism is patentable subject matter under 35 U.S.C. §101.

I

In 1972, respondent Chakrabarty, a microbiologist, filed a patent application, assigned to the General Electric Co. The application asserted 36 claims related to Chakrabarty's invention of "a bacterium from the genus *Pseudomonas*" This human-made, genetically engineered bacterium is capable of breaking down multiple components of crude oil. Because of this property, which is possessed by no naturally occurring bacteria, Chakrabarty's invention is believed to have significant value for the treatment of oil spills.

Chakrabarty's patent claims were of three types: first, process claims for the method of producing the bacteria; second, claims for an inoculum comprised of a carrier material floating on water, such as straw, and the new bacteria; and third, claims to the bacteria themselves. The patent examiner allowed the claims falling into the first two categories, but rejected claims for the bacteria. His decision rested on two grounds: (1) that micro-organisms are "products of nature," and (2) that as living things they are not patentable subject matter under 35 U.S.C. § 101.

* * *

[Chakrabarty appealed to the Patent Office Board of Appeals, which affirmed the patent examiner's decision. Chakrabarty then appealed to the Court of Customs and Patent Appeals, which reversed. (Today, the appeal

would go to the CAFC.) The Commissioner of Patents and Trademarks appealed to the Supreme Court.]

II

The Constitution grants Congress broad power to legislate 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.” Art. I, § 8, cl. 8. The patent laws promote this progress by offering inventors exclusive rights for a limited period as an incentive for their inventiveness and research efforts. * * *

The question before us in this case is a narrow one of statutory interpretation requiring us to construe 35 U.S.C. § 101, which provides:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.

Specifically, we must determine whether respondent’s micro-organism constitutes a “manufacture” or “composition of matter” within the meaning of the statute.

III

In cases of statutory construction we begin, of course, with the language of the statute. And “unless otherwise defined, words will be interpreted as taking their ordinary, contemporary, common meaning.” We have also cautioned that courts “should not read into the patent laws limitations and conditions which the legislature has not expressed.” * * * In choosing such expansive terms as “manufacture” and “composition of matter,” modified by the comprehensive “any,” Congress plainly contemplated that the patent laws would be given wide scope.

The relevant legislative history also supports a broad construction. The Patent Act of 1793, authored by Thomas Jefferson, defined statutory subject matter as “any new and useful art, machine, manufacture, or composition of matter, or any new or useful improvement [thereof].” * * * Subsequent patent statutes in 1836, 1870, and 1874 employed this same broad language. In 1952, when the patent laws were recodified, Congress replaced the word “art” with “process,” but otherwise left Jefferson’s language intact. The Committee Reports accompanying the 1952 Act inform us that Congress intended statutory subject matter to “include anything under the sun that is made by man.”

This is not to suggest that § 101 has no limits or that it embraces every discovery. The laws of nature, physical phenomena, and abstract ideas have been held not patentable. Thus, a new mineral discovered in the earth or a new plant found in the wild is not patentable subject matter. Likewise, Einstein could not patent his celebrated law that $E = mc^2$; nor could Newton have patented the law of gravity. Such discoveries are “manifestations of ... nature, free to all men and reserved exclusively to none.”

Judged in this light, respondent’s micro-organism plainly qualifies as patentable subject matter. His claim is not to a hitherto unknown natural phenomenon, but to a non-naturally occurring manufacture or composition of matter—a product of human ingenuity “having a distinctive name, character [and] use.” * * * [T]he patentee has produced a new bacterium with markedly different characteristics from any found in nature and one having the potential for significant utility. His discovery is not nature’s handiwork, but his own; accordingly it is patentable subject matter under § 101.

IV

* * *

B

The [petitioner argues] that micro-organisms cannot qualify as patentable subject matter until Congress expressly authorizes such protection. His position rests on the fact that genetic technology was unforeseen when Congress enacted § 101. From this it is argued that resolution of the patentability of inventions such as respondent’s should be left to Congress. The legislative process, the petitioner argues, is best equipped to weigh the competing economic, social, and scientific considerations involved and to determine whether living organisms produced by genetic engineering should receive patent protection. * * *

It is, of course, correct that Congress, not the courts, must define the limits of patentability; but it is equally true that once Congress has spoken it is “the province and duty of the judicial department to say what the law is.” Congress has performed its constitutional role in defining patentable subject matter in § 101; we perform ours in construing the language Congress has employed. In so doing, our obligation is to take statutes as we find them, guided, if ambiguity appears, by the legislative history and statutory purpose. Here, we perceive no ambiguity. The subject-matter provisions of the patent law

have been cast in broad terms to fulfill the constitutional and statutory goal of promoting “the Progress of Science and the useful Arts” with all that means for the social and economic benefits envisioned by Jefferson. Broad general language is not necessarily ambiguous when congressional objectives require broad terms.

* * *

To buttress his argument, the petitioner ... points to grave risks that may be generated by research endeavors such as respondent’s. The briefs present a gruesome parade of horrors. Scientists, among them Nobel laureates, are quoted suggesting that genetic research may pose a serious threat to the human race, or, at the very least, that the dangers are far too substantial to permit such research to proceed apace at this time. We are told that genetic research and related technological developments may spread pollution and disease, that it may result in a loss of genetic diversity, and that its practice may tend to depreciate the value of human life. * * *

It is argued that this Court should weigh these potential hazards in considering whether respondent’s invention is patentable subject matter under § 101. We disagree. The grant or denial of patents on microorganisms is not likely to put an end to genetic research or to its attendant risks. * * *

What is more important is that we are without competence to entertain these arguments—either to brush them aside as fantasies generated by fear of the unknown, or to act on them. The choice we are urged

to make is a matter of high policy for resolution within the legislative process after the kind of investigation, examination, and study that legislative bodies can provide and courts cannot. That process involves the balancing of competing values and interests, which in our democratic system is the business of elected representatives. Whatever their validity, the contentions now pressed on us should be addressed to the political branches of the Government, the Congress and the Executive, and not to the courts.

* * * Our task, rather, is the narrow one of determining what Congress meant by the words it used in the statute; once that is done our powers are exhausted. Congress is free to amend § 101 so as to exclude from patent protection organisms produced by genetic engineering. Or it may choose to craft a statute specifically designed for such living things. But, until Congress takes such action, this Court must construe the language of § 101 as it is. The language of that section fairly embraces respondent’s invention.

Accordingly, the judgment of the Court of Customs and Patent Appeals is affirmed.

QUESTIONS FOR DISCUSSION FOR CASE 2.1

1. What are the limits of patentable subject matter?
2. What are the relative roles of the courts and the legislature in making and interpreting law?
3. What steps does a court take when it engages in statutory interpretation? What sources does it look to in determining what a statute means?

2.2 Patents—Novelty, On-Sale Bar

Pfaff v. Wells Electronics, Inc., 525 U.S. 55 (1988)

OPINION: JUSTICE STEVENS delivered the opinion of the Court.

Section 102(b) of the Patent Act of 1952 provides that no person is entitled to patent an “invention” that has been “on sale” more than one year before filing a patent application.¹ We granted certiorari to determine whether the commercial marketing of a newly

invented product may mark the beginning of the 10-year period even though the invention has not yet been reduced to practice.²

I

On April 19, 1982, petitioner, Wayne Pfaff, filed an application for a patent on a computer chip socket. Therefore, April 19, 1981, constitutes the critical date

¹“A person shall be entitled to a patent unless— ...

