



## Intellectual Property Sample Answer

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### Introduction

This was an open-book take-home exam, so everyone had unrestricted access to the applicable source materials. As a result, most answers followed the applicable checklists faithfully. Some exams made conspicuous deviations, such as missing topics (e.g., not discussing dilution in Q1) or inaccurately reciting the applicable test (really inexcusable on a take-home exam), and such deviations didn't help your score. Otherwise, most of you covered most of the basics competently.

From my perspective as a grader, this homogeneity creates an interesting scoring phenomenon not dissimilar to the game of Scattegories. When all exam answers say the same thing, a student doesn't score any differentiated points by sounding like everyone else. In contrast, good-scoring exams generally covered the same essential analytical points as everyone else but then went one step further to make some unique points. In fact, as you'll see from my write-up, these questions created plenty of room for differentiated answers. If you felt like you did a good job but your grade is lower than you'd hoped, you may have gotten snared by the Scattegories phenomenon.

The word count caps also came into play. Just about all of you used 90%+ of your allotted words (often 98%+). If you allocated some words to rehashing/cutting-and-pasting points from your lecture notes, you missed a good opportunity to differentiate yourself in the Scattegories game.

There were 5 As, 14 Bs and 6 Cs.

### Question #1A

This question was fairly easy if you realized that Busway's products are *compatible* with Fatkins' system. An analogy: a mudflap manufacturer advertises that its mudflaps fit a Honda Accord. In this case, Busway seeks to explain how its sandwiches interact with Fatkins' system.

Unfortunately, trademark law doesn't stretch very well to address "compatibility advertising." Indeed, most of you concluded that Busway's compatibility advertising required permission. This isn't necessarily wrong, but the issue is nuanced; trademark liability for compatibility advertising usually depends on the exact ad copy and whether consumers will incorrectly infer sponsorship. If you concluded that Busway needed trademark permission without recognizing that this wasn't a typical competitive trademark promotion, you missed a key point.

To see the awkward interaction between trademark law and compatibility advertising, let's look at the plaintiff's prima facie case:

## Ownership of Valid TM

The “Fatkins” mark might be categorized as a:

- fanciful trademark, because it’s a made-up word not in the dictionary.
- suggestive trademark, because the “fat” part of the mark suggests a product attribute.
- personal name (like the Atkins Diet is based on Dr. Atkins’ name) if there is a Mr./Ms. Fatkins.

If the term is a personal name, it requires secondary meaning before it can be protected as a trademark. The fact that Busway plans to promote the mark in a national advertising campaign suggests that the mark has achieved secondary meaning. Otherwise, the trademark is protectable commencing with the first use in commerce. The fact that Fatkins has a large dieter clientele implies that Fatkins already has made the requisite use in commerce.

## Priority

Busway is advertising its compatibility with Fatkins, so Fatkins should have priority over Busway.

## Busway is Making a TM Use in Commerce

Busway appears to satisfy this element by referencing Fatkins in its promotional materials (ads and menus) designed to increase Busway’s sales. However, Busway isn’t promoting its own goods as if they were Fatkins’. Arguably, then, Busway isn’t using Fatkins’ TM in commerce simply by referring to Fatkins’ products—any more than a commercial for-profit newspaper makes a trademark use in commerce by including Fatkins’ trademark in an article headline. However, courts typically consider such issues as part of the nominative use defense.

## Likelihood of Consumer Confusion

As a general proposition, compatibility advertising isn’t likely to confuse consumers. In particular, consumers may understand the identity of a strong brand and appreciate when third parties advertise compatible products. At the same time, because sponsorship deals are ubiquitous, consumers might assume that any company referencing a third party brand has struck a deal with the brand. Could a disclaimer cure this assumption?

The Busway/Fatkins situation provides a nice illustration of how the Sleekcraft multi-factor is plaintiff-favorable. A rote application of the factors here points towards infringement (as most of you concluded):

- *Mark strength.* Arbitrary or suggestive marks are generally strong. However, depending on the degree of marketplace recognition, the mark could be strong even if it’s a personal name. Favors Fatkins.
- *Mark similarity.* Busway used the exact term “Fatkins.” Favors Fatkins.

