



# WAKE FOREST

## JOURNAL OF BUSINESS AND INTELLECTUAL PROPERTY LAW

---

VOLUME 15

NUMBER 4

### SUMMER 2015

TEN CHALLENGES IN TECHNOLOGY AND  
INTELLECTUAL PROPERTY LAW FOR 2015:  
REMARKS AT THE WAKE FOREST JOURNAL OF  
BUSINESS AND INTELLECTUAL PROPERTY  
LAW SYMPOSIUM

David S. Levine

563

SAFE UNTIL PROVEN UNSAFE: SOLVING THE  
GROWING DEBATE AROUND DIETARY  
SUPPLEMENT REGULATION

Maggie Dickens

576

IF YOU GIVE A MOUSE A TRADEMARK:  
DISNEY'S MONOPOLY ON TRADEMARKS IN  
THE ENTERTAINMENT INDUSTRY

Joseph Greener

598

COMMERCIALITY AND FAIR USE

D.R. Jones

620

PATENT LAW CHALLENGES FOR THE INTERNET  
OF THINGS

W. Keith Robinson

655



## ABOUT THE JOURNAL

The WAKE FOREST JOURNAL OF BUSINESS AND INTELLECTUAL PROPERTY LAW is a student organization sponsored by Wake Forest University School of Law dedicated to the examination of intellectual property in the legal context. Originally established as the Wake Forest Intellectual Property Law Journal in 2001, the new focus and form of the Journal, adopted in 2010, provides a forum for the exploration of business law and intellectual property issues generally, as well as the points of intersection between the two, primarily through the publication of legal scholarship. The Journal publishes four print issues annually. Additionally, the Journal sponsors an annual symposium dedicated to the implications of intellectual property law in a specific context. In 2009, the Journal launched an academic blog for the advancement of professional discourse on relevant issues, with content generated by both staff members and practitioners, which is open to comment from the legal community. The Journal's student staff members are selected for membership based upon academic achievement, performance in an annual writing competition, or extensive experience in the field of intellectual property or business.

The Journal invites the submission of legal scholarship in the form of articles, notes, comments, and empirical studies for publication in the Journal's published print issues. Submissions are reviewed by the Manuscripts Editor, and decisions to extend offers of publication are made by the Board of Editors in conjunction with the Board of Advisors and the Faculty Advisors. The Board of Editors works closely and collaboratively with authors to prepare pieces for publication.

Manuscript submissions should be accompanied by a cover letter and curriculum vitae, and may be sent electronically to [wfujbipl@gmail.com](mailto:wfujbipl@gmail.com) or by mail to:

Manuscripts Editor  
Wake Forest Journal of Business and Intellectual Property Law  
Wake Forest University School of Law  
P.O. Box 7206 Reynolda Station  
Winston-Salem, North Carolina 27109

*COPYRIGHT © 2013*

*WAKE FOREST JOURNAL OF BUSINESS AND INTELLECTUAL PROPERTY LAW*

ISSN 2164-6937 (Print)  
ISSN 2164-6945 (Online)

## BOARD OF ADVISORS

DANNY M. AWDEH

Finnegan Henderson Farabow  
Garrett & Dunner LLP

*Washington, DC*

CHARLES W. CALKINS

Kilpatrick Townsend & Stockton  
LLP

*Winston-Salem, North Carolina*

KENNETH P. CARLSON

Constangy, Brooks & Smith, LLP

*Winston-Salem, North Carolina*

TRIP COYNE

Williams Mullen

*Wilmington, North Carolina*

RODRICK J. ENNS

Enns & Archer LLP

*Winston-Salem, North Carolina*

EDWARD R. ERGENZINGER, JR.,  
PH.D.

Ward & Smith, P.A.