“(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States,”

35 U.S.C. § 102.

²“A process is reduced to practice when it is successfully performed. A machine is reduced to practice when it is assembled, adjusted and used. A manufacture is reduced to practice when it is completely manufactured. A composition of matter is reduced to practice when it is completely composed.”

for purposes of the on-sale bar of 35 U.S.C. § 102(b); if the 1-year period began to run before that date, Pfaff lost his right to patent his invention.

Pfaff commenced work on the socket in November 1980, when representatives of Texas Instruments asked him to develop a new device for mounting and removing semiconductor chip carriers. In response to this request, he prepared detailed engineering drawings that described the design, the dimensions, and the materials to be used in making the socket. Pfaff sent those drawings to a manufacturer in February or March 1981.

Prior to March 17, 1981, Pfaff showed a sketch of his concept to representatives of Texas Instruments. On April 8, 1981, they provided Pfaff with a written confirmation of a previously placed oral purchase order for 30,100 of his new sockets for a total price of \$91,155. In accord with his normal practice, Pfaff did not make and test a prototype of the new device before offering to sell it in commercial quantities.

The manufacturer took several months to develop the customized tooling necessary to produce the device, and Pfaff did not fill the order until July 1981. The evidence therefore indicates that Pfaff first reduced his invention to practice in the summer of 1981. The socket achieved substantial commercial success before Patent No. 4,491,377 (the '377 patent) issued to Pfaff on January 1, 1985.⁴

After the patent issued, petitioner brought an infringement action against respondent, Wells Electronics, Inc., the manufacturer of a competing socket. Wells prevailed on the basis of a finding of no infringement. When respondent began to market a modified device, petitioner brought this suit, alleging that the modifications infringed six of the claims in the '377 patent.

[The District Court found that four of Pfaff's six patent claims were valid, and that three of the four were infringed by Wells' device. The District Court rejected Wells' § 102(b) on-sale defense on the basis that Pfaff had filed his patent application less than one year after reducing his invention to practice. On appeal, the CAFC reversed, finding that as long as the invention is "substantially complete at the time of sale," the one-year period of 102(b) begins to run and the four patent claims at issue were thus invalid.]

⁴Initial sales of the patented device were:

1981	\$350,000
1982	\$937,000
1983	\$2,800,000
1984	\$3,430,000

* * *

Because other courts have held or assumed that an invention cannot be "on sale" within the meaning of § 102(b) unless and until it has been reduced to practice, and because the text of § 102(b) makes no reference to "substantial completion" of an invention, we granted certiorari.

II

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 that idea. The statute does not contain any express requirement that an invention must be reduced to practice before it can be patented. * * *

* * *

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. Chief Justice Waite's reasoning in that case [*The Telephone Cases*] merits quoting at length:

It is quite true that when Bell applied for his patent he had never actually transmitted telegraphically spoken words so that they could be distinctly heard and understood at the receiving end of his line, but in his specification he did describe accurately and with admirable clearness his process, that is to say, the exact electrical condition that must be created to accomplish his purpose, and he also described, with sufficient precision to enable one of ordinary skill in such matters to make it, a form of apparatus which, if used in the way pointed out, would produce the required effect, receive the words, and carry them to and deliver them at the appointed place. * * * A good mechanic of proper skill in matters of the kind can take the patent and, by following the specification strictly, can, without more, construct an apparatus which, when used in the way pointed out, will do all that it is claimed the method or process will do

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.

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. * * *

III

* * *

As we have often explained, ... the patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time. The balance between the interest in motivating innovation and enlightenment by rewarding invention with patent protection on the one hand, and the interest in avoiding monopolies that unnecessarily stifle competition on the other, has been a feature of the federal patent laws since their inception. * * *

We originally held that an inventor loses his right to a patent if he puts his invention into public use before filing a patent application. * * * A similar reluctance to allow an inventor to remove existing knowledge from public use undergirds the on-sale bar.

Nevertheless, an inventor who seeks to perfect his discovery may conduct extensive testing without losing his right to obtain a patent for his invention—even if such testing occurs in the public eye. The law has long recognized the distinction between inventions put to experimental use and products sold commercially. * * *

* * *

We conclude ... that the on-sale bar applies when two conditions are satisfied before the critical date. First, the product must be the subject of a commercial

offer for sale. An inventor can both understand and control the timing of the first commercial marketing of his invention. * * * In this case the acceptance of the purchase order prior to April 8, 1981, makes it clear that such an offer had been made, and there is no question that the sale was commercial rather than experimental in character.

Second, the invention must be ready for patenting. That condition may be satisfied in at least two ways: by proof of reduction to practice before the critical date; or by proof that prior to the critical date the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention. In this case the second condition of the on-sale bar is satisfied because the drawings Pfaff sent to the manufacturer before the critical date fully disclosed the invention.

The evidence in this case thus fulfills the two essential conditions of the on-sale bar. * * *

* * * 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 '377 patent. Therefore, Pfaff's '377 patent is invalid because the invention had been on sale for more than one year in this country before he filed his patent application. Accordingly, the judgment of the Court of Appeals is affirmed.

QUESTIONS FOR DISCUSSION FOR CASE 2.2

1. At what point in time could Pfaff have applied for a patent on his invention?
2. What rule does the Supreme Court set forth for determining when the on-sale bar applies?
3. What could Pfaff have done differently in order to avoid this outcome?

2.3 Copyright—Work for Hire

Community for Creative Non-Violence v. Reid, 490 U.S. 730 (1989)

OPINION: MARSHALL, J. In this case, an artist and the organization that hired him to produce a sculpture contest the ownership of the copyright in that work. To resolve this dispute, we must construe the “work made

for hire” provisions of the Copyright Act of 1976 and in particular, the provision in § 101, which defines as a “work made for hire” a “work prepared by an employee within the scope of his or her employment.”

I

Petitioners are the Community for Creative Nonviolence (CCNV), a nonprofit unincorporated association dedicated to eliminating homelessness in America, and Mitch Snyder, a member and trustee of CCNV. In the fall of 1985, CCNV decided to participate in the annual Christmastime Pageant of Peace in Washington, D.C., by sponsoring a display to dramatize the plight of the homeless. As the District Court recounted:

Snyder and fellow CCNV members conceived the idea for the nature of the display: a sculpture of a modern Nativity scene in which, in lieu of the traditional Holy Family, the two adult figures and the infant would appear as contemporary homeless people huddled on a streetside steam grate. The family was to be black (most of the homeless in Washington being black); the figures were to be life-sized, and the steam grate would be positioned atop a platform "pedestal," or base, within which special-effects equipment would be enclosed to emit simulated "steam" through the grid to swirl about the figures. They also settled upon a title for the work—"Third World America"—and a legend for the pedestal: "and still there is no room at the inn."

Snyder made inquiries to locate an artist to produce the sculpture. He was referred to respondent James Earl Reid In the course of two telephone calls, Reid agreed to sculpt the three human figures. CCNV agreed to make the steam grate and pedestal for the statue. * * * Reid ... suggested, and Snyder agreed, that the sculpture would be made of a material known as "Design Cast 62," a synthetic substance that could meet CCNV's monetary and time constraints, could be tinted to resemble bronze, and could withstand the elements. The parties agreed that the project would cost no more than \$15,000, not including Reid's services, which he offered to donate. The parties did not sign a written agreement. Neither party mentioned copyright.