- *Proximity of goods.* If Fatkins has its own restaurants or line of packaged foods, the degree of overlap is high. Even if not, both companies are in the food industry (broadly conceived), and both are trying to cater to the same consumer base. Favors Fatkins.
- *Actual confusion.* The facts didn't provide any evidence of this. Fatkins would try to get survey or anecdotal evidence of confusion. Indeterminate.
- *Marketing channels used.* Many diet systems (e.g., Weight Watchers, Jenny Craig, Nutrisystems) are mass market services promoted through broadcast and print ads. Many national restaurant chains use the same promotional media. We'd need more facts to know for certain, but this may favor Fatkins.
- *Purchaser care.* Many consumers are very careful selecting diet plans, and some of those consumers carefully monitor their food intake. However, consumers may not carefully vet whether Fatkins sponsored Busway's food. We might ascribe a certain degree of potential initial interest confusion here; Busway's references to Fatkins may catch a consumer's eye; even if the consumer later learns that there was no sponsorship, Busway may still reap economic benefits from the initial glance. Favors Fatkins.
- *Intent.* Many of you thought that this factor favored Fatkins because Busway deliberately catered to Fatkins' customer base. In contrast, I think compatibility advertising should constitute good faith usage.
- *Likelihood of product line expansion.* Fatkins may already offer packaged food items. If they don't, it seems likely that they will (see, e.g., Zone, Atkins and WeightWatchers). However, diet systems rarely open their own restaurants, and restaurants rarely offer their own diet systems (although Subway did promote the Jared diet). Indeterminate.

As I said, applied rotely, the Sleekcraft test strongly suggests that Busway has created a likelihood of consumer confusion. Let's turn to Busway's defenses.

First, Busway could claim that Fatkins is generic. This seems unlikely because Busway wants to specifically reference Fatkins points. However, you might imagine how "Atkins" could become a generic description of any low-carb/high protein diet.

Second, Busway can claim that it made a nominative use of "Fatkins" because the reference describes the plaintiff's product. The factors:

- no other way to describe the product. There may be no good synonym for a specific diet system.
- didn't take more than necessary. If Busway took Fatkins' logo, perhaps they took more than they needed. But a simple text reference is the minimum necessary to communicate effectively with consumers.
- no implied sponsorship/endorsement. This depends heavily on the exact implementation, and some courts will consider attempts to disclaim sponsorship.

This analysis shows the limits of the nominative use defense. The defense should enable companies to engage in compatibility advertising, but consumer perceptions about sponsorship may make this impossible.

## Dilution

Fatkins could also claim that Busway is diluting its trademark. Let's consider the elements:

- *Fatkins' mark famous?* We need more facts here. However, diet system brands can achieve wide recognition among the general consuming public, so famousness is possible. Further, we know that the mark is well-known enough that Busway thinks it's worth referencing in its nationwide advertising.
- *Distinctive?* Yes, either because the mark is fanciful/suggestive or because it has achieved the requisite secondary meaning.
- *Use in commerce?* As indicated earlier, Busway isn't using the mark to identify Busway's products. Nevertheless, this element is probably satisfied.
- *Use began after the mark was famous?* We need more facts about famousness, but the fact that Busway is incorporating into national advertising suggests yes.
- *Likelihood of dilution?* I don't think there's any blurring ("impairs distinctiveness") because Busway's use refers to Fatkins, no new definition is being created. Also, I doubt there is any tarnishment ("harms reputation") if Busway tells the truth. So Fatkins may have a tough time establishing this element.

Even if Fatkins establishes a prima facie case of dilution, Busway can claim a defense, including:

- non-commercial use. As discussed in *Mattel*, a commercial use proposes a commercial transaction. Busway uses the trademark in its promotional material, so this superficially proposes a commercial transaction. But, Aqua could reference Barbie qua Barbie, even in promotional materials for the song, and Busway can argue that its promotion is similarly referential.
- Fair use, including comparative advertising. Busway isn't really comparing itself with Fatkins, but arguably the comparative reference in advertising could qualify for the defense.

## Conclusion on Trademark Issues

Based on this analysis, it would be easy to conclude that Busway needs a trademark license from Fatkins. However, common sense suggests that Busway should be free to engage in truthful compatibility advertising without trademark restrictions. Regardless of the legal analysis, Busway and Fatkins might strike a deal to cross-market each others' products.

## **Question #1B**

From a business standpoint, Fatkins might view compatibility advertising:

- 1) as encroaching their trademark rights, regardless of its economic effect (a natural rights perspective).
- 2) as competitive to the extent that Fatkins' customers spend money on Busway's products instead of Fatkins' (or its licensees') products.

3) as a valuable service for Fatkins' customers. It's hard for dieters to stick to a diet, especially when eating outside the house. Promotions like Busway's may help Fatkins' customers stay with the diet, which may increase those customers' satisfaction with Fatkins and may even make Fatkins more attractive to new customers. If so, Fatkins may find it economically advantageous to *encourage*, not discourage, compatibility advertising. In that case, it would be a mistake to increase IP protection that inhibits compatibility advertising.

