Solution and Answer Guide

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Chapter 07: Intellectual Property Rights

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# Critical Thinking Questions in Features

Managerial Strategy—Business Questions

1. The U.S. Patent and Trademark Office requires that a registered trademark or service mark be put into commercial use within six months. Extensions can be granted but the mark must be put into commercial use within three years after the application has been approved. Why do you think the federal government established this requirement?

Solution

In the online world, there is something called cybersquatting. Someone registers a domain name that a large company might want to use in the future in this situation. The owner then “squats” on this domain Internet address until offered a large enough price to transfer it to a company that can actually make use of it.

The U.S. Patent and Trademark Office clearly is trying to prevent what we could call trademark squatting and service mark squatting. In other words, the federal government wants to make sure that once a trademark or service mark is created, the owner has either to “use it or lose it.” This “use it or lose it” regulation avoids lawsuits in the future, sometimes in the distant future, when someone else creates the same or a similar trademark or service mark. If a registered trademark or service mark is never put into commerce, it is difficult for others to determine that it exists. They might inadvertently use a trademark or service mark that is similar and then face a lawsuit. This would be an inefficient use of resources, particularly for our judicial system.

1. Should trademark protection apply to similarities between non-competing products? Why or why not?

Solution

As shown in the text’s coverage of this topic, one of the overriding goals of trademark protection law is to avoid consumer confusion between the nature of two products. If the trademark owner and the party alleged to have infringed on the trademark compete in the same market for goods and services, the court will rarely look beyond the trademark or service mark itself. Cases where the goods or services of the plaintiff and the defendant do not directly compete are more difficult to assess. In general, the court will look at the nature of the goods or services and the context in which they are marketed and sold to determine the likelihood of confusion. Some factors that courts take in account are (1) the strength of the plaintiff’s mark, (2) the intent of the defendant in adopting the mark, (3) the relationship in consumer’s minds between the goods and services, and, of course (4) evidence of any actual confusion on the part of consumers

Adapting the Law to the Online Environment

1. Beyoncé also used footage from a 2013 documentary called *That B.E.A.T.* Why might international entertainment stars choose to use sampled words and sampled video footage without permission of the copyright holders?

Solution

For one thing, the risk of a lawsuit might be seen as small. In many situations, copyright holders choose not to sue for copyright infringement. In other situations, they may sue but not have the financial resources necessary to continue a lawsuit through trial and appeals. In such cases, they may settle for small sums of money. Finally, celebrities who do sample just a few words may truly believe that their actions fall under the fair use doctrine.

# Critical Thinking Questions in Cases

Case 7.1

1. Suppose that Coca-Cola had been trying to make the public believe that its product contained cocaine. Would the result in the case likely have been different? Explain your answer.

Solution

Yes. The product in this case did not actually contain cocaine. To advertise that it did would be to commit fraud. A court will refuse to grant relief to a complaining party who commits fraud.

Case 7.2

1. Accompanying LEGO’s registration of its copyright are images depicting “Basic Minifigures.” Rather than these images, the district court compared ZURU’s Action Figures to actual LEGO Minifigures, which differ in facial expression and jacket color. Was this, as ZURU alleged, an improper comparison? Why or why not?

Solution

No, the court’s comparison of ZURU’s Action Figures to actual LEGO Minifigures, instead of the “Basic Minifigures” images that accompanied LEGO’s registration of its copyright, was not an improper comparison.

ZURU charged that the court compared allegedly infringing works—the ZURU Action Figures—to unregistered “derivative works.” A *derivative work* incorporates some or all of a preexisting copyrighted work and adds new original, copyrightable elements to it.

But the translation of a copyrighted work to a different medium, such as creating a plastic version of a cast metal coin bank, is not sufficiently original to require additional copyright protection. Applying these principles in the *LEGO* case, the district court found that the actual LEGO Minifigures were not derivative works. Each image of a “Basic Minifigure” appearing with the copyright registration was, in the court’s words, “just that—a basic minifigure wearing a jacket.” And the copyrightable elements of the Minifigures in the images and the actual sculptured Minifigures were the same—“apart from the medium in which they are conveyed, there are no material differences between the LEGO Minifigure sculptures and the corresponding copyright images.”

In other words, although the Minifigure sculptures examined by the court differed from the Minifigure images accompanying the copyright registration in facial expression and jacket color, the court found that the differences were not material. The court’s comparison of the two toy makers’ products, therefore, was not improper.