After Reid received an advance of \$3,000, he made several sketches of figures in various poses. At Snyder's request, Reid sent CCNV a sketch of a proposed sculpture showing the family in a crechellike setting: the mother seated, cradling a baby in her lap; the father standing behind her, bending over her shoulder to touch the baby's foot. Reid testified that Snyder asked for the sketch to use in raising funds for the sculpture. Snyder testified that it was also for his approval. Reid sought a black family to serve as a model for the sculpture. Upon Snyder's suggestion, Reid visited a family living at

CCNV's Washington shelter but decided that only their newly born child was a suitable model. While Reid was in Washington, Snyder took him to see homeless people living on the streets. Snyder pointed out that they tended to recline on steam grates, rather than sit or stand, in order to warm their bodies. From that time on, Reid's sketches contained only reclining figures.

Throughout November and the first two weeks of December 1985, Reid worked exclusively on the statue, assisted at various times by a dozen different people who were paid with funds provided in installments by CCNV. On a number of occasions, CCNV members visited Reid to check on his progress and to coordinate CCNV's construction of the base. CCNV rejected Reid's proposal to use suitcases or shopping bags to hold the family's personal belongings, insisting instead on a shopping cart. Reid and CCNV members did not discuss copyright ownership on any of these visits.

On December 24, 1985, ... Reid delivered the completed statue to Washington. There it was joined to the steam grate and pedestal prepared by CCNV and placed on display near the site of the pageant. Snyder paid Reid the final installment of the \$15,000. The statue remained on display for a month. In late January 1986, CCNV members returned it to Reid's studio in Baltimore for minor repairs. Several weeks later, Snyder began making plans to take the statue on a tour of several cities to raise money for the homeless. Reid objected, contending that the Design Cast 62 material was not strong enough to withstand the ambitious itinerary. He urged CCNV to cast the statue in bronze at a cost of \$35,000, or to create a master mold at a cost of \$5,000. Snyder declined to spend more of CCNV's money on the project.

In March 1986, Snyder asked Reid to return the sculpture. Reid refused. He then filed a certificate of copyright registration for "Third World America" in his name and announced plans to take the sculpture on a more modest tour than the one CCNV had proposed. Snyder, acting in his capacity as CCNV's trustee, immediately filed a competing certificate of copyright registration.

Snyder and CCNV then commenced this action..., seeking return of the sculpture and a determination of copyright ownership. The District Court granted a preliminary injunction, ordering the sculpture's return. After a 2-day bench trial, the District Court declared that "Third World America" was a "work made for hire" under § 101 of the Copyright Act and that Snyder, as trustee for CCNV, was the exclusive owner of the copyright in the sculpture. The court reasoned that

Reid had been an “employee” of CCNV within the meaning of § 101(1) because CCNV was the motivating force in the statue’s production. Snyder and other CCNV members, the court explained, “conceived the idea of a contemporary Nativity scene to contrast with the national celebration of the season,” and “directed enough of [Reid’s] effort to assure that, in the end, he had produced what they, not he, wanted.”

The Court of Appeals ... reversed and remanded, holding that Reid owned the copyright because “Third World America” was not a work for hire. * * *

We granted certiorari to resolve a conflict among the Courts of Appeals over the proper construction of the “work made for hire” provisions of the Act. We now affirm.

II

A

The Copyright Act of 1976 provides that copyright ownership “vests initially in the author or authors of the work.” As a general rule, the author is the party who actually creates the work, that is, the person who translates an idea into a fixed, tangible expression entitled to copyright protection. The Act carves out an important exception, however, for “works made for hire.” If the work is for hire, “the employer or other person for whom the work was prepared is considered the author” and owns the copyright, unless there is a written agreement to the contrary. * * *

Section 101 of the 1976 Act provides that a work is “for hire” under two sets of circumstances:

- (1) a work prepared by an employee within the scope of his or her employment; or
- (2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.

Petitioners do not claim that the statue satisfies the terms of § 101(2). Quite clearly, it does not. Sculpture does not fit within any of the nine categories of “specially ordered or commissioned” works enumerated in that subsection, and no written agreement between the parties establishes “Third World America” as a work for hire.

The dispositive inquiry in this case therefore is whether “Third World America” is “a work prepared by an employee within the scope of his or her employment” under § 101(1). * * *

* * *

* * * To determine whether a work is for hire under the Act, a court first should ascertain, using principles of general common law of agency, whether the work was prepared by an employee or an independent contractor. After making this determination, the court can apply the appropriate subsection of § 101.

B

* * * In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party’s right to control the manner and means by which the product is accomplished. Among the other factors relevant to this inquiry are the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party’s discretion over when and how long to work; the method of payment; the hired party’s role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party. No one of these factors is determinative.

Examining the circumstances of this case in light of these factors, we agree with the Court of Appeals that Reid was not an employee of CCNV but an independent contractor. True, CCNV members directed enough of Reid’s work to ensure that he produced a sculpture that met their specifications. But the extent of control the hiring party exercises over the details of the product is not dispositive. Indeed, all the other circumstances weigh heavily against finding an employment relationship. Reid is a sculptor, a skilled occupation. Reid supplied his own tools. He worked in his own studio in Baltimore, making daily supervision of his activities from Washington practicably impossible. Reid was retained for less than two months, a relatively short period of time. During and after this time, CCNV had no right to assign additional projects to Reid. Apart from the deadline for completing the sculpture, Reid had absolute freedom to decide when and how long to work. CCNV paid Reid \$15,000,

a sum dependent on “completion of a specific job, a method by which independent contractors are often compensated.” Reid had total discretion in hiring and paying assistants. “Creating sculptures was hardly ‘regular business’ for CCNV.” Indeed, CCNV is not a business at all. Finally, CCNV did not pay payroll or Social Security taxes, provide any employee benefits, or contribute to unemployment insurance or workers’ compensation funds.

*** Thus, CCNV is not the author of “Third World America” by virtue of the work for hire provisions of the Act. *** However, ... CCNV nevertheless may be a joint author of the sculpture if, on remand, the District Court determines that CCNV and Reid prepared the work “with the intention that their contributions be

merged into inseparable or interdependent parts of a unitary whole.” In that case, CCNV and Reid would be co-owners of the copyright in the work.

For the aforesaid reasons, we affirm the judgment of the Court of Appeals

QUESTIONS FOR DISCUSSION FOR CASE 2.3

1. Was Reid an independent contractor or an employee? What “test” did the Court apply in deciding this issue?
 2. What is the legal effect of classifying Reid as an independent contractor or an employee for purposes of the Copyright Act?
 3. What issue did the Court remand to the trial court for further determination?
-

2.4 Copyright—Infringement, Copyrightable Subject Matter

JCW Investments, Inc. v. Novelty, Inc., 482 F.3d 910 (7th Cir. 2007)

Meet Pull My Finger® Fred. He is a white, middle-aged, overweight man with black hair and a receding hairline, sitting in an armchair wearing a white tank top and blue pants. Fred is a plush doll and when one squeezes Fred’s extended finger on his right hand, he farts. He also makes somewhat crude, somewhat funny statements about the bodily noises he emits, such as “Did somebody step on a duck?” or “Silent but deadly.”

Fartman could be Fred’s twin. Fartman, also a plush doll, is a white, middle-aged, overweight man with black hair and a receding hairline, sitting in an armchair wearing a white tank top and blue pants. Fartman (as his name suggests) also farts when one squeezes his extended finger; he too cracks jokes about the bodily function. Two of Fartman’s seven jokes are the same as two of the 10 spoken by Fred. Needless to say, Tekky Toys, which manufactures Fred, was not happy when Novelty, Inc., began producing Fartman, nor about Novelty’s production of a farting Santa doll sold under the name Pull-My-Finger Santa.