*Raleigh, North Carolina*

JASON D. GARDNER

Kilpatrick Townsend & Stockton  
LLP

*Atlanta, Georgia*

STEVEN GARDNER

Kilpatrick Townsend & Stockton,  
LLP

*Winston-Salem, North Carolina*

ROB HUNTER

The Clearing House Payments  
Company, LLC

*Winston-Salem, North Carolina*

BARBARA LENTZ

Professor, Wake Forest  
University School of Law

*Winston-Salem, North Carolina*

JAMES L. LESTER

MacCord Mason PLLC

*Greensboro, North Carolina*

JUSTIN R. NIFONG

Olive Law Group

*Cary, North Carolina*

MICHAEL S. MIRELES

Professor, University of the  
Pacific, McGeorge School of Law

*Sacramento, California*

ALAN PALMITER

Professor, Wake Forest  
University School of Law

*Winston-Salem, North Carolina*

ABBY PERDUE

Associate Professor, Wake Forest  
University School of Law

*Winston-Salem, North Carolina*

COE W. RAMSEY

Brooks Pierce

*Raleigh, North Carolina*

T. ROBERT REHM, JR.

Smith, Anderson, Blount,  
Dorsett, Mitchell, & Jernigan,  
LLP

*Raleigh, North Carolina*

SIMONE ROSE

Professor, Wake Forest  
University School of Law

*Winston-Salem, North Carolina*

*Editor-in-Chief*

ANDREW W. POWELL

*Managing Editor*

REBECCA S. WINDER

*Manuscripts Editor*

HANNAH NICHOLS

*Symposium Editor*

BRINSON TAYLOR

*Development Editor*

CAITLIN S. HALE

*Marketing Editor*

BRAY TAYLOR

*Senior Notes and Comments Editor*

ERICA L. NAVALANCE

*Notes and Comments  
Editors*

JOSHUA R. ADAMS

JEB S. VAUGHN

*Executive Articles  
Editors*

JAMES P. MILLER

ASHLEY N. QUARANTA

CHRISTINE CARR YORK

*Articles Editors*

JINGBANG (REX) LI

SCOTT L. MCEVOY

ALEXANDER R. TELARIK

*Editorial Staff*

DEREK M. BAST

SAMANTHA B. BERNER

ASHLEY R. BROMPTON

MELISSA C. BRYSON

JORDAN R. DONGELL

ZACHARY K. DUNN

AUSTIN J. GRIFFIN

NATHANIEL C. HARRIS

JOHN HODNETTE

DAVID C. HOPPER

M. RILEY PHILLIPS

STEPHEN J. WHITE

*Staff Members*

ANDREW MCCLAIN ADAMS

ISSAC B. ALLMAN

MITCH BLANKENSHIP

ALEXANDRA C. BRAVERMAN

CAMERON J. BROWN

KEES C. BURNS

BRITTANY P. COLTON

BRANDY L. DAVIS

MAGGIE H. DICKENS

CHRISTIAN C. DORISMOND

ANASTASIA E. FANNING

KAYLA M. FREDERICKSON

SARAH A. GALLAS

DANIEL P. GALYON

JAIME C. GARCIA

JANE C. GARRITY

DAVID GIFFIN

JOSEPH GREENER

CALEB J. HOLLOWAY

TYLER S. HOOD

AFZAL KARIM

COLIN T. KENNEDY

ELI M. MARGER

TIMOTHY M. MCLISTER

S. BLAYDES MOORE

EMILY G. MORRIS

KATHERINE S. OTT

TIMOTHY J. READLING

JEANNA S. REVELL

ALEC C. ROBERSON

ELIZABETH RUOCCO

JOHN I. SANDERS

RACHEL M. SHIELDS

JONATHAN D. SILVER

EMILY A. SINGER

TALIS TREVINO

JAMES C. WYATT

*Faculty Advisors*

BARBARA R. LENTZ

ALAN R. PALMITER

ABBY PERDUE

SIMONE A. ROSE



---

---

WAKE FOREST JOURNAL OF BUSINESS  
AND INTELLECTUAL PROPERTY LAW

---

---

VOLUME 15

SUMMER 2015

NUMBER 4

---

---

**TEN CHALLENGES IN TECHNOLOGY AND  
INTELLECTUAL PROPERTY LAW FOR 2015: REMARKS AT  
THE WAKE FOREST JOURNAL OF BUSINESS AND  
INTELLECTUAL PROPERTY LAW SYMPOSIUM**

