Chapter 32
Intellectual Property

LEARNING OBJECTIVES

After reading this chapter, you should understand the following:

1. The principal kinds of intellectual property
2. The difference between patents and trade secrets, and why a company might choose to rely on trade secrets rather than obtain a patent
3. What copyrights are, how to obtain them, and how they differ from trademarks
4. Why some “marks” may not be eligible for trademark protection, and how to obtain trademark protection for those that are

Few businesses of any size could operate without being able to protect their rights to a particular type of intangible personal property: intellectual property. The major forms of intellectual property are patents, copyrights, and trademarks. Unlike tangible personal property (machines, inventory) or real property (land, office buildings), intellectual property is formless. It is the product of the human intellect that is embodied in the goods and services a company offers and by which the company is known.

A patent is a grant from government that gives an inventor the exclusive right to make, use, and sell an invention for a period of twenty years from the date of filing the application for a patent. A copyright is the right to exclude others from using or marketing forms of expression. A trademark is the right to prevent others from using a company’s product name, slogan, or identifying design. Other forms of intellectual property are trade secrets (particular kinds of information of commercial use to a company that created it) and right of publicity (the right to exploit a person’s name or image). Note that the property interest protected in each case is not the tangible copy of the invention or writing—not the machine with a particular serial number or the book lying on someone’s shelf—but the invention or
words themselves. That is why intellectual property is said to be intangible: it is a right to exclude any others from
gaining economic benefit from your own intellectual creation. In this chapter, we examine how Congress, the courts,
and the Patent and Trademark Office have worked to protect the major types of intellectual property.

32.1 Patents

LEARNING OBJECTIVES

1. Explain why Congress would grant exclusive monopolies (patents) for certain periods of
time.
2. Describe what kinds of things may be patentable and what kinds of things may not be
patentable.
3. Explain the procedures for obtaining a patent, and how patent rights may be an issue
where the invention is created by an employee.
4. Understand who can sue for patent infringement, on what basis, and with what
potential remedies.

Source of Authority and Duration

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

Patentability

What May Be Patented

The patent law says that “any new and useful process, machine, manufacture, or composition of matter, or
any new and useful improvement thereof” may be patented. [1] A process is a “process, art or method, and
includes a new use of a known process, machine, manufacture, composition of matter, or material.” [2] A
process for making rolled steel, for example, qualifies as a patentable process under the statute.
A machine is a particular apparatus for achieving a certain result or carrying out a distinct process—lathes,
printing presses, motors, and the cotton gin are all examples of the hundreds of thousands of machines that have received US patents since the first Patent Act in 1790. A manufacture is an article or a product, such as a television, an automobile, a telephone, or a lightbulb. A composition of matter is a new arrangement of elements so that the resulting compound, such as a metal alloy, is not found in nature. In Commissioner of Patents v. Chakrabarty, the Supreme Court said that even living organisms—in particular, a new “genetically engineered” bacterium that could “eat” oil spills—could be patented. The Chakrabarty decision has spawned innovation: a variety of small biotechnology firms have attracted venture capitalists and other investors.

According to the PTO, gene sequences are patentable subject matter, provided they are isolated from their natural state and processed in a way that separates them from other molecules naturally occurring with them. Gene patenting, always controversial, generated new controversy when the PTO issued a patent to Human Genome Sciences, Inc. for a gene found to serve as a platform from which the AIDS virus can infect cells of the body. Critics faulted the PTO for allowing “ownership” of a naturally occurring human gene and for issuing patents without requiring a showing of the gene’s utility. New guidelines from the PTO followed in 2000; these focused on requiring the applicant to make a strong showing on the utility aspect of patentability and somewhat diminished the rush of biotech patent requests.

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

**What May Not Be Patented**

Many things can be patented, but not (1) the laws of nature, (2) natural phenomena, and (3) abstract ideas, including algorithms (step-by-step formulas for accomplishing a specific task).