Tekky sued for copyright infringement, trademark infringement, and unfair competition and eventually won on all claims. The district court awarded \$116,000 based on lost profits resulting from the copyright infringement, \$125,000 in lost profits attributable to trademark infringement, and \$50,000 in punitive damages based on state unfair competition law. The district court then awarded Tekky \$575,099.82 in attorneys’ fees. *** [W]e affirm.

I

Somewhat to our surprise, it turns out that there is a niche market for farting dolls, and it is quite lucrative. Tekky Toys, an Illinois corporation, designs and sells a whole line of them. Fred was just the beginning. Fred’s creators, Jamie Wirt and Geoff Bevington, began working on Fred in 1997, and had a finished doll in 1999. They applied for a copyright registration on Fred as a “plush toy with sound,” and received a certificate of copyright on February 5, 2001; later, they assigned the certificate to Tekky. In the meantime, Tekky sent out its first Fred dolls to distributors in 1999. By the time this case arose, in addition to Fred, Tekky’s line of farting plush toys had expanded to Pull My Finger® Frankie (Fred’s blonde, motorcycle-riding cousin), Santa, Freddy Jr., count Fartula (purple, like the Count on Sesame Street), and Fat Bastard (character licensed from New Line Cinema’s “Austin Powers” movies), among others. By March 2004, Tekky had sold more than 400,000 farting dolls.

Novelty, a privately held Indiana corporation, is owned by Todd Green, its president. Green testified in his deposition, “any time we’d create an item, okay, we try to copy—or try to think of some relevant ideas.” Novelty personnel go to trade shows and take pictures of other companies’ products, seeking “ideas” for their own. In early 2001, Green visited the Hong Kong showroom of TL toys, a manufacturer of Tekky’s Fred doll,

and he spotted Fred. In his deposition, Green testified that he might have photographed Fred since “[i]t wouldn’t be unusual for us to photograph everything we see.” Green admits that his idea for Fartman was based on Fred and that he described his idea to Mary Burkhart, Novelty’s art director, who prepared a drawing based on Green’s description. According to Burkhart, Green wanted “a plush doll that would ... fart and shake And make a sound ... a hillbilly-type guy, sitting in a chair that would fart and be activated by actually pulling his finger.” Typically, Novelty would assign the job of drawing a new product to an artist, such as Burkhart, and the artist would then take her drawing to Green for his approval. That was the procedure it followed for Fartman. Novelty began to manufacture plush farting dolls around October 8, 2001; the first doll it released was the one it called Pull-My-Finger Santa. Fartman hit the stores one month later, on November 5, 2001.

Tekky first learned of Fartman in March 2002; three months later it filed this suit. In September 2002, the district court granted a preliminary injunction, halting Novelty’s sales of Fartman and his smaller relative Fartboy. [Tekky won at trial, and Novelty filed this appeal.] * * *

II

A

We begin with the district court’s finding that Novelty violated Tekky’s copyright when it created Fartman. * * *

To establish copyright infringement, one must prove two elements: “(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.” What is required for copyright protection is “some minimal degree of creativity,” or “the existence of ... intellectual production, of thought, and conception.” Generally, copyright protection begins at the moment of creation of “original works of authorship fixed in any tangible medium of expression,” including “pictorial, graphic, and sculptural” works and sound recordings. A work is “fixed” in a tangible medium of expression “when its embodiment in a copy ... is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” The owner of a copyright, may obtain a certificate of copyright, which is “*prima facie* evidence” of its validity.

Once it is established that a party has a valid copyright, whether registered or not, the next question is whether another person has copied the protected work.

Copying may be proven by direct evidence, but that is often hard to come by. In the alternative, copying may be inferred “where the defendant had access to the copyrighted work and the accused work is substantially similar to the copyrighted work.” It is not essential to prove access, however. If the “two works are so similar as to make it highly probable that the later one is a copy of the earlier one, the issue of access need not be addressed separately, since if the later work was a copy its creator must have had access to the original.” “The more a work is both like an already copyrighted work *and*—for this is equally important—unlike anything that is in the public domain, the less likely it is to be an independent creation.” If the inference of copying is drawn from proof of access and substantial similarity, it can be rebutted if the alleged copier can show that she instead “independently created” the allegedly infringing work. “A defendant independently created a work if it created its own work without copying anything or if it copied something other than the plaintiff’s copyrighted work.”

Novelty contends that the district court protected too much of Tekky’s toy—not just the expression but the idea or common elements known as *scenes a faire*, which we defined in [an earlier case] as “incidents, characters or settings which are as a practical matter indispensable or at least standard, in the treatment of a given topic.” Novelty also takes issue with the district court’s finding that it had access to Fred, that Burkhart copied rather than independently created Fartman, and that Fred and Fartman were substantially similar. As we explain below, we are unpersuaded. Tekky had a valid copyright in Fred, Novelty (the company) indisputably did have access to Fred, and the two dolls are so similar that the inference of copying even without access is irresistible.

Novelty does not argue that Tekky lacks a valid copyright in Fred or that Fred is so lacking in creativity that a copyright could not attach. Indeed, Fred is a far cry from a noncreative compilation of facts such as the telephone book in [*Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340 (1991)]. Here, we have a creative doll and a valid copyright registration. There is no doubt that there is a valid copyright. How much creativity Fred reflects and what ideas he embodies (as opposed to the way he expresses those ideas) merely help us to decide whether we can infer copying from substantial similarity.

It is notable that Green, Novelty’s president, admits that he saw and perhaps photographed Fred, and that Fred gave him the idea for Fartman. While Burkhart denies having seen Fred or even a picture of him, she

drew the model for Fartman at Green's direction. Moreover, Fred was already on the market in the United States at the time Fartman was created. In *Moore v. Columbia Pictures Industries, Inc.*, 972 F.2d 939, 942 (8th Cir. 1991), the Eighth Circuit found that a "reasonable possibility of access can be established under the 'corporate receipt doctrine,'" under which:

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

In this case, Novelty's president saw Fred, directed that the artist draw a figure that looks like Fred, and from that drawing approved the manufacture of Fartman. On those facts, the corporate receipt doctrine may just be icing on the cake; the fact that Green directed Burkhart as she created the drawing, rather than taking pencil in hand and sketching it himself, is immaterial. Novelty plainly had access to Fred and used that access in the manufacture of Fartman.

Even if access existed, Tekky had to show substantial similarity between the two items in order to support an inference of copying. The test for substantial similarity is an objective one. We look at the dolls themselves to determine substantial similarity.... The ... similarities between Fred and Fartman go far beyond the fact that both are plush dolls of middle-aged men sitting in armchairs that fart and tell jokes. Both have crooked smiles that show their teeth, balding heads with a fringe of black hair, a rather large protruding nose, blue pants that are identical colors, and white tank tops. On the other hand, Fartman has his name emblazoned in red across his chest, his shoes are a different color from Fred's, as is his chair, and Fartman wears a hat. In the end, despite the small cosmetic differences, the two dolls give off more than a similar air. The problem is not that both Fred and Fartman have black hair or white tank tops or any other single detail; the problem is that execution and combination of features on both dolls would lead an objective observer to think they were the same. We conclude that no objective person would find these dolls to be more than minimally distinguishable. To the contrary, they are substantially similar. That, in combination with Green's access, compels an inference of copying. Indeed,

the dolls are so similar that an inference of copying could be drawn even without the evidence of access.