1. On the eve of the trial, ZURU promised to recall its Action Figures from Walmart’s stores in an effort to defeat LEGO’s request for an injunction. Could this promise be considered ethical? Explain.

Solution

From ZURU’s perspective, the issue could be framed as whether to continue marketing its Action Figures. Stakeholders would include all parties depending on ZURU to stay in business—its directors, employees, shareholders, suppliers, and customers, and members of the broader community relying on those parties—as well as the families related to individuals in these categories. Applicable ethical standards could be as minimal as the short-term bottom line and as maximal as the best long-term interests of as many stakeholders as possible.

The choice of action that ZURU’s decision makers appear to have made initially was to continue selling its allegedly infringing product despite the suit brought against the toymaker by LEGO. This could arguably be in the interest of all stakeholders, at least until an injunction was unavoidable. At the last minute, however, those decision makers may have had a change of heart, as evidenced by their change of strategy, when they pledged to remove their product from Walmart’s stores. This may have been only a tactic to stay in business, albeit without the sales of their Action Figures in the stores, and,= had it worked, it might have satisfied most of their stakeholders.

What was not promised in the facts stated in the question, however, was a commitment to remove the Action Figures from Walmart’s website. This was not overlooked by LEGO, which proceeded with their cause despite ZURU’s late promise. Ultimately, ZURU expended funds and effort in a futile attempt to keep its product on the market. This did not likely come to a satisfying end for any of the defendant’s stakeholders.

Case 7.3

1. Rimini argued that Oracle was misusing the copyright in its proprietary software to stifle competition. Do you agree? Explain.

Solution

Of course, the owner of a copyright should not be allowed to leverage the monopoly granted to them by the copyright to control of areas outside the monopoly. In other words, the owner might control the use of the copyright material, but it cannot impose conditions on the use that stifles competition. In the context of the *Oracle* case, for example, a licensor cannot impose a license agreement that prevents a licensee from using a competing product.

Here, Rimini framed Oracle’s position as foreclosing competition in the market for third-party maintenance. “It would limit copies made by third parties to those made only for archival and emergency backup purposes and . . . the software could not be serviced simply by making exact copies.”

Oracle countered that the licenses “do not preclude third parties from developing competing software or providing competing support services.” And the court concluded that the licenses did not preclude Rimini from creating development environments for a licensee for various purposes, including the testing of updates, “*after* that licensee has become a customer of Rimini.”

1. Suppose that Rimini had bought one of Oracle’s licenses for itself. Would the result have been different? Why or why not?

Solution

No, if Rimini had purchased one of Oracle’s licenses for its own use, the result would not have been different.

The terms of the license would have been the same. It would have permitted Rimini, as the licensee, to maintain the software and make copies of it for this purpose. But it would not have allowed Rimini to use the software to make and modify copies for other customers, or unknown, future customers. Just as in the *Oracle* case, this use of the software would have violated the exclusive right Oracle enjoyed as the owner of the software copyright to copy or modify it.

# Chapter Review

Practice and Review

Two computer science majors, Trent and Xavier, have an idea for a new video game, which they propose to call “Hallowed.” They form a business and begin developing their idea. Several months later, Trent and Xavier run into a problem with their design and consult with a friend, Brad, who is an expert in creating computer source codes. After the software is completed but before Hallowed is marketed, a video game called Halo 2 is released for both the Xbox and the PlayStation 3 systems. Halo 2 uses source codes similar to those of Hallowed and imitates Hallowed’s overall look and feel, although not all the features are alike. Using the information presented in the chapter, answer the following questions.

1. Would the name Hallowed receive protection as a trademark or as trade dress?

Solution

The video game, “Hallowed,” would not receive protection as either a trademark or trade dress because game had not been released to the general public for use. The law protects only trademarks that are in use. Trade dress applies to a product’s distinct image and appearance, but only once the distinctiveness of a product’s appearance has been established.

1. If Trent and Xavier had obtained a business process patent on Hallowed, would the release of Halo 2 infringe on their patent? Why or why not?

Solution

No, because all steps of a patented process must be copied to constitute infringement and these two games contain different features. For infringement of a business process patent to exist, all steps or their equivalent must be copied. In this scenario, while Halo 2 uses some of the same source codes as Hallowed, not all features alike, so it does not infringe on Hallowed’s patent.