One frequently asked question is whether patents can be issued for computer software. The PTO was reluctant to do so at first, based on the notion that computer programs were not “novel”—the software program either incorporated automation of manual processes or used mathematical equations (which
were not patentable). But in 1998, the Supreme Court held in *Diamond v. Diehr*[^4] that patents could be obtained for a process that incorporated a computer program if the process itself was patentable. A business process can also be patentable, as the US Court of Appeals for the Federal Circuit ruled in 1998 in *State Street Bank and Trust v. Signature Financial Group, Inc.*[^5] Signature Financial had a patent for a computerized accounting system that determined share prices through a series of mathematical calculations that would help manage mutual funds. State Street sued to challenge that patent. Signature argued that its model and process was protected, and the court of appeals upheld it as a “practical application of a mathematical, algorithm, formula, or calculation,” because it produces a “useful, concrete and tangible result.” Since *State Street*, many other firms have applied for business process patents. For example, Amazon.com obtained a business process patent for its “one-click” ordering system, a method of processing credit-card orders securely. (But see *Amazon.com v. Barnesandnoble.com*,[^6] in which the court of appeals rejected Amazon’s challenge to Barnesandnoble.com using its Express Land one-click ordering system.)

**Tests for Patentability**

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

**Procedures for Obtaining a Patent**

In general, the United States (unlike many other countries) grants a patent right to the first person to invent a product or process rather than to the first person to file for a patent on that product or process. As a practical matter, however, someone who invents a product or process but does not file immediately...
should keep detailed research notes or other evidence that would document the date of invention. An inventor who fails to apply for a patent within a year of that date would forfeit the rights granted to an inventor who had published details of the invention or offered it for sale. But until the year has passed, the PTO may not issue a patent to X if Y has described the invention in a printed publication here or abroad or the invention has been in public use or on sale in this country.

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

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

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

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

Infringement and Invalidity Suits

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

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

Proving infringement can be a difficult task. Many companies employ engineers to “design around” a patent product—that is, to seek ways to alter the product to such an extent that the substitute product no longer consists of enough of the elements of the invention safeguarded by the patent. However, infringing
products, processes, or machines need not be identical; as the Supreme Court said in *Sanitary Refrigerator Co. v. Winers*, [8] “one device is an infringement of another...if two devices do the same work in substantially the same way, and accomplish substantially the same result...even though they differ in name, form, or shape.” This is known as the doctrine of equivalents. In an infringement suit, the court must choose between these two extremes: legitimate “design around” and infringement through some equivalent product.

An infringement suit can often be dangerous because the defendant will almost always assert in its answer that the patent is invalid. The plaintiff patent holder thus runs the risk that his entire patent will be taken away from him if the court agrees. In ruling on validity, the court may consider all the tests, such as prior art and obviousness, discussed in Section 32.1.2 "Patentability" and rule on these independently of the conclusions drawn by the PTO.

**Patent Misuse**

Although a patent is a monopoly granted to the inventor or his assignee or licensee, the monopoly power is legally limited. An owner who misuses the patent may find that he will lose an infringement suit. One common form of misuse is to tie the patented good to some unpatented one—for example, a patented movie projector that will not be sold unless the buyer agrees to rent films supplied only by the manufacturer of the movie projector, or a copier manufacturer that requires buyers to purchase plain paper from it. As we will see in Chapter 48 "Antitrust Law", various provisions of the federal antitrust laws, including, specifically, Section 3 of the Clayton Act, outlaw certain kinds of tying arrangements. Another form of patent misuse is a provision in the licensing agreement prohibiting the manufacturer from also making competing products. Although the courts have held against several other types of misuse, the general principle is that the owner may not use his patent to restrain trade in unpatented goods.

**KEY TAKEAWAY**

Many different “things” are patentable, include gene sequences, business processes, and any other “useful invention.” The US Patent and Trademark Office acts on initial applications and may grant a patent to an applicant. The patent, which allows a limited-time monopoly, is for twenty years. The categories of patentable things include processes, machines, manufactures, compositions of matter, and improvements. Ideas, mental processes, naturally occurring substances, methods of doing business, printed matter, and
scientific principles cannot be patented. Patent holders may sue for infringement and royalties from an infringer user.

**EXERCISES**

1. Calera, Inc. discovers a way to capture carbon dioxide emissions at a California power plant and use them to make cement. This is a win for the power company, which needs to reduce its carbon dioxide emissions, and a win for Calera. Calera decides to patent this invention. What kind of patent would this be? A machine? A composition of matter? A manufacture?

2. In your opinion, what is the benefit of allowing companies to isolate genetic material and claim a patent? What kind of patent would this be? A machine? A composition of matter? A manufacture?

3. How could a “garage inventor,” working on her own, protect a patentable invention while yet demonstrating it to a large company that could bring the invention to market?