Novelty contends that rather than copy, it merely made a similar doll based on the same comic archetype, that of "a typical man wearing jeans and a T-shirt in a chair doing the 'pull my finger' joke." That, Novelty argues, is the idea, not the expression, and the reason that the two dolls are similar is they are both based on that idea. The district court found that Novelty tried to shoe-horn too much into the "idea" and that the only idea here is that of a "plush doll that makes a farting sound and articulates jokes when its finger is activated." As the district court put it:

Fred—a smiling, black-haired balding Caucasian male, wearing a white tank top and blue pants, reclining in a green armchair, who makes a farting sound, vibrates and utters phrases such as "Did somebody step on a duck?" and "Silent but deadly" after the protruding finger on his right hand is pinched—is plaintiff's expression of that idea.

It is, of course, a fundamental tenet of copyright law that the idea is not protected, but the original expression of the idea is. Although it is not always easy to distinguish idea from expression, by the same token the task is not always hard. Novelty urges that the similarity of the two dolls reflects the fact that Fred himself is only minimally creative, representing a combination of elements that were in the public domain or were *scenes a faire*. The problem with this argument is that the very combination of these elements as well as the expression that is Fred himself are creative.

Novelty wants us to take the entity that is Fred, subtract each element that it contends is common, and then consider whether Novelty copied whatever leftover components are creative. But this ignores the fact that the details—such as the appearance of Fred's face or even his chair—represent creative expression. It is not the idea of a farting, crude man that is protected, but this particular embodiment of that concept. Novelty could have created another plush doll of a middle-aged farting man that would seem nothing like Fred. He could, for example, have a blond mullet and wear flannel, have a nose that is drawn on rather than protruding substantially from the rest of the head, be standing rather than ensconced in an armchair, and be wearing shorts rather than blue pants. To see how easy this could be, one need look no further than Tekky's Frankie doll, which is also a plush doll, but differs in numerous details: he is not sitting, and he has blond

hair, a tattoo, and a red-and-white striped tank. Frankie is not a copy of Fred. Fartman is. We have no trouble concluding that the district court properly granted partial summary judgment to Tekky on the issue of liability for copyright infringement.

* * *

We AFFIRM the judgment of the district court.

QUESTIONS FOR DISCUSSION FOR CASE 2.4

1. Why is a plush doll copyrightable subject matter?

2. What is the “idea” behind Fred? What is the “expression” of that idea? How are these concepts relevant to the inquiry into whether Novelty infringed on Tekky’s copyright in Fred?
3. Was it necessary for Tekky to prove that Novelty had access to Fred? Why or why not? Was it necessary for Tekky to prove substantial similarity between Fartman and Fred? Why or why not?
4. What is the “corporate receipt” doctrine? How does it apply in this case?

2.5 Copyright—Fair Use

A.V. v. iParadigms, LLC, 562 F.3d 630 (4th Cir. 2009)

Plaintiffs brought this copyright infringement action against defendant iParadigms, LC, based on its use of essays and other papers written by plaintiffs for submission to their high school teachers through an online plagiarism detection service operated by iParadigms. * * * The district court granted summary judgment in favor of iParadigms on plaintiffs’ copyright infringement claim based on the doctrine of fair use. * * *

* * * We affirm the grant of summary judgment on the plaintiffs’ copyright infringement claim

I.

Defendant iParadigms owns and operates “Turnitin Plagiarism Detection Service,” an online technology system designed to “evaluate[] the originality of written works in order to prevent plagiarism.” According to iParadigms, Turnitin offers high school and college educators an automated means of verifying that written works submitted by students are originals and not the products of plagiarism. When a school subscribes to iParadigms’ service, it typically requires its students to submit their written assignments “via a web-based system available at *www.turnitin.com* or via an integration between Turnitin and a school’s course management system.” * * *

After a student submits a writing assignment, Turnitin performs a digital comparison of the student’s work with content available on the Internet, including “student papers previously submitted to Turnitin, and commercial databases of journal articles and periodicals.” For each work submitted, Turnitin creates an “Originality Report” suggesting a percentage of the work, if any, that appears not to be original. The

assigning professor may, based on the results of the Originality Report, further explore any potential issues.

The Turnitin system gives participating schools the option of “archiving” the student works. When this option is selected, Turnitin digitally stores the written works submitted by students “so that the work becomes part of the database used by Turnitin to evaluate the originality of other student’s works in the future.” The archived student works are stored as digital code, and employees of iParadigms do not read or review the archived works.

* * *

When they initiated the lawsuit, the four plaintiffs were minor high school students [enrolled at two different schools] According to the complaint, both schools required students to submit their written assignments via Turnitin.com to receive credit; failure to do so would result in a grade of “zero” for the assignment under the policy of both schools.

* * *

Plaintiffs filed a complaint alleging that iParadigms infringed their copyright interests in their works by archiving them in the Turnitin database without their permission. The district court granted summary judgment to iParadigms * * *

[T]he court determined that iParadigms’ use of each of the plaintiffs’ written submissions qualified as a “fair use” under 17 U.S.C. § 107 and, therefore, did not constitute infringement. In particular, the court found that the use was transformative because its purpose was to prevent plagiarism by comparative use, and that

iParadigms' use of the student works did not impair the market value for high school term papers and other such student works.

* * *

II. Plaintiffs' Appeal

* * * The owner of a copyright enjoys "a bundle of exclusive rights" under section 106 of the Copyright Act, including the right to copy, the right to publish and the right to distribute an author's work. These rights "vest in the author of an original work from the time of its creation." "Anyone who violates any of the exclusive rights of the copyright owner, that is, anyone who trespasses into his exclusive domain by using or authorizing the use of the copyrighted work ... 'is an infringer of the copyright.'"

The ownership rights created by the Copyright Act, however, are not absolute; these rights, while exclusive, are "limited in that a copyright does not secure an exclusive right to the use of facts, ideas, or other knowledge." Rather, copyright protection extends only to the author's manner of expression.

Moreover, the copyright owner's rights are subject to several exceptions enumerated by the Copyright Act. * * *

One of these statutory exceptions codifies the common-law "fair use" doctrine, which "allows the public to use not only facts and ideas contained in a copyrighted work, but also expression itself in certain circumstances." "From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright's very purpose, [t]o promote the Progress of Science and useful Arts" Courts have traditionally regarded "fair use" of a copyrighted work as "a privilege in others than the owner of the copyright to use the copyrighted material in a reasonable manner without his consent."

* * *

Section 107 provides that "the fair use of a copyrighted work ... for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright." Congress provided four nonexclusive factors for courts to consider in making a "fair use" determination:

- (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.

Section 107 contemplates that the question of whether a given use of copyrighted material is "fair" requires a case-by-case analysis in which the statutory factors are not "treated in isolation" but are "weighed together, in light of the purposes of copyright."

With these general principles in mind, we consider each of the statutory factors.

First Factor

The first fair use factor requires us to consider "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." A use of the copyrighted material that has a commercial purpose "tends to weigh against a finding of fair use." "The crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price."

In assessing the "character" of the use, we should consider the specific examples set forth in section 107's preamble, "looking to whether the use is for criticism, or comment, or news reporting, and the like," with the goal of determining whether the use at issue "merely supersedes the objects of the original creation, or instead adds something new, with a further purpose or different character." Courts, therefore, must examine "whether and to what extent the new work is transformative [T]he more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use. A "transformative" use is one that "employ[s] the quoted matter in a different manner or a different purpose from the original," thus transforming it.