**David S. Levine<sup>†</sup>**

**I. INTRODUCTION..... 564**

**II. TEN CHALLENGES IN TECHNOLOGY AND  
INTELLECTUAL PROPERTY LAW FOR 2015..... 565**

A. COPYRIGHT RESTATEMENT ..... 565

B. DIGITAL MILLENNIUM COPYRIGHT ACT ("DMCA") 565

C. NET NEUTRALITY..... 566

D. KEYWORD ADVERTISING AND LAWYERS..... 567

E. PATENT TROLL LEGISLATION ..... 568

F. SOFTWARE PATENTS AND TRADE SECRECY..... 568

G. THREE-DIMENSIONAL PRINTING, PERSONALIZED  
MEDICINE AND PATENTS ..... 569

H. TRADE SECRET LAW FEDERALIZATION..... 569

I. ACCESS TO INFORMATION AND TRADE SECRECY ..... 571

J. INTERNATIONAL NEGOTIATIONS: TRANS-PACIFIC  
PARTNERSHIP AGREEMENT (TPP) AND TRANS-  
ATLANTIC TRADE AND INVESTMENT PARTNERSHIP  
(TTIP)..... 572

---

<sup>†</sup> Associate Professor, Elon University School of Law; Visiting Research Collaborator, Center for Information Technology Policy, Princeton University; Affiliate Scholar, Center for Internet and Society, Stanford Law School. Founder and host of Hearsay Culture on KZSU-FM (Stanford University); more information at [hearsayculture.com](http://hearsayculture.com). This is a lightly edited transcript of opening remarks given at the Wake Forest University Journal of Business and Intellectual Property Law Spring 2015 Symposium entitled *Intellectual Property Strategy in the Digital Age* on February 6, 2015. Slides used in conjunction with the talk are available by contacting the author. Thanks to Brinson Taylor, Tim McLister, the editors, and staff of the *Journal* for the invitation to speak.

---

## I. INTRODUCTION

It is good to be back at Wake Forest Law, having taught Internet Law here a few years ago. It is also wonderful to see many current and former Elon students who are practicing around Winston-Salem, so I am excited to be here today to talk about these topics.

My goal for this twenty-minute talk is to highlight ten of the most important, or among the most important, issues that you might think about and look for in intellectual property (“IP”) and technology law and policy over the next year. Please keep in mind, of course, that we are struggling with the law in this area; that is the thread through which you can think about all of these topics. We are still struggling with what technology does to these older rules involving property ownership as well as access to, and the movement of information.

By way of a quick note, I am obviously speaking as of today. The reason that I offer this odd caveat is because over the last twenty-four hours I had to change my slides, given legislation that was introduced literally yesterday involving patent trolls.<sup>1</sup> Also, by way of disclosure as you are going to hear from Representative Holding later today, I have been an active opponent of federal trade secret reform efforts.<sup>2</sup> I was also a member of the North Carolina Mining & Energy Commission’s (“MEC”) Trade Secret Study Group, where I advised the MEC regarding the drafting of regulations involving hydraulic fracturing and the role of trade secret law.<sup>3</sup> I am making these disclosures to underscore that I am not here to convince you of any particular position, but I merely want you to know where I stand. I am a fan of that kind of transparency.

---

<sup>1</sup> See Margaret Abernathy, *The Innovation Act of 2015: Congress Targets Patent ‘Trolls’ Again*, IP INTELLIGENCE (Mar. 26, 2015), <http://www.ipintelligencereport.com/2015/03/26/the-innovation-act-of-2015-congress-targets-patent-trolls-again/>.

<sup>2</sup> David S. Levine, *A Bibliography About Federal Trade Secret Law Reform (Guest Blog Post)*, TECH. & MKTG. LAW BLOG (Apr. 2, 2015), <http://blog.ericgoldman.org/archives/2015/04/a-bibliography-about-federal-trade-secret-law-reform-guest-blog-post.html>.

<sup>3</sup> *Mining and Energy Commission*, N.C. DEP’T OF ENV’T AND NATURAL RES., <http://portal.ncdenr.org/web/mining-and-energy-commission/study-group-assignments> (last visited May 31, 2015).