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**32.2 Trade Secrets**

**LEARNING OBJECTIVES**

1. Describe the difference between trade secrets and patents, and explain why a firm might prefer keeping a trade secret rather than obtaining a patent.

2. Understand the dimensions of corporate espionage and the impact of the federal Economic Espionage Act.
Definition of Trade Secrets

A patent is an invention publicly disclosed in return for a monopoly. A trade secret is a means to a monopoly that a company hopes to maintain by preventing public disclosure. Why not always take out a patent? There are several reasons. The trade secret might be one that is not patentable, such as a customer list or an improvement that does not meet the tests of novelty or nonobviousness. A patent can be designed around; but if the trade secret is kept, its owner will be the exclusive user of it. Patents are expensive to obtain, and the process is extremely time consuming. Patent protection expires in twenty years, after which anyone is free to use the invention, but a trade secret can be maintained for as long as the secret is kept.

However, a trade secret is valuable only so long as it is kept secret. Once it is publicly revealed, by whatever means, anyone is free to use it. The critical distinction between a patent and a trade secret is this: a patent gives its owner the right to enjoin anyone who infringes it from making use of it, whereas a trade secret gives its “owner” the right to sue only the person who improperly took it or revealed it. According to the Restatement of Torts, Section 757, Comment b, a trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. A trade secret is a process or device for continuous use in the operation of a business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article.

Other types of trade secrets are customer information, pricing data, marketing methods, sources of supply, and secret technical know-how.

Elements of Trade Secrets

To be entitled to protection, a trade secret must be (1) original and (2) secret.

Originality

The trade secret must have a certain degree of originality, although not as much as would be necessary to secure a patent. For example, a principle or technique that is common knowledge does not become a protectable trade secret merely because a particular company taught it to one of its employees who now wants to leave to work for a competitor.
Secrecy

Some types of information are obviously secret, like the chemical formula that is jealously guarded through an elaborate security system within the company. But other kinds of information might not be secret, even though essential to a company’s business. For instance, a list of suppliers that can be devised easily by reading through the telephone directory is not secret. Nor is a method secret simply because someone develops and uses it, if no steps are taken to guard it. A company that circulates a product description in its catalog may not claim a trade secret in the design of the product if the description permits someone to do “reverse engineering.” A company that hopes to keep its processes and designs secret should affirmatively attempt to do so—for example, by requiring employees to sign a nondisclosure agreement covering the corporate trade secrets with which they work. However, a company need not go to every extreme to guard a trade secret.

Trade-secrets espionage has become a big business. To protect industrial secrets, US corporations spend billions on security arrangements. The line between competitive intelligence gathering and espionage can sometimes be difficult to draw. The problem is by no means confined to the United States; companies and nations all over the world have become concerned about theft of trade secrets to gain competitive advantage, and foreign governments are widely believed to be involved in espionage and cyberattacks.

Economic Espionage Act

The Economic Espionage Act (EEA) of 1996 makes the theft or misappropriation of a trade secret a federal crime. The act is aimed at protecting commercial information rather than classified national defense information. Two sorts of activities are criminalized. The first section of the act criminalizes the misappropriation of trade secrets (including conspiracy to misappropriate trade secrets and the subsequent acquisition of such misappropriated trade secrets) with the knowledge or intent that the theft will benefit a foreign power. Penalties for violation are fines of up to US$500,000 per offense and imprisonment of up to fifteen years for individuals, and fines of up to US$10 million for organizations. The second section criminalizes the misappropriation of trade secrets related to or included in a product that is produced for or placed in interstate (including international) commerce, with the knowledge or intent that the misappropriation will injure the owner of the trade secret. Penalties for violation are imprisonment for up to ten years for individuals (no fines) and fines of up to US$5 million for organizations.
In addition to these specific penalties, the fourth section of the EEA[^1] also requires criminal forfeiture of (1) any proceeds of the crime and property derived from proceeds of the crime and (2) any property used, or intended to be used, in commission of the crime.

The EEA authorizes civil proceedings by the Department of Justice to enjoin violations of the act but does not create a private cause of action. This means that anyone believing they have been victimized must go through the US attorney general in order to obtain an injunction.

The EEA is limited to the United States and has no extraterritorial application unless (1) the offender is a US company or a citizen operating from abroad against a US company or (2) an act in furtherance of the espionage takes place in the United States. Other nations lack such legislation, and some may actively support industrial espionage using both their national intelligence services. The US Office of the National Counterintelligence Executive publishes an annual report, mandated by the US Congress, on foreign economic collection and industrial espionage, which outlines these espionage activities of many foreign nations.