In considering the character and purpose of iParadigms' use of the student works, the district court focused on the question of whether the use was transformative in nature. The court concluded that "iParadigms, through Turnitin, uses the papers for an entirely different purpose, namely, to prevent plagiarism and protect the students' written works from plagiarism ... by archiving the students' works as digital code." Although the district court recognized that iParadigms intends to profit from its use

of the student works, the court found that iParadigms' use of plaintiffs' works was "highly transformative," and "provides a substantial public benefit through the network of educational institutions using Turnitin." Accordingly, the court concluded that the first factor weighed in favor of a finding of fair use.

Plaintiffs argue the district court's analysis contained several flaws. First, they suggest that the district court ignored the commercial nature of iParadigms' use of their materials, highlighting the fact that iParadigms is a for-profit company that enjoys millions of revenue dollars based on its ever-increasing database of student works. * * *

* * * [T]he fact that the disputed use of copyrighted material is commercial is not determinative in and of itself. * * * [A]lthough a commercial use finding generally weighs against a finding of fair use, it must "be weighed along with [the] other factors in fair use decisions."

In this case, the district court determined that the commercial aspect was not significant in light of the transformative nature of iParadigms' use. The district court simply weighed the commercial nature of iParadigms' use along with other fair use factors, as is appropriate under Supreme Court precedent.

Plaintiffs also argue that iParadigms' use of their works cannot be transformative because the archiving process does not *add* anything to the work—Turnitin merely stores the work unaltered and in its entirety. This argument is clearly misguided. The use of a copyrighted work need not alter or augment the work to be transformative in nature. Rather, it can be transformative in function or purpose without altering or actually adding to the original work. iParadigms' use of plaintiffs' works had an entirely different function and purpose than the original works; the fact that there was no substantive alteration to the works does not preclude the use from being transformative in nature.

* * *

The district court, in our view, correctly determined that the archiving of plaintiffs' papers was transformative and favored a finding of "fair use." iParadigms' use of these works was completely unrelated to expressive content and was instead aimed at detecting and discouraging plagiarism.

Second Factor

In considering the nature of the copyrighted work, the Supreme Court has instructed that "fair use is more

likely to be found in factual works than in fictional works," whereas "a use is less likely to be deemed fair when the copyrighted work is a creative product." This postulate recognizes the notion that a work is entitled to greater copyright protection as it comes closer to "the core of creative expression." However, if the disputed use of the copyrighted work "is not related to its mode of expression but rather to its historical facts," then the creative nature of the work is mitigated. And, in fact, the district court concluded that iParadigms' use of the plaintiffs' works "relate[d] solely to the comparative value of the works" and did not "diminish[] the incentive for creativity on the part of students." The district court noted that, if anything, iParadigms' use of the students' works fostered the development of original and creative works "by detecting any efforts at plagiarism by other students."

* * *

Plaintiffs contend that the district court's consideration of the "nature of the copyrighted works" factor was flawed for a second reason: the district court ignored the fact that the works in question were works of fiction and poetry, which are considered "highly creative" in nature and deserving of the strongest protection. * * * Rather than ignore it, however, the district court simply concluded that even if the plaintiffs' works were highly creative in nature, iParadigms' use of the plaintiffs' works was not related to the creative core of the works. * * * iParadigms' use of the works in the case—as part of a digitized database from which to compare the similarity of typewritten characters used in other student works—is likewise unrelated to any creative component. Thus, we find no fault in the district court's application of the second fair use factor.

Third Factor

The third fair use factor requires us to consider "the amount and substantiality of the portion used in relation to the copyrighted work as a whole." Generally speaking, "as the amount of the copyrighted material that is used increases, the likelihood that the use will constitute a 'fair use' decreases." But this statutory factor also requires courts to consider, in addition to quantity, the "quality and importance" of the copyrighted materials used, that is, whether the portion of the copyrighted material was "the heart of the copyrighted work." Although "[c]opying an entire work weighs against finding a fair use, ... it does not *preclude* a finding of fair use"; therefore, "[t]he extent of

permissible copying varies with the purpose and character of the use.”

The district court found that this factor, like the second factor, did not favor either party. The court concluded that although iParadigms uses substantially the whole of plaintiffs’ works, iParadigms’ “use of the original works is limited in purpose and scope” as a digitized record for electronic “comparison purposes only.” * * *

* * *

* * * We find no error in the district court’s analysis.

Fourth Factor

Finally, § 107 directs us to examine the market of the copyrighted work to determine “the effect of the use upon the potential market for or value of the copyrighted work.” The Supreme Court described this factor as the “single most important element of fair use,” considering that a primary goal of copyright is to ensure that “authors [have] the opportunity to realize rewards in order to encourage them to create.” By contrast, “a use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author’s incentive to create.”

Our task is to determine whether the defendants’ use of plaintiffs’ works “would materially impair the marketability of the work[s] and whether it would act as a market substitute” for them. We focus here not upon “whether the secondary use suppresses or even destroys the market for the original work or its potential derivatives, but [upon] whether the secondary use *usurps the market of the original work*.” An adverse market effect, in and of itself, does not preclude application of the fair use defense. “The fair use doctrine protects against a republication which offers the copyrighted work in a secondary packaging, where potential customers, having read the secondary work, will no longer be inclined to purchase again something they have already read.”

The analysis of whether the disputed use offers a market substitute for the original work overlaps to some extent with the question of whether the use was transformative. To the extent this issue arises in fair

use cases, it often does so when the secondary use at issue involves a scholarly critique or parody of the original work.

But regardless of whether the defendant used the original work to critique or parody it, the transformative nature of the use is relevant to the market effect factor.

* * *

* * * The district court considered the potential market effects suggested by plaintiffs but concluded that plaintiffs’ arguments were theoretical and speculative. Plaintiffs’ most plausible theory was that iParadigms’ archiving of their papers impaired the sale of the papers to high school students in the market for unpublished term papers, essays and the like. Undoubtedly, there is a market for students who wish to purchase such works and submit them as their own for academic credit. And, iParadigms’ archiving of such papers on the Turnitin website might well impair the marketability of such works to student buyers intending to submit works they did not author without being identified as plagiarists.

As noted by the district court, however, the plaintiffs testified that they would not sell the works at issue here to any dealer in such a market because such a transaction would make them party to cheating and would encourage plagiarism. Furthermore, to the extent that iParadigms’ use would adversely affect plaintiffs’ works in this particular market, we must consider the transformative nature of the use. Clearly no market substitute was created by iParadigms, whose archived student works do not supplant the plaintiffs’ works in the “paper mill” market so much as merely suppress demand for them, by keeping record of the fact that such works had been previously submitted. In our view, then, any harm here is not of the kind protected against by copyright law.

In sum, we conclude, viewing the evidence in the light most favorable to the plaintiffs, that iParadigms’ use of the student works was “fair use” under the Copyright Act and that iParadigms was therefore entitled to summary judgment on the copyright infringement claim.

* * *

QUESTIONS FOR DISCUSSION FOR CASE 2.5

1. What is the test for evaluating whether a defendant's actions constitute "fair use" under copyright law? Is that test found in the Copyright Act or in case law?
2. Why does the court state in the last paragraph that it "view[s] the evidence in the light most favorable to the plaintiffs"?

3. The court seems to say that turnitin.com affects only the market for unethical uses of the papers submitted (e.g., resale to other students or a "paper mill"). Can you think of any legitimate uses of student papers that would be impeded by this service?