---

## II. TEN CHALLENGES IN TECHNOLOGY AND INTELLECTUAL PROPERTY LAW FOR 2015

### A. Copyright Restatement

Starting this year, the American Law Institute (“ALI”) is going to be focusing on drafting a copyright restatement and there are some interesting issues that you may want to flag.<sup>4</sup>

Chris Sprigman, a professor at NYU Law, is going to be the ALI’s main reporter along with several other professors.<sup>5</sup> One of the issues that they may focus on is copyright formalities, which is becoming an enormous issue from an orphan works perspective, that is, works of authorship for which it is difficult or impossible to find the author.<sup>6</sup> Professor Sprigman has been an active scholar in that area in particular, so I would expect and you should look for that to be an issue.<sup>7</sup>

Additionally, the standard for copyright infringement and the rules regarding circumvention of copyright protection systems should also be a focus of the ALI. Think about the challenges involving the trans-border movement of copyrighted materials<sup>8</sup> in particular. In addition, remedies have continued to pose a serious question with regard to copyright law for quite some time, especially as we figure out the link between copyright infringement and actual harms. For example, those who are infringing or pirating copyrighted works may not be people who would have otherwise purchased those particular works under whatever pricing scheme exists. Should their piracy be counted as a harm that must be remedied?

### B. Digital Millennium Copyright Act (“DMCA”)

Along those lines, under copyright law, the DMCA<sup>9</sup> will surely pose

---

<sup>4</sup> *Current Projects*, THE AM. LAW INST., [https://www.ali.org/index.cfm?fuseaction=projects.proj\\_ip&projectid=31](https://www.ali.org/index.cfm?fuseaction=projects.proj_ip&projectid=31) (last visited June 1, 2015).

<sup>5</sup> *Id.*

<sup>6</sup> Dinusha Mendis, *Orphan Works*, COPYRIGHTUSER.ORG, <http://copyrightuser.org/topics/orphan-works/> (last visited June 1, 2015).

<sup>7</sup> Lawrence Solum, *Sprigman on Reformalizing Copyright*, LEGAL THEORY BLOG (Sept. 3, 2004, 8:49 AM), [http://lsolum.typepad.com/legaltheory/2004/09/sprigman\\_on\\_ref.html](http://lsolum.typepad.com/legaltheory/2004/09/sprigman_on_ref.html).

<sup>8</sup> See *International Copyright*, COPYRIGHT.GOV, [www.copyright.gov/fls/fl100.html](http://www.copyright.gov/fls/fl100.html) (last visited May 31, 2015).

<sup>9</sup> Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860. In relevant part, it generally provides that one (a) cannot circumvent technological protection measures (“TPM”) and (b) cannot disseminate devices that circumvent, but it (c) protects “copyright management information.”

a challenge in 2015. Every three years, the Copyright Office has a rulemaking procedure where it reviews applications for exemptions.<sup>10</sup> The rulemaking involves technological protection measures (“TPM”), which are measures used by content owners to prevent unauthorized access to copyrighted works.<sup>11</sup> An interesting exemption request comes from security researchers.<sup>12</sup> These are experts who look to see where vulnerabilities exist in cyber-security and elsewhere to attempt to understand and/or solve those problems, although the work can be controversial.

A group of security researchers, including Princeton Center for Information Technology Policy’s Professor Ed Felten, working with Visiting Professor Andrea Matwyshyn, have asked the Copyright Office to grant them an exemption for security research.<sup>13</sup> They are basically asking the Copyright Office to grant an exemption that would say that they would not run afoul of copyright law if, through their research, they have to violate copyright law in order to assess cybersecurity concerns.<sup>14</sup>

It should be interesting to see what the Copyright Office does with this request, especially as cybersecurity presents a hot policy issue.

### C. Net Neutrality

Federal Communication Commission (“FCC”) Chairman, Thomas Wheeler, just announced that the FCC is going to attempt to do what Tim Wu has named “net neutrality”<sup>15</sup> through a variety of jurisdictional measures.<sup>16</sup> Suffice to say that the connection to IP here, of course,

---

<sup>10</sup> Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 79 Fed. Reg. 55,687 (proposed Sept. 17, 2014) (to be codified at 37 C.F.R. 201.40), *available at* <https://www.federalregister.gov/articles/2014/09/17/2014-22082/exemption-to-prohibition-on-circumvention-of-copyright-protection-systems-for-access-control>.

<sup>11</sup> *Id.* at 55,692.