**Right of Employees to Use Trade Secrets**

A perennial source of lawsuits in the trade secrets arena is the employee who is hired away by a competitor, allegedly taking trade secrets along with him. Companies frequently seek to prevent piracy by requiring employees to sign confidentiality agreements. An agreement not to disclose particular trade secrets learned or developed on the job is generally enforceable. Even without an agreement, an employer can often prevent disclosure under principles of agency law. Sections 395 and 396 of the Restatement (Second) of Agency suggest that it is an actionable breach of duty to disclose to third persons information given confidentially during the course of the agency. However, every person is held to have a right to earn a living. If the rule were strictly applied, a highly skilled person who went to another company might be barred from using his knowledge and skills. The courts do not prohibit people from using elsewhere the general knowledge and skills they developed on the job. Only specific trade secrets are protected. To get around this difficulty, some companies require their employees to sign agreements not to compete. But unless the agreements are limited in scope and duration to protect a company against only specific misuse of trade secrets, they are unenforceable.

[^1]: Reference [footnote]
KEY TAKEAWAY

Trade secrets, if they can be kept, have indefinite duration and thus greater potential value than patents. Trade secrets can be any formula, pattern, device, process, or compilation of information to be used in a business. Customer information, pricing data, marketing methods, sources of supply, and technical know-how could all be trade secrets. State law has protected trade secrets, and federal law has provided criminal sanctions for theft of trade secrets. With the importance of digitized information, methods of theft now include computer hacking; theft of corporate secrets is a burgeoning global business that often involves cyberattacks.

EXERCISES

1. Wu Dang, based in Hong Kong, hacks into the Hewlett-Packard database and “steals” plans and specifications for HP’s latest products. The HP server is located in the United States. He sells this information to a Chinese company in Shanghai. Has he violated the US Economic Espionage Act?

2. What are the advantages of keeping a formula as a trade secret rather than getting patent protection?

32.5 Cases

Fair Use in Copyright

Elvis Presley Enterprises et al. v. Passport Video et al.

349 F.3d 622 (9th Circuit Court of Appeals, 2003)

TALLMAN, CIRCUIT JUDGE:

Plaintiffs are a group of companies and individuals holding copyrights in various materials relating to Elvis Presley. For example, plaintiff SOFA Entertainment, Inc., is the registered owner of several Elvis appearances on The Ed Sullivan Show. Plaintiff Promenade Trust owns the copyright to two television specials featuring Elvis: The Elvis 1968 Comeback Special and Elvis Aloha from Hawaii....Many Plaintiffs
are in the business of licensing their copyrights. For example, SOFA Entertainment charges $10,000 per minute for use of Elvis’ appearances on The Ed Sullivan Show.

Passport Entertainment and its related entities (collectively “Passport”) produced and sold The Definitive Elvis, a 16-hour video documentary about the life of Elvis Presley. The Definitive Elvis sold for $99 at retail. Plaintiffs allege that thousands of copies were sent to retail outlets and other distributors. On its box, The Definitive Elvis describes itself as an all-encompassing, in-depth look at the life and career of a man whose popularity is unrivaled in the history of show business and who continues to attract millions of new fans each year....

The Definitive Elvis uses Plaintiffs’ copyrighted materials in a variety of ways. With the video footage, the documentary often uses shots of Elvis appearing on television while a narrator or interviewee talks over the film. These clips range from only a few seconds in length to portions running as long as 30 seconds. In some instances, the clips are the subject of audio commentary, while in other instances they would more properly be characterized as video “filler” because the commentator is discussing a subject different from or more general than Elvis’ performance on a particular television show. But also significant is the frequency with which the copyrighted video footage is used. The Definitive Elvis employs these clips, in many instances, repeatedly. In total, at least 5% to 10% of The Definitive Elvis uses Plaintiffs’ copyrighted materials.

Use of the video footage, however, is not limited to brief clips....Thirty-five percent of his appearances on The Ed Sullivan Show is replayed, as well as three minutes from The 1968 Comeback Special.

* * *

Plaintiffs sued Passport for copyright infringement....Passport, however, asserts that its use of the copyrighted materials was “fair use” under 17 U.S.C. § 107. Plaintiffs moved for a preliminary injunction, which was granted by the district court after a hearing. The district court found that Passport’s use of Plaintiffs’ copyrighted materials was likely not fair use. The court enjoined Passport from selling or distributing The Definitive Elvis. Passport timely appeals.