DISCUSSION QUESTIONS

1. Which of the following would receive patent or copyright law protection?
 - a. A method of manufacturing cereal that enables the product to remain fresh longer after the box has been opened.
 - b. Nike's slogan: "Just do it."
 - c. A new theory involving market segmentation strategies.
 - d. Common seaweed when manipulated in particular ways that render it an effective drug for several types of illnesses.
 - e. A new, nonfunctional shape for a flashlight.
 - f. A new, functional shape for a flashlight.
2. Seiko Epson Corp. sued Nu-Kote International, alleging that Nu-Kote had infringed on its design patent for ink cartridges for printers. The district court held that Seiko Epson's design patent was invalid because: (1) the cartridge is not visible after its installation and during use and thus its design was "not a matter of concern to consumers," and (2) the design is not aesthetically pleasing. Is the district court's reasoning correct? What are the requirements for a valid design patent?

3. Rotec Industries is the assignee of the '291 patent for a crane conveyor belt system used to carry concrete over long distances for construction projects such as river dams. The defendants, a group of corporations including Mitsubishi Corp., signed an agreement with the Chinese government to provide a crane conveyor belt system for its Three Gorges Dam project. Rotec alleged that the defendants were offering to sell a conveyor system that infringed upon its '291 patent.

Rotec sued for patent infringement. The evidence at trial showed: (1) the agreement among the defendants called for all of the conveyor components to be made in Japan and China; (2) no components were made in the United States; (3) the bid proposal, including the description of the product and the proposed price, was finalized in Hong Kong and

presented in China; (4) all negotiations with the Chinese government prior to signing the agreement took place in China; and (5) the agreement was signed in China. How should the court rule on Rotec's claim and why?

4. Chung filed for a design patent for a cigarette packet that allowed the cigarettes to be pulled out of the packet lengthwise rather than by their ends. In explaining the reason for his design, Chung stated: "I was motivated ... to design a new cigarette package ... when I ... happened to see ... workers pull out cigarettes from the packages holding their filter-tip top with dirty fingers during work to smoke them. Some even used their teeth to pull them out so as not to contaminate the filter-tip end with dirty fingers, and some others tore open the bottom part of the package to take out cigarettes from the bottom."

Does Chung's invention satisfy the requirements for a design patent? Why or why not?

5. Konrad invented a system that allowed a computer user to access and search a database residing on a remote computer. He filed for a patent on January 8, 1993, which ultimately issued.

In 2000, Konrad filed a patent infringement suit against 39 entities, arguing that they had infringed his patent. The defendants moved for summary judgment, arguing that prototypes of the invention were in public use or on sale prior to January 8, 1992.

Konrad had demonstrated his system to University of California computing personnel in 1991. During these demonstrations, Konrad would turn on his system and let people try it out. These individuals were not told to keep the information confidential nor were they required to sign a confidentiality requirement. Konrad did not keep records of these demonstrations, nor did he solicit feedback from the users.

Konrad contended that the 1991 demonstrations were experimental uses for the purposes of obtaining

technical information for upgrades and refining the invention. Konrad testified that the purpose of the demonstrations was to convince the University of California computing services people that there was a “viable project.” He also testified that he hoped the demonstrations would make the university personnel more supportive of his project; ultimately, he was seeking outside endorsements of his invention.

Is Konrad’s patent invalid under Section 102(b)?

6. Jeffrey Mendler, a professional photographer, signed a licensing agreement with Winterland Production, Ltd., a manufacturer of screen-printed apparel, that allowed Winterland to use several photographs that Mendler had taken of the America’s Cup yacht race as “guides, models, and examples, for illustrations to be used on screenprinted T-shirts or other sportswear.” Several years later, Mendler discovered that Winterland had put out a line of T-shirts that displayed a digitally altered version of the image from one of Mendler’s photographs. Winterland had scanned Mendler’s photograph and had flipped the image horizontally, had reconstructed the missing tip of a sail that had been cut off in the original photograph, and had altered the colors of the sky somewhat.

Mendler complained that the licensing agreement did not authorize such a use and that Winterland had infringed upon his copyright. Winterland argued that the changes that it had made had altered the image on the T-shirt from a photograph to an illustration based on a photograph. The parties agree that the license did not authorize Winterland to use photographic reproductions of Mendler’s work but only to use the photographs as a “guide, model, or example” to achieve an end result that was an “illustration” and not a photographic reproduction. What must a plaintiff show to establish copyright infringement? Has infringement occurred here?

7. Fashion Victim, Inc., sells a T-shirt called Skeleton Wopee with a fanciful design depicting skeletons engaging in sexual activity in seven different positions. Skeleton Wopee is Fashion’s best-selling product. Fashion sold 55,000 shirts since the shirts’ introduction in 1990. In 1992, Sunrise Turquoise, Inc., featured a shirt in its catalogue that was very similar to the Skeleton Wopee T-shirt. Fashion Victim sued Sunrise for copyright infringement. At trial, the evidence indicated that Sunrise had heard of the idea of a T-shirt depicting skeletons in sexual

positions from a potential customer but had not seen or directly copied the Skeleton Wopee shirt. Should Sunrise be held liable for copyright infringement? Why or why not?

8. When Universal City Studios, Inc., and Amblin’ Entertainment, Inc., were producing the movie *How to Make an American Quilt*, they contracted with Barbara Brown, a well-known professional quilter. Brown agreed to design patterns for 15 quilt blocks for \$50 per block. One of these designs was known as the Wedding Block. Under the contract, Brown was to retain the copyright to the designs, but Universal was authorized to use the design to create two copies of a prop quilt (known as the “The Life Before” quilt) for the movie.

In designing a second quilt for the movie, Universal’s technical consultant, Patricia McCormick, created a block design known as the Marriage Block. Both McCormick’s Marriage Block and Brown’s Wedding Block depict a scene with a black bird flying over a man and a woman holding hands. In the Marriage Block, however, the crow points downward, while the crow in the Wedding Block points upward. In addition, the Marriage Block includes a figure of the sun, but the Wedding Block does not. McCormick later wrote a book in which she stated: “I made [the Marriage Block] by using the pattern Barbara Brown had designed for ... The Life Before quilt ... The block in this quilt is a duplication of the ... block in The Life Before quilt.”

Brown sued for copyright infringement. Does McCormick’s Marriage Block design infringe Brown’s Wedding Block design? Why or why not?

9. Cory Van Rijn, Inc., (CVR) copyrighted various humanized raisin characters that it had developed. The California Raisin Advisory Board then developed Claymatic raisin characters for use in an advertising campaign. While both sets of characters had raisin bodies, the Board’s characters had detailed eyes with eyebrows and upper and lower lids; detailed mouths with upper and lower lips; detailed noses with nostrils; long and wire-like arms and legs; four-fingered, gloved hands; high-top basketball sneakers; and blue, red, and yellow sunglasses. CVR’s raisin characters had exaggerated, cartoon-like eyes; lipless mouths or no mouths at all; short and pudgy arms; no legs; three-fingered, gloveless hands; various types of shoes (none of which were high-top sneakers); and black, mirrored sunglasses. CVR conceded that the characters were not identical but

argued that the characters were similar enough that an ordinary reasonable person would perceive the two groups as being “cousins in an extended raisin family.”

CVR sued the Board for copyright infringement. How should the court rule on CVR’s claim and why?

10. Iowa Pedigree (IP) wanted to develop software for use in its business of assisting dog breeders and brokers in complying with American Kennel Club licensing and registration requirements. In May 1989, IP asked Gary Harter to develop this program for it. For the next six years, Harter worked on a variety of projects for IP. He developed several computer programs, maintained IP’s computers, and serviced the software of IP’s clients.