Assuming #1 or #2:

### Trade Secret

Fatkins could develop a point-computing formula that qualifies as a trade secret and then either not publish it or publish it only under NDA.

*Pros:* A secret formula effectively blocks compatibility advertising if others can't determine the compatibility standards.

*Cons:* Maintaining secrecy creates all kinds of challenges. If Fatkins doesn't publish a formula letting customers compute points themselves, Fatkins will have to publish a very large book of point values and update it constantly. Alternatively, if Fatkins provides the formula to customers but tries to keep it a trade secret, Fatkins will need every customer to sign an NDA (but, at some point, if millions of customers know the formula, Fatkins may not be able to credibly claim the formula is still a secret). Finally, third parties might reverse engineer the formula (using the large book of point values or some other means), so maintaining the formula as a trade secret may not actually block compatibility advertising.

### Patents

The formula should qualify as patentable subject matter. Unlike some law of nature (such as  $E = MC^2$ ), the formula is a human-developed method to accomplish a useful goal (computing point values to support a diet system).

*Pros:* A patent could completely stop third parties from independently computing points. Furthermore, unlike trade secrets, patents have no risk of reverse engineering and do not require the hassles of keeping the formula secret.

*Cons:* A patent only protects the formula as patented, so any formula changes may require a new patent. Also, patents have a limited duration, although 20 years may not be problematic due to the faddish nature of diet systems. Finally, patents cost money to procure, maintain and enforce the rights; depending on the perceived losses attributable to compatibility advertising, these expenses may exceed the benefits of patenting.

### Copyright

These facts should remind you of *Baker v. Selden*. Fatkins can protect expression about the formula (such as descriptions of its variables) and may be able to protect a book of point values

if the factual compilation has sufficiently original selection, arrangement or coordination (see *Feist*).<sup>1</sup> However, the formula itself isn't copyrightable (Sec. 102(b); the merger doctrine). As a result, copyright doesn't play much of a role here. Fatkins can obtain copyright protection for certain aspects of its booklet, but these copyrights should not limit compatibility advertising.

## Question 2

### Copyright

Customers will upload: (1) public domain photos, such as those with expired copyrights or taken by US government employees, (2) photos where the customer owns all of the applicable copyrights, in which case the vendor can procure all necessary rights in a license, and (3) photos where the customer doesn't possess all applicable copyrights, in which case the customer and/or vendor may be infringing those rights. Unfortunately for vendors, all three of these photo classes look identical.

I think vendors are better characterized as direct infringers, not secondary infringers. For example, a newspaper is directly liable for publishing any reader-submitted content (such as a letter to the editor or an op-ed), and a copyshop is directly liable for photocopying customer-submitted material, such as when professors provide articles for a coursepack. Similarly, vendors publish stamps using customer-submitted content. Even if a vendor's process is highly automated, the vendor controls the entire publishing process, and vendors exercise some editorial judgment when screening submissions. A plaintiff's prima facie case for direct infringement:

*Ownership of a valid copyright.* Obviously this must be considered on a case-by-case basis, but photos are generally protectable under copyright law.

*Copying-in-fact.* Typically, this is easy to establish with photos, especially if the photos are identical.

*Wrongful copying.* Usually, the vendor will copy the photo verbatim (albeit at a reduced size), which constitutes a reproduction (when printed), a distribution (when sent to the customer) and perhaps a derivative work (due to the addition of the customer-supplied text and the postal-required material). In some cases, customers may so heavily modify or crop a photo that the portion taken doesn't infringe the photo as a whole. But where a customer provides a third party photo verbatim and the vendor republishes that photo verbatim, the photo's copyright owner should have little difficulty establishing a prima facie case of direct infringement.

A vendor's principal defense will be fair use:

*Nature of the use.* On the spectrum from commercial to non-profit educational uses, vendors are clearly commercial. This weighs against fair use. Vendors will argue that reducing the size for use on a stamp constitutes a "transformative" use. This isn't transformative like the quasi-parody in the *2 Live Crew* case, but it might qualify under *Kelly v. Arriba* (noted in the book but

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<sup>1</sup> Note: some goofy caselaw—not discussed in class—suggests that individual point values computed via a creative formula might be individually copyrightable. See *CDN v. Kapes*.

not discussed in class). Indeed, after the exam, the Ninth Circuit in *Perfect 10 v. Google* reaffirmed that a for-profit search engine creating “thumbnail images” can claim that the images are transformative. So, based on material from outside of our lectures, this factor may weigh in the vendors’ favor, but I was OK if you weighed this in favor of the copyright owners.

*Nature of the work.* This depends on the specific photo. Some photos are highly creative. Others are, by design, essentially factual. Indeterminate.