* * *

We first address the purpose and character of Passport’s use of Plaintiffs’ copyrighted materials. Although not controlling, the fact that a new use is commercial as opposed to non-profit weighs against a finding of fair use. Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 562, 85 L. Ed. 2d 588, 105 S.Ct.
2218 (1985). And the degree to which the new user exploits the copyright for commercial gain—as opposed to incidental use as part of a commercial enterprise—affects the weight we afford commercial nature as a factor. More importantly for the first fair-use factor, however, is the “transformative” nature of the new work. Specifically, we ask “whether the new work...merely supersedes the objects of the original creation, or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message....” The more transformative a new work, the less significant other inquiries, such as commercialism, become.

* * *

The district court below found that the purpose and character of *The Definitive Elvis* will likely weigh against a finding of fair use. We cannot say, based on this record, that the district court abused its discretion.

First, Passport’s use, while a biography, is clearly commercial in nature. But more significantly, Passport seeks to profit directly from the copyrights it uses without a license. One of the most salient selling points on the box of *The Definitive Elvis* is that “Every Film and Television Appearance is represented.” Passport is not advertising a scholarly critique or historical analysis, but instead seeks to profit at least in part from the inherent entertainment value of Elvis’ appearances on such shows as *The Steve Allen Show*, *The Ed Sullivan Show*, and *The 1968 Comeback Special*. Passport’s claim that this is scholarly research containing biographical comments on the life of Elvis is not dispositive of the fair use inquiry.

Second, Passport’s use of Plaintiffs’ copyrights is not consistently transformative. True, Passport’s use of many of the television clips is transformative because the clips play for only a few seconds and are used for reference purposes while a narrator talks over them or interviewees explain their context in Elvis’ career. But voice-overs do not necessarily transform a work....

It would be impossible to produce a biography of Elvis without showing some of his most famous television appearances for reference purposes. But some of the clips are played without much interruption, if any. The purpose of showing these clips likely goes beyond merely making a reference for a biography, but instead serves the same intrinsic entertainment value that is protected by Plaintiffs’ copyrights.

* * *
The third factor is the amount and substantiality of the portion used in relation to the copyrighted work as a whole. This factor evaluates both the quantity of the work taken and the quality and importance of the portion taken. Regarding the quantity, copying “may not be excused merely because it is insubstantial with respect to the infringing work.” Harper & Row, 471 U.S. at 565 (emphasis in original). But if the amount used is substantial with respect to the infringing work, it is evidence of the value of the copyrighted work.

Passport’s use of clips from television appearances, although in most cases of short duration, were repeated numerous times throughout the tapes. While using a small number of clips to reference an event for biographical purposes seems fair, using a clip over and over will likely no longer serve a biographical purpose. Additionally, some of the clips were not short in length. Passport’s use of Elvis’ appearance on The Steve Allen Show plays for over a minute and many more clips play for more than just a few seconds.

Additionally, although the clips are relatively short when compared to the entire shows that are copyrighted, they are in many instances the heart of the work. What makes these copyrighted works valuable is Elvis’ appearance on the shows, in many cases singing the most familiar passages of his most popular songs. Plaintiffs are in the business of licensing these copyrights. Taking key portions extracts the most valuable part of Plaintiffs’ copyrighted works. With respect to the photographs, the entire picture is often used. The music, admittedly, is usually played only for a few seconds.

* * *

The last, and “undoubtedly the single most important” of all the factors, is the effect the use will have on the potential market for and value of the copyrighted works. Harper & Row, 471 U.S. at 566. We must “consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also whether unrestricted and widespread conduct of the sort engaged in by the defendant...would result in a substantially adverse impact on the potential market for the original.” Campbell, 510 U.S. at 590. The more transformative the new work, the less likely the new work’s use of copyrighted materials will affect the market for the materials. Finally, if the purpose of the new work is commercial in nature, “the likelihood [of market harm] may be presumed.” A&M Records, 239 F.3d at 1016 (quoting Sony, 464 U.S. at 451).
The district court found that Passport’s use of Plaintiffs’ copyrighted materials likely does affect the market for those materials. This conclusion was not clearly erroneous.