1. Based only on the facts presented above, could Trent and Xavier sue the makers of Halo 2 for copyright infringement? Why or why not?

Solution

Yes, because Halo 2 copies the source codes of Hallowed. Whenever the form or expression of an idea is copied, an infringement of copyright occurs. The courts generally hold that copying the source codes of copyrighted software is infringement. Because Halo 2 used similar source codes as Hallowed, Trent and Xavier can sue for copyright infringement.

1. Suppose that Trent and Xavier discover that Brad took the idea of Hallowed and sold it to the company that produced Halo 2. Which type of intellectual property issue does this raise?

Solution

The fact that Brad took and sold Trent and Xavier’s idea to another company raises a trade secret issue, because Brad wrongfully disclosed the idea of a new video game to a competing company. Unlike copyright and trademark protection, protection of trade secrets extends both to ideas and their expression.

Practice and Review: Debate This

1. Congress has amended the Copyright Act several times. Copyright holders now have protection for many decades. Was Congress justified in extending these copyright time periods? Why or why not?

Solution

Obviously, copyright holders whose copyrights were about to run out benefited from the time-period extensions legislated by Congress. Hence, they certainly believe that Congress acted correctly. (It’s not surprising that major copyright holders such as large movie companies, record labels, and publishing houses did most of the lobbying that led to extensions of copyright protection periods.) In general, one can argue that more effort will go into the creation of intellectual property the longer the period of copyright protection for intellectual property. In other words, for the creation of new original works, the term extension of the copyright protection incentivizes creators of such works to extend more effort.

Not everyone is so enamored of the term extensions for copyright protection. In Article I, Section 8, Clause 8, of the Constitution, Congress is given the task of making laws for the protection of copyrights and patents “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.” What is a limited time? Today it can last over a hundred years! That hardly seems very limited. Moreover, the term extension for existing works makes no significant contribution to an author’s economic incentive to create, because the additional compensation was granted after the relevant investment had already been made.

Issue Spotters

1. Roslyn, a food buyer for Organic Cornucopia Food Company, decides to go into business for herself as Roslyn’s Kitchen. She contacts Organic’s suppliers, offering to buy their entire harvest for the next year. She also contacts Organic’s customers, offering to sell her products for less than Organic. Has Roslyn violated any of the intellectual property rights discussed in this chapter? Explain

Solution

Yes, Roslyn has committed theft of trade secrets. Lists of suppliers and customers cannot be patented, copyrighted, or trademarked, but the information they contain is protected against appropriation by others as trade secrets. Most likely, Roslyn signed a contract agreeing not to use this information outside her employment by Organic. But even without this contract, Organic could make a convincing case against its ex-employee for a theft of trade secrets.

1. Global Products develops, patents, and markets software. World Copies, Inc., sells Global’s software without the maker’s permission. Is this patent infringement? If so, how might Global save the cost of suing World for in­fringement and at the same time profit from World’s sales?

Solution

This is patent infringement. A software maker in this situation might best protect its product, save litigation costs, and profit from its patent by the use of a license. In the context of this problem, a li­cense would grant permission to sell a patented item. (A license can be lim­ited to certain purposes and to the li­censee only.)

Business Scenarios and Case Problems

1. **Patent Infringement.** John and Andrew Doney invented a hard-bearing device for balancing rotors. Although they obtained a patent for their invention from the U.S. Patent and Trademark Office, it was never used as an automobile wheel balancer. Some time later, Exetron Corp. produced an automobile wheel balancer that used a hard-bearing device similar to the Doneys’ device. Given that the Doneys had not used their device for automobile wheel balancing, does Exetron’s use of a similar device infringe on the Doneys’ patent? (See *Patents*.)

Solution

Yes. A patent is not deemed useless and therefore invalid simply because it has not been used in a particular application. The Doneys' patent was valid, and Exetron Corp. infringed on the patent.

1. **Fair Use.** Professor Wise is teaching a summer seminar in business torts at State University. Several times during the course, he makes copies of relevant sections from business law texts and distributes them to his students. Wise does not realize that the daughter of one of the textbook authors is a member of his seminar. She tells her father about Wise’s copying activities, which have taken place without her father’s or his publisher’s permission. Her father sues Wise for copyright infringement. Wise claims protection under the fair use doctrine. Who will prevail? Explain. (See *Copyrights*.)

