Chapter 4

**Intellectual Property Rights**

Answers to Learning Objectives/

Learning Objectives Check Questions

at the Beginning and the End of the Chapter

**Note that your students can find the answers to the even-numbered *Learning Objectives Check* questions in Appendix E at the end of the text. We repeat these answers here as a convenience to you.**

**1A.** ***What is intellectual property?*** Intellectual property is property resulting from intellectual, creative proc­esses: information, software, music, and movies, for example.

**2A.** ***Why is the protection of trademarks important?*** Article I, Section 8, of the U.S. Constitution authorizes Congress “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.” Laws protecting trademarks—and patents and copyrights as well—are designed to protect and reward inventive and artistic creativity.

**3A.** ***How does the law protect patents?*** A firm that makes, uses, or sells another’s patented design, product, or process without the pat­ent owner’s permission commits patent infringement. If a patent is infringed, the owner can obtain an injunction against the infringer and damages for royalties and lost profits, as well as attorneys’ fees and costs. If the infringement was willful, the amount of damages may be tripled (treble damages.

**4A.** ***What laws protect authors’ rights in the works they create?*** Copyright law protects the rights of the authors of certain literary or artistic productions. The Copyright Act of 1976, as amended, covers these rights.

**5A.** ***What are trade secrets, and what laws offer protection for this form of intellectual property?*** Trade secrets are business processes and information that are not or cannot be patented, copyrighted, or trademarked. Trade secrets consist of generally any­thing that makes an individual company unique and that would have value to a competitor. The Uniform Trade Secrets Act, the Economic Espionage Act, and the common law offer trade secrets protection.

Answers to Critical Thinking Questions

in the Features

**Adapting the Law to the Online Environment—Critical Thinking**

***Some argue that the best way to stop patent trolls from taking advantage of the system would be to eliminate software patents completely and pass a law that makes software unpatentable. Would this be fair to software and technology companies? Why or why not?***No, a ban on software patents would not be fair to software companies. Nearly all the high-demand products in the United States today—smartphones, tablets, cameras, laptops—include software. Software patents are extremely valuable. Companies should have the right to protect valuable assets and innovative software through patent law, just as pharmaceutical companies are able to protect their patented products.

**Beyond Our Borders—Critical Thinking**

***What options do textbook publishers face given this Supreme Court decision?*** Of course, textbook publishers can always raise the prices of textbooks in other countries to be sufficiently close to the prices charged in the U.S. so as to make it no longer worthwhile for anyone to import textbooks printed abroad.  The cost of this action, though, would be lower sales in other countries.  In the alternative, U.S. textbook publishers could lower prices in the U.S. to be more consistent with the lower prices they charge for foreign-produced textbooks.  To remain profitable, though, these publishers would have to lower total costs in the U.S. by providing fewer free ancillary materials such as test banks and instructor's manuals.

**Linking Business Law to Marketing—Critical Thinking**

***The U.S. Patent and Trademark Office requires that a registered trademark or service mark be put into commercial use within three years after the application has been approved. Why do you think the federal government established this requirement?*** 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 he or she is 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.

Answers to Critical Thinking Questions

in the Cases

**Case 4.1—What If the Facts Were Different?**

***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.*** 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 4.2—Critical Thinking—Legal Consideration**

***How should an invention be described in a patent application—in broad terms, specific terms, or both? Discuss.*** An invention should be described in a patent application in both broad and specific terms. An invention’s description should describe how its components are structured and how they interact and connect. The invention must be described completely—how it works, how it is different from prior art (previously patented inventions, for example), and all its possible variations and options. Whatever is not described will not be considered part of the invention. Others may take advantage of these omissions to make and sell products without liability for infringement.

**Case 4.3—What If the Facts Were Different?**

***Suppose that inhale had claimed a copyright in the design of a vodka bottle instead of a hookah. Would the result have been different? Why or why not?*** If Inhale had claimed a copyright in the design of a vodka bottle instead of a hookah, the result would not likely have been different. The shape of a vodka bottle is not more separable from its utilitarian features than the shape of the water container on the hookah at the center of this case was separable from its utilitarian features. In light of the reasoning of the court in the *Inhale* case, it is not likely that any ornamental bottle or similar container would be considered to have artistic features separable from utilitarian ones.

Answers to Questions in the Reviewing Feature

at the End of the Chapter

**1A.** ***Trademark or trade dress***

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.