First, Passport’s use is commercial in nature, and thus we can assume market harm. Second, Passport has expressly advertised that *The Definitive Elvis* contains the television appearances for which Plaintiffs normally charge a licensing fee. If this type of use became wide-spread, it would likely undermine the market for selling Plaintiffs’ copyrighted material. This conclusion, however, does not apply to the music and still photographs. It seems unlikely that someone in the market for these materials would purchase *The Definitive Elvis* instead of a properly licensed product. Third, Passport’s use of the television appearances was, in some instances, not transformative, and therefore these uses are likely to affect the market because they serve the same purpose as Plaintiffs’ original works.

* * *

We emphasize that our holding today is not intended to express how we would rule were we examining the case *ab initio* as district judges. Instead, we confine our review to whether the district court abused its discretion when it weighed the four statutory fair-use factors together and determined that Plaintiffs would likely succeed on the merits. Although we might view this case as closer than the district court saw it, we hold there was no abuse of discretion in the court’s decision to grant Plaintiffs’ requested relief.

AFFIRMED.

**CASE QUESTIONS**

1. How would you weigh the four factors in this case? If the trial court had found fair use, would the appeals court have overturned its ruling?
2. Why do you think that the fourth factor is especially important?
3. What is the significance of the discussion on “transformative” aspects of the defendant’s product?

**Trademark Infringement and Dilution**

*Playboy Enterprises v. Welles*

279 F.3d 796 (9th Circuit Court of Appeals, 2001)

T. G. NELSON, Circuit Judge:

Terri Welles was on the cover of Playboy in 1981 and was chosen to be the Playboy Playmate of the Year for 1981. Her use of the title “Playboy Playmate of the Year 1981,” and her use of other trademarked terms
on her website are at issue in this suit. During the relevant time period, Welles’ website offered information about and free photos of Welles, advertised photos for sale, advertised memberships in her photo club, and promoted her services as a spokesperson. A biographical section described Welles’ selection as Playmate of the Year in 1981 and her years modeling for PEI. The site included a disclaimer that read as follows: “This site is neither endorsed, nor sponsored, nor affiliated with Playboy Enterprises, Inc. PLAYBOY tm PLAYMATE OF THE YEAR tm AND PLAYMATE OF THE MONTH tm are registered trademarks of Playboy Enterprises, Inc.”

Wells used (1) the terms “Playboy” and “Playmate” in the metatags of the website; (2) the phrase “Playmate of the Year 1981” on the masthead of the website; (3) the phrases “Playboy Playmate of the Year 1981” and “Playmate of the Year 1981” on various banner ads, which may be transferred to other websites; and (4) the repeated use of the abbreviation “PMOY ’81” as the watermark on the pages of the website.

PEI claimed that these uses of its marks constituted trademark infringement, dilution, false designation of origin, and unfair competition. The district court granted defendants’ motion for summary judgment. PEI appeals the grant of summary judgment on its infringement and dilution claims. We affirm in part and reverse in part.

A. Trademark Infringement

Except for the use of PEI’s protected terms in the wallpaper of Welles’ website, we conclude that Welles’ uses of PEI’s trademarks are permissible, nominative uses. They imply no current sponsorship or endorsement by PEI. Instead, they serve to identify Welles as a past PEI “Playmate of the Year.”

We articulated the test for a permissible, nominative use in New Kids On The Block v. New America Publishing, Inc. The band, New Kids On The Block, claimed trademark infringement arising from the use of their trademarked name by several newspapers. The newspapers had conducted polls asking which member of the band New Kids On The Block was the best and most popular. The papers’ use of the trademarked term did not fall within the traditional fair use doctrine. Unlike a traditional fair use scenario, the defendant newspaper was using the trademarked term to describe not its own product, but the plaintiff’s. Thus, the factors used to evaluate fair use were inapplicable. The use was nonetheless permissible, we concluded, based on its nominative nature.

We adopted the following test for nominative use:
First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.

We group the uses of PEI’s trademarked terms into three for the purpose of applying the test for nominative use.

1. Headlines and banner advertisements.

The district court properly identified Welles’ situation as one which must... be excepted. No descriptive substitute exists for PEI’s trademarks in this context. Just as the newspapers in New Kids could only identify the band clearly by using its trademarked name, so can Welles only identify herself clearly by using PEI’s trademarked title.