Solution

Professor Wise will prevail, as he has not violated federal copyright law. Under Section 107 of the Copyright Act, the reproduction of copyrighted works for teaching purposes (in­cluding multiple copies for classroom use) falls under the “fair use” doctrine and is not an infringement of copyright.

1. **Spotlight on Macy’s—Copyright Infringement**. United Fabrics International, Inc., bought a fabric design from an Italian designer and registered a copyright to the design with the U.S. Copyright Office. When Macy’s, Inc., began selling garments with a similar design, United filed a copyright infringement suit against Macy’s. Macy’s argued that United did not own a valid copyright to the design and so could not claim infringement. Does United have to prove that the copyright is valid to establish infringement? Explain. [United Fabrics International, Inc. v. C & J Wear, Inc., 630 F.3d 1255 (9th Cir. 2011)] (See *Copyrights*.)

Solution

Copyrights can be registered with the U.S. Copyright Office in Washington, D.C. Copyright owners protect themselves by registering their copyrights. This registration is evidence that the copyright is valid. Thus, registering a copyright and showing proof of the registration is sufficient to establish the validity of the copyright. Here, United bought a design and registered it with the U.S. Copyright Office. United does not otherwise have to prove that the copyright is valid. If Macy’s wants to challenges the validity of United’s registered copyright, Macy’s will have to present evidence that the copyright is invalid. In the actual case on which this problem is based, the U.S. Court of Appeals for the Ninth Circuit ruled in United’s favor.

1. **Copyright Infringement.** SilverEdge Systems Software hired Catherine Conrad to perform a singing telegram. Silver-Edge arranged for James Bendewald to record Conrad’s performance of her copyrighted song to post on the company’s website. Conrad agreed to wear a microphone to assist in the recording, told Bendewald what to film, and asked for an additional fee only if SilverEdge used the video for a commercial purpose. Later, the company chose to post a video of a different performer’s singing telegram instead. Conrad filed a suit in a federal district court against SilverEdge and Bendewald for copyright infringement. Are the defendants liable? Explain. [*Conrad v. Bendewald*, 500 Fed.Appx. 526 (7th Cir. 2013)] (See *Copyrights*.)

Solution

There is no liability for copyright infringement here. Copyright protects the owner of a creative work, including a “musical work” like a song, from its distribution or public display without the owner’s permission. To show the work, or even to retain a copy without the owner’s permission, would constitute infringement.

It is clear from the facts, however, that SilverEdge and Bendewald had Conrad’s permission to film the performance of her song. She knew that SilverEdge had arranged with Bendewald to record her performance. She agreed to wear a microphone to assist in the recording, told Bendewald what to film, and asked for an additional fee only if SilverEdge used the video for a commercial purpose. Also, it does not appear that Conrad imposed any condition to have the video returned to her if SilverEdge decided not to pay the fee to use it commercially.

In the actual case on which this problem is based, the court issued a judgment against Conrad. On appeal, the U.S Court of Appeals for the Seventh Circuit affirmed, concluding that “the defendants had permission to film the performance as a matter of law.”

1. **Business Case Problem with Sample Answer—Patents.** The U.S. Patent and Trademark Office (PTO) denied Raymond Gianelli’s application for a patent for a “Rowing Machine”—an exercise machine on which a user *pulls* on handles to perform a rowing motion against a selected resistance. The PTO considered the device obvious in light of a previously patented “Chest Press Apparatus for Exercising Regions of the Upper Body”—an exercise machine on which a user pushes on handles to overcome a selected resistance. On what ground might this result be reversed on appeal? Discuss. [In re *Gianelli*, 739 F.3d 1375 (Fed. Cir. 2014)] (See *Patents*.)

Solution

One ground on which the denial of the patent application in this problem could be reversed on appeal is that the design of Raymond Gianelli’s “Rowing Machine” is *not* *obvious* in light of the design of the “Chest Press Apparatus for Exercising Regions of the Upper Body.”