<sup>12</sup> Comments of Prof. Steven M. Bellovin (Columbia University), Prof. Matt Blaze (University of Pennsylvania), Prof. Edward W. Felten (Princeton University), Prof. J. Alex Halderman (University of Michigan), and Prof. Nadia Heninger (University of Pennsylvania) (the “Security Researchers”) on the Copyright Office’s Proposed Exemption under 17 U.S.C. 1201 (Feb. 6, 2015), *available at* [http://copyright.gov/1201/2015/comments-020615/InitialComments\\_LongForm\\_SecurityResearchers\\_Class25.pdf](http://copyright.gov/1201/2015/comments-020615/InitialComments_LongForm_SecurityResearchers_Class25.pdf) (last visited May 31, 2015).

<sup>13</sup> *Id.* at 1.

<sup>14</sup> *Id.*

<sup>15</sup> See Tim Wu, *Network Neutrality FAQ*, TIMWU.ORG, [http://www.timwu.org/network\\_neutrality.html](http://www.timwu.org/network_neutrality.html) (last visited May 31, 2015).

<sup>16</sup> See Tim Wu, *Net-neutrality Rules are Far Too Important to Wait for Congress: FCC Boss Must Act Now*, N.Y. DAILY NEWS, Jan. 17, 2015, <http://www.nydailynews.com/opinion/tim-wu-net-neutrality-article-1.2081796>.

would be the question of how internet access providers like Verizon and the like will react to the new net neutrality rules. Now, those of you who have followed these issues in the last few years know that these issues have gone into court several times.<sup>17</sup> It is not much of a bold prediction to say that this is likely to go back into court, but pay attention to it from an IP perspective because the overlap between net neutrality and copyright issues involving infringement should be an interesting topic to follow.

#### **D. Keyword Advertising and Lawyers**

Turning away from copyright law, I think the biggest challenge for me was to think about what would be a hot issue in trademark law from a technology perspective. Fortunately, there is an issue that should be of interest to North Carolina lawyers. It involves competitive keyword advertising, that is, the purchase of names by a competitor to allow for search queries to return advertisements for a competitor.<sup>18</sup> For example, say that you search for Attorney Smith, and the query returns Attorney Jones. Attorney Jones may have purchased the name Attorney Smith from Google for search-based advertisements.

Interestingly, from a trademark perspective, the likelihood of consumer confusion here seems low. In other words, people looking for Attorney Smith would be unlikely to say, “Oh, I can’t tell the difference between Attorneys Smith and Jones.” But, from an ethics perspective, it is actually an interesting problem because North Carolina, in a 2012 formal ethics opinion, held that “the intentional purchase of the recognition associated with one lawyer’s name to direct consumers to a competing lawyer’s website is neither fair nor straightforward.”<sup>19</sup> The state found that the purchase of an attorney’s name by a different attorney is a violation of its code of ethics.<sup>20</sup> North Carolina, as far as I can tell, is unique in taking this position. So one thing to keep in mind and to look for is the question of whether North Carolina is going to stay that way.

---

<sup>17</sup> See, e.g., *Verizon v. FCC*, 740 F.3d 623, 628 (D.C. Cir. 2014) (illustrating the frequency with which net neutrality is being litigated); *Comcast Corp. v. FCC*, 600 F.3d 642, 657 (D.C. Cir. 2010) (also illustrating this frequency).

<sup>18</sup> Eric Goldman and Angel Reyes III, *Regulation of Lawyers’ Use of Competitive Keyword Advertising*, U. ILL. L. REV. at 5 (forthcoming 2016), available at [http://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?article=1882&context=fac\\_pubs](http://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?article=1882&context=fac_pubs).

<sup>19</sup> *2010 Formal Ethics Opinion 14*, NORTH CAROLINA STATE BAR (Apr. 27, 2012), <http://www.ncbar.com/ethics/ethics.asp?page=2&keywords=engine>.

<sup>20</sup> *Id.*

## E. Patent Troll Legislation

Patent Assertion Entities, or what we think of, and what are colloquially called “patent trolls,”<sup>21</sup> are highly controversial entities in patent law. The question from a policy perspective is whether in fact these entities are serving the purposes of patent law when they acquire patent portfolios and then bring litigation, get a settlement, or occasionally market patents.