The second part of the nominative use test requires that “only so much of the mark or marks may be used as is reasonably necessary to identify the product or service[.]” New Kids provided the following examples to explain this element: “[A] soft drink competitor would be entitled to compare its product to Coca-Cola or Coke, but would not be entitled to use Coca-Cola’s distinctive lettering.” Similarly, in a past case, an auto shop was allowed to use the trademarked term “Volkswagen” on a sign describing the cars it repaired, in part because the shop “did not use Volkswagen’s distinctive lettering style or color scheme, nor did he display the encircled ’VW’ emblem.” Welles’ banner advertisements and headlines satisfy this element because they use only the trademarked words, not the font or symbols associated with the trademarks.

The third element requires that the user do “nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.” As to this element, we conclude that aside from the wallpaper, which we address separately, Welles does nothing in conjunction with her use of the marks to suggest sponsorship or endorsement by PEI. The marks are clearly used to describe the title she received from PEI in 1981, a title that helps describe who she is. It would be unreasonable to assume that the Chicago Bulls sponsored a website of Michael Jordan’s simply because his name appeared with the appellation “former Chicago Bull.” Similarly, in this case, it would be unreasonable to assume that PEI currently sponsors or endorses someone who describes herself as a “Playboy Playmate of the Year in
1981.” The designation of the year, in our case, serves the same function as the “former” in our example. It shows that any sponsorship or endorsement occurred in the past.

For the foregoing reasons, we conclude that Welles’ use of PEI’s marks in her headlines and banner advertisements is a nominative use excepted from the law of trademark infringement.

2. Metatags

Welles includes the terms “playboy” and “playmate” in her metatags. Metatags describe the contents of a website using keywords. Some search engines search metatags to identify websites relevant to a search. Thus, when an internet searcher enters “playboy” or “playmate” into a search engine that uses metatags, the results will include Welles’ site. Because Welles’ metatags do not repeat the terms extensively, her site will not be at the top of the list of search results. Applying the three-factor test for nominative use, we conclude that the use of the trademarked terms in Welles’ metatags is nominative.

As we discussed above with regard to the headlines and banner advertisements, Welles has no practical way of describing herself without using trademarked terms. In the context of metatags, we conclude that she has no practical way of identifying the content of her website without referring to PEI’s trademarks.

... Precluding their use would have the unwanted effect of hindering the free flow of information on the internet, something which is certainly not a goal of trademark law. Accordingly, the use of trademarked terms in the metatags meets the first part of the test for nominative use... We conclude that the metatags satisfy the second and third elements of the test as well. The metatags use only so much of the marks as reasonably necessary and nothing is done in conjunction with them to suggest sponsorship or endorsement by the trademark holder. We note that our decision might differ if the metatags listed the trademarked term so repeatedly that Welles’ site would regularly appear above PEI’s in searches for one of the trademarked terms.

3. Wallpaper/watermark.

The background, or wallpaper, of Welles’ site consists of the repeated abbreviation “PMOY ’81,” which stands for “Playmate of the Year 1981.” Welles’ name or likeness does not appear before or after “PMOY ’81.” The pattern created by the repeated abbreviation appears as the background of the various pages of the website. Accepting, for the purposes of this appeal, that the abbreviation “PMOY” is indeed entitled to protection, we conclude that the repeated, stylized use of this abbreviation fails the nominative use test.
The repeated depiction of “PMOY ’81” is not necessary to describe Welles. “Playboy Playmate of the Year 1981” is quite adequate. Moreover, the term does not even appear to describe Welles—her name or likeness do not appear before or after each “PMOY ’81.” Because the use of the abbreviation fails the first prong of the nominative use test, we need not apply the next two prongs of the test. Because the defense of nominative use fails here, and we have already determined that the doctrine of fair use does not apply, we remand to the district court. The court must determine whether trademark law protects the abbreviation “PMOY,” as used in the wallpaper.

B. Trademark Dilution [At this point, the court considers and rejects PEI’s claim for trademark dilution.]

Conclusion

For the foregoing reasons, we affirm the district court’s grant of summary judgment as to PEI’s claims for trademark infringement and trademark dilution, with the sole exception of the use of the abbreviation “PMOY.” We reverse as to the abbreviation and remand for consideration of whether it merits protection under either an infringement or a dilution theory.

CASE QUESTIONS

1. Do you agree with the court’s decision that there is no dilution here?
2. If PMOY is not a registered trademark, why does the court discuss it?
3. What does “nominative use” mean in the context of this case?
4. In business terms, why would PEI even think that it was losing money, or could lose money, based on Welles’s use of its identifying marks?