To obtain a patent, an applicant must demonstrate to the satisfaction of the U.S. Patent and Trademark Office (PTO) that the invention, discovery, process, or design is novel, useful, and not obvious in light of current technology. In this problem, the PTO denied Gianelli’s application for a patent for his “Rowing Machine”—an exercise machine on which a user *pulls* on handles to perform a rowing motion against a selected resistance to strengthen the back muscles. The PTO considered the device obvious in light of a patented “Chest Press Apparatus for Exercising Regions of the Upper Body”—a chest press exercise machine on which a user *pushes* on handles to overcome a selected resistance. But it can be easily argued that it is *not* obvious to modify a machine with handles designed to be *pushed* into one with handles designed to be *pulled*. In fact, anyone who has used exercise machines knows that a way to cause injury is to use a machine in a manner not intended by the manufacturer.

In the actual case on which this problem is based, the U.S. Court of Appeals for the Federal Circuit reversed the PTO’s denial of Gianelli’s application for a patent, based on the reasoning stated above.

1. **Patents.** Rodney Klassen was employed by the U.S. Department of Agriculture (USDA). Without the USDA’s authorization, Klassen gave Jim Ludy, a grape grower, plant material for two unreleased varieties of grapes. For almost two years, most of Ludy’s plantings bore no usable fruit, none of the grapes were sold, and no plant material was given to any other person. The plantings were visible from publicly accessible roads, but none of the vines were labeled, and the variety could not be identified by simply viewing the vines. Under patent law, an applicant may not obtain a patent for an invention that is in public use more than one year before the date of the application. Could the USDA successfully apply for patents on the two varieties given to Ludy? Explain. [*Delano Farms Co. v. California Table Grape Commission*, 778 F.3d 1243 (Fed.Cir. 2015)] (See *Patents*.)

Solution

Yes, the USDA can obtain patents on the two varieties of grapes given to Ludy. Almost anything is patentable so long as it is novel, useful and not obvious. Plant material can be patented. But under patent law, an applicant may not obtain a patent for an invention that is in public use more than one year before the date of the application.

In this problem, a U.S. Department of Agriculture (USDA) employee, without the USDA’s authorization, gave Jim Ludy, a grape grower, plant material for two unreleased varieties of grapes. For almost two years, most of Ludy’s plantings bore no usable fruit, none of the grapes were sold, and no plant material was given to any other person. The plantings were visible from publicly accessible roads, but none of the vines were labeled, and the variety could not be identified by simply viewing the vines. This use of the unreleased varieties in these circumstances did not constitute a public use sufficient to prevent the USDA from successfully applying for patents on the grapes.

In the actual case on which this problem is based, the USDA obtained patents on the grapes. Delano Farms Co. and other growers filed a suit in a federal district court against the USDA, seeking to invalidate the patents. The court rejected the challenge. “If members of the public are not informed of, and cannot readily discern, the claimed features of the invention in the allegedly invalidating prior art, the public has not been put in possession of those features.” The U.S. Court of Appeals for the Federal Circuit affirmed.

1. **Copyright Infringement.** Savant Homes, Inc., is a custom home designer and builder. Using what it called the Anders Plan, Savant built a model house in Windsor, Colorado. This was a ranch house with two bedrooms on one side and a master suite on the other, separated by a combined family room, dining room, and kitchen. Ron and Tammie Wagner toured the Savant house. The same month, the Wagners hired builder Douglas Collins and his firm, Douglas Consulting, to build a house for them. After it was built, Savant filed a lawsuit in a federal district court against Collins for copyright infringement, alleging that the builder had copied the Anders Plan in the design and construction of the Wagner house. Collins showed that the Anders Plan consisted of standard elements and standard arrangements of elements. In these circumstances, has infringement occurred? Explain. [*Savant Homes, Inc. v. Collins*, 809 F.3d 1133 (10th Cir. 2016)] (See *Copyrights*.)

Solution

No, in the circumstances of this problem, infringement did not occur. Works that are copyrightable include architectural plans and the products of those plans. The Copyright Act explicitly states that it protects works that fall into this category. Specifically excluded, however, are ideas. The particular way in which an idea is expressed can be protected by copyright law if the expression is original. In other words, one of the key requirements for the protection of a work is originality. If a substantial part of an original expression is copied, infringement has occurred.

Here, Savant Homes, using what it called the “Anders Plan,” built a model house—a ranch house with two bedrooms on one side and a master suite on the other, separated by a combined family room, dining room, and kitchen. The Wagners toured the model and then hired Collins, a different builder, to build a house for them. After it was built, Savant charged that Collins had copied the Anders Plan in designing and constructing the Wagner house. Collins showed that the Anders Plan consisted of standard elements and standard arrangements of elements. Standard content receives no copyright protection.