Throughout Harter’s employment with IP, IP reported his pay to the IRS on form 1099 as payment to an independent contractor. Harter reported the pay as self-employed income. IP did not withhold for income or social security taxes. Harter received payment on an irregular basis, sometimes being paid as often as three times within one month and sometimes going as long as seven months without payment. Harter did not punch a time clock or submit the hours worked to IP except in the form of an invoice. IP directed the hours and days that he would work. Harter did some work at home but primarily worked at IP’s offices, using its equipment.

Harter also continued to consult for other companies during his employment with IP. In 1992, Harter hired an assistant to work on a particular project and paid the assistant himself. Harter received no medical, retirement, or vacation benefits from IP. Harter traveled extensively with the owner of IP throughout the six-month period to service clients. Harter attended several trade shows for IP as well, in which he wore an IP “uniform” and worked at the IP booth answering questions regarding IP’s services. IP paid for his expenses on these trips. IP directed the projects that Harter worked on, ensuring that the programs would meet licensing and compliance requirements.

In 1996, several IP clients terminated their business relationship with IP and began receiving services directly from Harter. IP then sued Harter for copyright infringement, claiming that IP was the sole owner of the copyrights in the programs that Harter had developed for it. Who owns the copyrights in

these programs—Harter or IP? What test do the courts apply in resolving issues of this type?

11. Maclean Hunter Market Reports, Inc. (“Maclean”) publishes the “Automobile Red Book-Official Used Car Valuations” (the “Red Book”). The Red Book is published eight times a year, in three different regional versions, and lists the editors’ projections of “average” valuations of used cars up to seven years old sold in that region, broken down by automobile make, model, body style, engine type, options, and mileage. The valuation figures are predictions made by the editors, based on a variety of data and their own professional judgment, and are not based on either historical market prices or quotations, or upon mathematical formulae.

CCC Information Services provides information to customers as to the valuation of used vehicles via a computer database. CCC has been loading Red Book data onto its computer network and has been republishing various forms of Red Book information to its customers. As a result, CCC earned significant revenue, while Maclean has had a significant reduction in its number of subscriptions.

How should the court rule on Maclean’s infringement claim against CCC?

12. Bell South Advertising & Publishing Corp. (“BAPCO”) publishes a classified “yellow pages” advertising directory for the Greater Miami area. The directory is organized into an alphabetical list of business classifications and each business subscriber is listed under one heading at no charge. Subscribers may pay for listings under additional headings or for a display ad.

Donnelley Information Publishing, Inc. began proposing and selling classified advertisements for a competitive directory. Donnelley generated its sales lead sheets for soliciting advertisers for its competitive directory by creating a database of subscriber contact information and business classification from information copied from the BAPCO directory. Donnelley did not copy the text or graphic material from advertisements in BAPCO’s directory, or the layout or typeface of the material.

BAPCO alleged it had engaged in several “acts of selection” in compiling its listings. For example, BAPCO determined the geographic scope of its directory, and the closing date after which no changes would be accepted, it “selected” its listings by requiring subscribers to have a business telephone number, and it relied on several marketing techniques, such as

determining the number of free listings offered to each subscriber, selecting which customers to make an on-site sales call to, selecting the date when the sales campaign would begin, or selecting the procedure for recommending the purchase of multiple listings.

How should the court rule on BAPCO's claim of infringement?

13. Rzeppa was an engineer for a company that had a patent for an improvement in a constant velocity universal joint. The company had difficulties adapting the invention for commercial use. Rzeppa worked for more than a year in an effort to perfect and develop the universal joint so that it could be produced commercially for a profit. He requested that the company provide him with an assistant, so the company assigned Stuber, an experienced draftsman in its engineering department, to work with Rzeppa full-time. Stuber's job was to make drawings of the various sizes of the universal joint that Rzeppa was working on so that it could be properly manufactured. The company had required Rzeppa to sign an invention assignment agreement, but did not ask Stuber to do so.

While on his lunch hour one day, Stuber conceived of the idea of a self-piloting, constant velocity, universal joint with eccentric surfaces that eliminated the problems associated with the universal joint that Rzeppa was working on. Stuber immediately made a drawing of his idea. During his lunch hour the next day, he made another, more detailed, drawing, which he showed to Rzeppa and company officials. Rzeppa stated that the idea was of no value, and the company officials stated that they did not understand it. Stuber continued to make detailed drawings during his lunch hour and while at home. Eventually, after a period of several months, the company made models of the joint invented by Stuber, and they proved successful. Stuber informed the company he had applied for a patent on his invention, and demanded that the company pay a royalty for use of the invention. The company contends that the invention belongs to it. Who is right, and why?

14. Salvino Figurine Manufacturing, Inc. entered into a licensing agreement with the Major League Baseball Players Association to produce stuffed animal toys, known as Bamm Bears, bearing the names of individual players. Ty, Inc., who produced Beanie Babies stuffed toys, sued for copyright infringement, claiming that Salvino's bears were substantially similar to

its Beanie Babies bears. What legal test should the court apply in determining whether Salvino infringed Ty's copyright?

15. Invitrogen Corp. held a process patent on the introduction of recombinant DNA molecules into receptive *E. coli* cells. Invitrogen sued Stratagene for infringement of the patent. Stratagene defended by arguing that the Invitrogen's patent was invalid due to public use under Section 102(b).

The parties both agreed that Invitrogen used the process protected by the patent in its own laboratories more than one year prior to filing for a patent. Invitrogen did not sell the process or any products made with it. Rather, it kept the use of the process confidential and the process was known only within the company, Invitrogen did use the process in its own laboratories to grow cells to be used in other research within the company.

The district trial ruled that this use of the invention in Invitrogen's general business of widespread research was for commercial advantage and generated commercial benefits. The court determined that this was "public use" that had occurred more than one year prior to the filing for the patent application, and that the patent was thus invalid.

Invitrogen appealed this decision. How should the appellate court rule, and why?

16. Clock Spring, L.P., and Wrapmaster, Inc., are high-pressure gas pipeline repair companies. Clock Spring is the exclusive licensee of the '307 patent, which covers a method for repairing damaged high-pressure gas pipes. Clock Spring sued Wrapmaster for infringement; Wrapmaster defended by claiming that the '307 patent was invalid. Specifically, Wrapmaster claimed that a 1989 demonstration of the method by the named inventor was an invalidating public use because it occurred almost three years before the patent application was filed. In the demonstration, the repair method was performed in front of representatives of several gas transmission companies. These representatives were not told to keep the method confidential. In addition, the inventor did not control either the circumstances of or the personnel involved in the demonstration and did not use the findings from the demonstration to refine and perfect the invention.

Clock Spring argued that the demonstration was an experimental use, not a public use. How should the court rule on Clock Spring's claim? What effect will this ruling have on the validity of the '307 patent?

17. Situation Management Services (SMS) provides consulting services to domestic and international clients. In providing these services, SMS developed copyrighted training materials consisting of several hundred pages of instruction regarding techniques for effective communication and negotiation within the workplace. SMS sued ASP Consulting, Inc., a competitor that had been formed by former SMS employees, alleging that ASP had infringed its copyright by copying and using its training materials.

The trial court found that the training materials were not copyrightable material because, in its view, the materials were “filled with generalizations, platitudes, and observations of the obvious,” that they

contain “not-so-stunning revelations,” and teach “at their creative zenith, ... common-sense communication skills.” The trial court concluded that SMS works were “dominated by unprotectable material. These works exemplify the sorts of training programs that serve as fodder for sardonic workplace humor that has given rise to the popular television show *The Office* and the movie *Office Space*. They are aggressively vapid”

Did the trial court apply the correct standard in evaluating the originality of SMS’s material? If SMS challenges this outcome on appeal, how should the appellate court rule, and why?