32.6 Summary and Exercises

Summary

The products of the human mind are at the root of all business, but they are legally protectable only to a certain degree. Inventions that are truly novel may qualify for a twenty-year patent; the inventor may then prohibit anyone from using the art (machine, process, manufacture, and the like) or license it on his own terms. A business may sue a person who improperly gives away its legitimate trade secrets, but it may not prevent others from using the unpatented trade secret once publicly disclosed. Writers or painters, sculptors, composers, and other creative artists may generally protect the expression of their ideas for the duration of their lives plus seventy years, as long as the ideas are fixed in some tangible medium. That means that they may prevent others from copying their words (or painting, etc.), but they may not prevent
anyone from talking about or using their ideas. Finally, one who markets a product or service may protect its trademark or service or other mark that is distinctive or has taken on a secondary meaning, but may lose it if the mark becomes the generic term for the goods or services.

**EXERCISES**

1. Samuel Morse filed claims in the US Patent Office for his invention of the telegraph and also for the “use of the motive power of the electric or galvanic current…however developed, for marking or printing intelligible characters, signs or letters at any distances.” For which claim, if any, was he entitled to a patent? Why?

2. In 1957, an inventor dreamed up and constructed a certain new kind of computer. He kept his invention a secret. Two years later, another inventor who conceived the same machine filed a patent application. The first inventor, learning of the patent application, filed for his own patent in 1963. Who is entitled to the patent, assuming that the invention was truly novel and not obvious? Why?

3. A large company discovered that a small company was infringing one of its patents. It wrote the small company and asked it to stop. The small company denied that it was infringing. Because of personnel changes in the large company, the correspondence file was lost and only rediscovered eight years later. The large company sued. What would be the result? Why?

4. Clifford Witter was a dance instructor at the Arthur Murray Dance Studios in Cleveland. As a condition of employment, he signed a contract not to work for a competitor. Subsequently, he was hired by the Fred Astaire Dancing Studios, where he taught the method that he had learned at Arthur Murray. Arthur Murray sued to enforce the noncompete contract. What would be result? What additional information, if any, would you need to know to decide the case?

5. Greenberg worked for Buckingham Wax as its chief chemist, developing chemical formulas for products by testing other companies’ formulas and modifying them. Brite Products bought Buckingham’s goods and resold them under its own name. Greenberg went to work for Brite, where he helped Brite make chemicals substantially similar to the ones it had been buying from Buckingham. Greenberg had never made any written or
oral commitment to Buckingham restricting his use of the chemical formulas he
developed. May Buckingham stop Greenberg from working for Brite? May it stop him
from working on formulas learned while working at Buckingham? Why?

**SELF-TEST QUESTIONS**

1. Which of the following cannot be protected under patent, copyright, or trademark law?
   a. a synthesized molecule
   b. a one-line book title
   c. a one-line advertising jingle
   d. a one-word company name

Which of the following does not expire by law?
   a. a closely guarded trade secret not released to the public
   b. a patent granted by the US Patent and Trademark Office
   c. a copyright registered in the US Copyright Office
   d. a federal trademark registered under the Lanham Act

A sculptor casts a marble statue of a three-winged bird. To protect against copying, the sculptor
can obtain which of the following?
   a. a patent
   b. a trademark
   c. a copyright
   d. none of the above

A stock analyst discovers a new system for increasing the value of a stock portfolio. He may
protect against use of his system by other people by securing
   a. a patent
   b. a copyright
   c. a trademark
   d. none of the above
A company prints up its customer list for use by its sales staff. The cover page carries a notice that says “confidential.” A rival salesman gets a copy of the list. The company can sue to recover the list because the list is

a. patented
b. copyrighted
c. a trade secret
d. none of the above

SELF-TEST ANSWERS

1. b
2. a
3. c
4. d
5. c

Chapter 33
The Nature and Regulation of Real Estate and the Environment

LEARNING OBJECTIVES

After reading this chapter, you should understand the following:

1. The various kinds of interests (or “estates”) in real property
2. The various rights that come with ownership of real property
3. What easements are, how they are created, and how they function
4. How ownership of real property is regulated by tort law, by agreement, and by the public interest (through eminent domain)
5. The various ways in which environmental laws affect the ownership and use of real property

6. Real property is an important part of corporate as well as individual wealth. As a consequence, the role of the corporate real estate manager has become critically important within the corporation. The real estate