To establish copyright infringement, a plaintiff must show “substantial similarity” between protectable elements of a work and an allegedly infringing work. Savant apparently failed to show that the Anders Plan included any protectable elements—that is, an *original* expression of a standard three-bedroom ranch house with the same floor plan.

In the actual case on which this problem is based, the court issued a judgment in Collins’s favor. The U.S. Court of Appeals for the Tenth Circuit affirmed this judgment, according to the reasoning stated here.

1. **Patent Infringement.** Finjan, Inc., owns a patent—U.S. Patent No. 7,418,731, or “the ‘731 patent”—for a system and method that protect computers from malicious software embedded in websites on the Internet. The system consists of a gateway that compares security profiles associated with requested files to the security policies of requesting users. The method includes scanning an incoming file to create the profile, which comprises a list of computer commands the file is programmed to perform. The ’731 patent required “a list of computer commands.” Blue Coat Systems, Inc., sold a competing product. Blue Coat’s product scanned an incoming file for certain commands and created a new file called Cookie2 that contained a field showing whether, and how often, those commands appeared. Finjan filed a suit against Blue Coat, alleging patent infringement. Blue Coat argued that its profiles did not contain the ’731 patent’s required “list of computer commands.” Did Blue Coat’s product infringe Finjan’s patent? Explain. [*Finjan, Inc. v. Blue Cost Systems, Inc*., 879 F.3d 1299 (Fed. Cir. 2018)] (See *Patents*.)

Solution

Yes, Blue Coat’s product infringed on Finjan’s patent. A firm that makes, uses, or sells another’s patented product or process commits the tort of patent infringement. Infringement may occur even though not all features of the product are copied, but a process cannot be infringed unless all steps or their equivalent are copied.

In this case, Finjan owns a patent—the ‘731 patent—for a system and method that provides computer security from malicious software embedded in outside websites. The system features a gateway that compares a security profile associated with a requested file to the security policies of the requesting user. The method includes scanning the file to create the profile, which comprises a list of computer commands the file is programmed to perform. Under the terms of the patent, such a list was required. Blue Coat sold a competing product. This product scanned an incoming file for certain commands and created a new file called Cookie2 that contained a field showing whether, and how often, those commands appeared. Contrary to Blue Coat’s argument, this field met the ’731 patent’s required “list of computer commands.” The patent was infringed.

In the actual case on which this problem is based, the court entered a judgment in Finjan’s favor, awarding damages of $6 million. The U.S. Court of Appeals for the Federal Circuit affirmed, on the reasoning stated above.

1. **Copyrights.** The “Jimmy Smith Rap” is a copyrighted rap recording asserting the supremacy of jazz over other types of music. Released thirty years later, “Pound Cake” is a hip-hop song in which Aubrey Graham and Shawn Carter, professionally known as Drake and Jay-Z, rap about the greatness and authenticity of their work. At the beginning of the seven-minute-long “Pound Cake” is a sampling of thirty-five seconds of the “Jimmy Smith Rap.” Criticizing jazz elitism, “Pound Cake” emphasizes that it is not the genre but the authenticity of the music that matters. The release of “Pound Cake” had no effect on the demand for the “Jimmy Smith Rap,” for which there was no active market at the time. Did Drake and Jay-Z make “fair use” of the “Jimmy Smith Rap,” or were they liable for copyright infringement? Explain. [*Estate of Smith v. Graham*, 799 FedAppx 36 (2d Cir. 2020)] (See *Copyrights*.)

Solution

Drake and Jay-Z made “fair use” of the “Jimmy Smith Rap”—they are not liable for copyright infringement. Whenever the form or expression of an idea is copied, an infringement of copyright occurs. The “fair use” doctrine provides an exception to liability (and in certain cases, without even the payment of royalties) when a work is used for such purposes as criticism or comment. Factors for determining whether a particular use qualifies include the purpose and character of the use, and the effect of the use on the market for the copyrighted work.