*Amount taken.* Often, the vendor publishes 100% of the photo. This weighs against fair use. However, the vendor may allow the customer to crop the photo (or the customer may crop the photo before submitting). This may help swing the factor in the vendors’ favor, although courts circularly could say that cropping indicated that the cropped portion was the most significant (see *Harper & Row*). On balance, I think many courts would weigh this factor in the copyright owners’ favor.

*Effect on the market.* Most photos have no commercial value. But even photos with commercial value may not have a market for postage stamp publication. Such a market may not exist today or be likely to reasonably develop in the future (*Texaco*) because postage stamps usually are tightly controlled by government/quasi-government entities. As a result, courts may be reluctant to recognize any market for photos on stamps, and this should point in favor of fair use. However, courts using circular reasoning could conclude that the vendors’ creation of the vanity stamp market evidences the potential for copyright owners to license into the market. Courts might also let copyright owners prevent the creation of any market for their works.

*Fair use conclusion.* This could be a relatively rare circumstance where building a business using third party copyrighted works still qualifies as fair use. Nevertheless, courts easily could reach a contrary conclusion based on equitable considerations (such as a view that this business is unfairly free-riding). Therefore, even though vendors have a chance of getting a fair use defense, don’t forget my admonition to NEVER BUILD A BUSINESS ON FAIR USE—the vendors won’t know if they can get a fair return on their investment until the court blesses the business.

As I said before, vendors are appropriately analyzed as direct infringers because of their active involvement in the publication process. But multiple people can “share” direct liability; for example, customers may be directly liable for copying the photo from the customer’s hard drive to the vendor’s servers. Assuming vendors aren’t directly liable, they still could be contributory or vicarious infringers for their customers’ direct infringement.

(Note that any customer agreement restricting customers from infringing copyright or disclaiming liability for copyright infringement generally does not affect the doctrinal analysis.)

### Contributory Infringement

*Direct infringer:* customers upload third party photos, but customers may claim that uploading is fair use. Compared to the fair use analysis above, customer usage is less “commercial” (it’s typically for “personal” use), and there may be less likelihood of an existing or reasonably likely

to develop licensing market for customers to obtain permission to use photos on stamps. As a result, a court evaluating individual customers' use of third party photos may be more likely to find fair use than a court evaluating vendors' activities.

*Knowledge of infringing behavior.* Vendors screen out photos, and this screening process may provide the requisite knowledge. Vendors would argue that, in many cases, it wasn't apparent on the photos' face whether it was being infringed or provided by a legitimate source.

*Material Contribution.* Publishing and shipping the stamps to customers should satisfy this prong.

### Vicarious Infringement

*Direct infringer:* see above

*Right and ability to supervise the infringement.* The vendors' screening process certainly seems to evidence this.

*Direct financial interest.* Copyright owners will argue that vendors profited from every infringing photo submission, and the more infringing photos submitted, the more money the vendors made. Vendors will argue that they took a flat fee regardless of the photo's ownership, so they weren't really profiting from infringing behavior per se. I think most courts would find the copyright owner's arguments more persuasive.

### Conclusion on Copyright

On balance, stamp vendors should be concerned about their copyright infringement exposure. A sympathetic court might give them a free pass, but other courts could find them liable for a large amount of infringement.

### Right of Publicity Claims

As a threshold matter, a number of you analyzed the ROP and copyright issues inconsistently—you said vendors were secondarily liable for copyright but analyzed vendors as directly liable for ROP. It would have been OK to acknowledge the inconsistency and explain why you were making the distinction, but I wasn't impressed if you missed the obvious inconsistency.

With respect to direct liability for ROP misappropriation, vendors sell a product (the stamps) incorporating other people's images. Like *Saderup*, this is a prima facie violation. Note that even if the uploading customer owns the photo's copyrights, the customer may lack ROP permission from the photo subjects (especially when the person taking the photo isn't the person depicted in the photo). In this respect, ROP claims may be more problematic than the copyright claims because every person depicted in photos is a possible plaintiff.

Worse, vendors may not have a great First Amendment defense. Like Saderup's drawings, the photos are the "sum and substance" of the vendors' products (the stamps). Therefore, absent some esoteric defense, vendors may have significant difficulty resisting a direct ROP claim.

Perhaps vendors are more appropriately analyzed as secondary misappropriators, but we didn't discuss any applicable secondary ROP doctrines in class. Interestingly, earlier this year the Ninth Circuit (in *Perfect 10 v. CCBill*) held that websites aren't liable for customer-committed ROP claims per 47 USC 230. However, 230 wouldn't protect stamp vendors' offline publication of photos as stamps, so I'm not sure how a secondary claim would come out.