**2A.** ***Business process patent***

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.

**3A.** ***Copyright infringement***

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.

**4A.** ***Intellectual property***

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.

Answer to Debate This Question in the Reviewing Feature

at the End of the Chapter

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

Answers to Issue Spotters

at the End of the Chapter

**1A. *Roslyn is a food buyer for Organic Cornucopia Food Company when she 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, and Organic’s customers, offering to sell her products for less than her ex-employer. Has Roslyn violated any of the intellectual property rights discussed in this chapter? Explain.*** 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. And most likely, Roslyn signed a contract, agreeing not to use this information outside her employment by Organic. But even without this contract, Organic could have made a convincing case against its ex-employee for a theft of trade secrets.

**2A.** ***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?*** 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.)

Answers to Questions and Case Problems

**at the End of the Chapter**

**Business Scenarios and Case Problems**

**4–1A. *Patent infringement***

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.

**4-2A. *Fair use***

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.

**4–3A. *Licensing***

A license is permission granted by a property owner to another to make, sell, or use the item. If the property is protected by copyright law, the copyright owner waives his right to sue for copyright infringement while the license is in effect.

In this case, the parties’ conduct established that Wilchcombe gave LJESB a license to use his song. He created the song at Lil Jon’s request. He knew that it would be used on LJESB’s album and that it would be widely distributed. The facts do not state that Wilchcombe indicated to the defendants that their use of the song would constitute copyright infringement. Thus, the license constitutes a valid defense to Wilchcombe’s allegation of copyright infringement, and the defendants are entitled to a judgment in their favor on that claim.

In the actual case on which this problem is based, the court issued a judgment in the defendants’ favor.

**4–4A.**  **Spotlight on Macy’s—*Copyright infringement***

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.

**4–5A. *Copyright infringement***

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.”

**4–6A. Business Case Problem with Sample Answer—*Patents***

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.

**4–7A. *Patents***

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.

**4–8A. A Question of Ethics—*Copyright infringement***

**1.** Under the Copyright Act, anyone who violates an owner’s rights to a copyrighted work infringes the copyright. Among these is the right to copy the work. Thus, even if Custom Copies did not distribute the coursepacks, it could be liable for infringement by copying copyrighted material. The court denied the defendants’ motion to dismiss the suit.

The use of a copyrighted work without the permission of the copyright owner may qualify as a “fair use” of the work, and thus not violate its copyright, in light of a court’s determination of four factors with respect to the use. The Copyright Act lists these factors as “(1) the purpose and character of the use, including whether such use is of a com­mercial nature or is for nonprofit educational purposes; (2) the na­ture of copy­righted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the poten­tial market for or value of the copyrighted work.” If copying is done to prevent the purchase of a copyrighted work, or is undertaken without the payment of a royalty or a li­censing fee to the owner, it most likely infringes the copyright. There may not be an infringement if a use is for nonprofit purposes, if little material is copied for a limited use and discarded, or if copied ma­terial is put to a “transformative use”—that is, to add “some­thing new, with a further purpose or different character.” These latter uses are not the purposes of coursepacks, however.

**2.** Publishers invest heavily in their operations. Each year they incur substantial costs for copyediting, proofreading, typesetting, layout, printing, binding, distribution, promotion, and other expenses. The revenue from the publication and sales of books and journals represents the majority of Blackwell's, and most other publishers, annual income. If the copyrights were not respected, a decline in income could cause the owners to stop publishing their books, journals, and other materials. This could have a negative impact on the creation of new works, scholarly research, and other activities, including those of non-profit organizations that depend on the royalties and other benefits of publishing, by making it more difficult to publish altogether. Depriving authors of the income from their work could also have serious repercussions for that work.

According to the National Association of College Stores in Oberlin, Ohio, in a recent year, more than $200 million of all textbook sales consisted of coursepacks, an increase of nearly 10 percent over previous years. Copy shops are required to arrange for permission to copy the materials to be used in coursepacks. Publishers and other owners of copyrights have licensed the Copyright Clearance Center, Inc. (CCC), in Danvers, Massachusetts, to authorize the commercial copying of copyrighted works.

**Critical Thinking and Writing Assignments**

**4–9A. Business Law Critical Thinking Group Assignment**

**1.** 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.”

**2.** 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 Web sites that sell the goods. Shutting down Web sites, 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.

**3.** 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.