In this case, Drake and Jay-Z sampled thirty-five seconds of the “Jimmy Smith Rap” at the beginning of their seven-minute hip-hop song “Pound Cake.” They used the material for a purpose different from that for which it was created. The “Jimmy Smith Rap” asserts the supremacy of jazz to the disparagement of other types of music. “Pound Cake” criticizes such jazz-elitism, emphasizing that it is not the genre but the authenticity of the music that matters. Drake and Jay-Z rap about the greatness and authenticity of their own work. Courts refer to this type of use of a copyrighted work as *transformative*. As for the effect of the use on the market for the copyrighted work, according to the facts, “the release of ‘Pound Cake’ had no effect on the demand for the ‘Jimmy Smith Rap,’ for which at the time there was no active market.”

In the actual case on which this problem is based, the owners of the copyright to the “Jimmy Smith Rap,” including Smith’s estate, filed a suit in a federal district court against Drake and others, alleging copyright infringement. The court granted the defendants’ motion for summary judgment on the ground of fair use. The U.S. Court of Appeals for the Second Circuit affirmed, in part based on the reasoning stated above.

1. **A Question of Ethics—The IDDR Approach and Copyright Infringement.** Usenet is an online bulletin board network. A user gains access to Usenet posts through a commercial service, such as Giganews, Inc. Giganews deletes or blocks posts that contain child pornography. Otherwise, the service does not monitor content. Perfect 10, Inc., owns the copyrights to tens of thousands of images, many of which have been illegally posted on Usenet through Giganews. When Perfect 10 notified Giganews of posts that contained infringing images, the service took them down. Despite these efforts, illegal posting continued. Perfect 10 filed a suit in a federal district court against Giganews, alleging copyright infringement. [*Perfect 10, Inc. v. Giganews, Inc.*, 847 F.3d 657 (9th Cir. 2017)] (See *Copyrights*.)
2. Is Giganews liable for copyright infringement? Do Internet service providers have an ethical duty to do more to prevent infringement? Why or why not?

Solution

No, Giganews is not liable for copyright infringement. The Digital Millennium Copyright Act (DMCA) protects the owners of copyrights in digital information. But the DMCA also limits the liability of Internet service providers (ISPs). Under the act, an ISP is not liable for copyright infringement by a subscriber unless the ISP is aware of the violation. An ISP may be liable only if it fails to shut down the subscriber after learning of the violation.

In this problem, Giganews provided its subscribers with access to Usenet, an online bulletin board network. Giganews does not monitor its users’ posts except to delete or block posts that contain child pornography. Perfect 10, Inc. owns the copyrights to tens of thousands of images. Many of these have been illegally distributed over Usenet through Giganews. When notified of infringing posts, Giganews removed them. But users continued to post infringing content. Perfect 10 filed a suit in a federal district court against Giganews, accusing the service of copyright infringement. In the circumstances, under the DMCA, Giganews is not liable for its users’ infringement.

ISPs arguably have an ethical duty to do more to prevent copyright infringement. Posting images and other third-party content that a user does not own, or does not have permission to post, is copyright infringement. This is theft. Any party, such as an ISP, that has the capacity to block or delete such posts has an ethical duty to do so. An ISP could at the least clearly notify its users that such posts are violations of the law and maintain a policy that does not tolerate violations.

In the actual case on which this problem is based, the court issued a judgment in Giganews’s favor. The U.S. Court of Appeals for the Ninth Circuit affirmed the judgment.

1. Using the IDDR approach, decide whether a copyright owner has an ethical duty to protect against infringement.

Solution

Yes, a copyright owner has an ethical duty to protect against infringement. Arguably, any party that has the capacity to protect personal property, as a copyright owner most likely does, has an ethical duty to do so.

The IDDR approach has four steps, which begin with an *Inquiry* to express the issue, identify the stakeholders, and indicate potential ethical standards. Here, the question is whether an owner of copyrights has an ethical obligation to attempt to prevent a theft of those rights. The stakeholders include the owner, the creators of other copyrightable work, and the public at large. Applicable standards may derive from a specific owner’s situation—the owner of a copyright in music, for example, may license the music and distribute royalties, which would suggest a correlative duty to guard against its unlicensed use.

The second step of the IDDR approach is a *Discussion* that considers actions to address the issue. Factors include the strengths and weaknesses of the actions, and the consequences and the effects on the stakeholders. How might the owner of a copyright discourage its theft? Some answers to this question depend on the nature of the copyrighted work. Intellectual property protected by copyright may be stored as data on a server, which can be encrypted, firewalled, password-barred, or disconnected from the Internet to guard against thievery. If, as in this problem, an owner holds thousands of copyrights, some of the protected material might be made freely available to make it less tempting to steal. Or one song on an album might be accessible for playback online with an option to buy the song, or the whole album, for playback through other media. The disadvantage of this action is that of course some copyrighted items are available for free, which undercuts the reason for the protection. But this sort of sampling can acquaint a wider market with the work, which might then be more widely purchased, adding to its value.

The third step of the approach is to come to a *Decision* and state the reasons. There seems little doubt that the owner of copyright has an ethical obligation to guard against its theft. This protects the existence of copyright as a principle for the protection of property. It enhances its value to those who own it, those who produced it, and those who might be inspired to create more. These outcomes can improve the life of the community at large by adding opportunities to appreciate products of the mind.

The last step of the approach is a *Review* of the success or failure of the action to resolve the issue, and satisfy the stakeholders. No protective action will be entirely successful, but a failure to take any action will guaranty a failure to protect the interests of the stakeholders. This underscores the ethical obligation of an owner of a copyright to act to protect the property.

Critical Thinking and Writing Assignments

1. **Time-Limited Group Assignment—Patents.** After years of research, your company has developed a product that might revolutionize the green (environmentally conscious) building industry. The product is made from relatively inexpensive and widely available materials combined in a unique way that can substantially lower the heating and cooling costs of residential and commercial buildings. The company has registered the trademark it intends to use for the product and has filed a patent application with the U.S. Patent and Trademark Office. (See *Patents*.)
2. One group will provide three reasons why this product does or does not qualify for patent protection.

Solution

To obtain a patent, an applicant must show that an invention is novel, useful, and not obvious in light of current technology. Almost anything is patentable—including artistic methods, certain works of art, the structures of storylines, and hybrid or genetically modified plants, microorganisms, and animals—but not the laws of nature, natural phenomena, and abstract ideas. A product that combines widely available materials with no change in their functions would not be novel or uniquely useful. If a person of ordinary skill in the art would recognize the way in which these materials are combined, then the product is “obvious in light of current technology.” If the materials that are combined are not otherwise modified, they may not qualify for a patent under the exception for “natural phenomena.”

1. A second group will develop a four-step plan for how the company can best protect its intellectual property rights (trademark, trade secret, and patent) and prevent domestic and foreign competitors from producing counterfeit goods or cheap knockoffs.

Solution

One step that a company can take to fight the theft of its intellectual property rights for the production and sale of counterfeit goods is to seek a court order to shut down the domain names of websites that sell the goods. Shutting down websites, particularly on key shopping days, prevents the sale of some domestic and foreign counterfeit goods. Against those who in bad faith use a domain name that is confusingly similar to a legitimate business’s name, a plaintiff can collect actual damages and lost profits or statutory damages. Use of a trademark as a meta tag without permission is trademark infringement. Dilution is another possible cause of action (and does not require proof of the likelihood of confusion among consumers).

A second step that a company can take is to seek the criminal prosecution of those who traffic in counterfeit labels, stickers, packaging, and the like, whether or not they are attached to goods. The legal owner of the rights to the copied trademarks and other intellectual property should insist on the destruction of the counterfeit products and restitution for any losses.

A third possibility to prevent counterfeiting is to license a mark or other property, permitting its use for certain limited purposes. This alternative may be the best choice to realize a return on patented products made and sold in a foreign country because no patent infringement occurs in that circumstance. An injunction, fees and costa, and as much as triple damages may be recouped in a patent infringement suit against domestic violations of patent rights. Damages and criminal penalties may also be available against those who violate copyrights or steal trade secrets.

1. The third group will list and explain three ways in which the company can utilize licensing.

Solution

A license is an agreement permitting the use of a trademark, copyright, patent, or trade secret for certain limited purposes. A licensor might, for example, allow a licensee to use a trademark as part of a company name, or as part of a domain name, but not otherwise use the mark on any products or services. Or the owner of the property might allow a licensee to use the copyrighted, patented, or trademarked property or trade secrets. For example, the Coca-Cola Bottling Company licenses firms worldwide to use its secret formula for the syrup used in its soft drink. A licensor can realize a return on the license through the payment of royalties—a percentage of the income gained from the sale of products using the licensed property.