Yesterday, Representative Bob Goodlatte reintroduced the Innovation Act, which has bipartisan support.<sup>22</sup> Representative Goodlatte’s bill is interesting because it attempts to increase pleading requirements so as to make it more difficult for these entities to bring suits, and have them run the risk of paying attorneys’ fees if they lose.<sup>23</sup> The bill also requires some transparency about who is behind a given patent.<sup>24</sup> In addition, the bill requires limited discovery to prevent some machinations in litigation.<sup>25</sup>

The bill does not address the fundamental question of patentable subject matter, which some have thought is a better solution to the patent troll problem. In other words, rather than going after the trolls, why not just stop what the Electronic Frontier Foundation calls “bad patents?”<sup>26</sup> So keep an eye on this legislation as it advances in Congress over the coming months.

## F. Software Patents and Trade Secrecy

Software patents are another huge issue. The Supreme Court articulated a somewhat confusing standard with regard to what to do with abstract ideas, natural law and the like, last year in *Alice*.<sup>27</sup> The Court generally articulated a two part test for abstract ideas: (1) Is the idea at issue an ineligible concept (i.e., natural law, abstract idea)? If so, (2) are additional elements sufficient to “transform” the ineligible

---

<sup>21</sup> Colleen Chien, *Patent Trolls by the Numbers*, SANTA CLARA UNIV. LEGAL STUDIES RESEARCH, <http://dx.doi.org/10.2139/ssrn.2233041> (last updated Apr. 26, 2013).

<sup>22</sup> Dennis Crouch, *Patent Reform: Innovation Act of 2015*, PATENTLY-O (Feb. 5, 2015), <http://patentlyo.com/patent/2015/02/patent-reform-innovation.html>.

<sup>23</sup> Jeff Becker, *The Latest in Patent Reform: The Innovation Act*, 26 No. 3 INTELL. PROP. & TECH. L.J. 34 (2014).

<sup>24</sup> *Id.* at 37.

<sup>25</sup> Press Release, Bob Goodlatte, Goodlatte Introduces Patent Litigation Reform Bill (Feb. 5, 2015), [http://goodlatte.house.gov/press\\_releases/660](http://goodlatte.house.gov/press_releases/660).

<sup>26</sup> *Patent Fail: In Defense of Innovation*, ELECTRONIC FRONTIER FOUNDATION, <https://www.eff.org/patent> (last visited May 28, 2015).

<sup>27</sup> *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2349 (2014).

concept into something patentable?<sup>28</sup>

Keep an eye out for what appears to be happening already, at least anecdotally. Because of confusion regarding the standard, many innovators are being advised by their attorneys to rely on trade secrecy rather than on patents. The upshot? If trade secrecy is now going to become more prevalent than patentability, then the public will lose some of the disclosure benefits that patent law offers, which, depending upon your perspective, is not such a good thing.

### **G. Three-Dimensional (3D) Printing, Personalized Medicine and Patents**

As long as I am mentioning patents, keep an eye out on a couple of issues that I would put merely on the radar screen now as they may not be huge issues yet. First, 3D printing and the ability of entities to copy objects may become the functional equivalent of what *Grokster*<sup>29</sup> or *Napster*<sup>30</sup> was to copyright law a few years ago.<sup>31</sup> Patent infringement and patent law is about to face its *Grokster* moment as 3D printers drop in price and more people acquire them. The ease with which people might copy objects should cause a fair amount of patent owner agita in the coming years. Similarly, personalized medicine and the ability of patent law to create systems that allow for individuals to have medicine designed for them individually also raises challenging questions of patent law.<sup>32</sup>

### **H. Trade Secret Law Federalization**

With respect to trade secret reform, I am pleased as a trade secret law scholar to say that trade secret law is now having its day. As it has been largely ignored for many years by policymakers and scholars, I have often referred to trade secrecy as the fourth of three IP regimes because it has not garnered much attention. But over the past year, things have changed because there is a federalization effort underway led by Senator Christopher Coons of Delaware, among others<sup>33</sup> to deal

---

<sup>28</sup> *Id.* at 2350.

<sup>29</sup> *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

<sup>30</sup> *A&M Records v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

<sup>31</sup> See Deven R. Desai & Gerard N. Magliocca, *Patents, Meet Napster: 3D Printing and the Digitization of Things*, 6 *GEO. L.J.* 1691 (2014), available at <http://georgetownlawjournal.org/files/2014/08/DesaiMagliocca-Patents.pdf>.

<sup>32</sup> See *Personalized Medicine 101, The Challenges*, PERSONALIZED MEDICINE COALITION, [http://pmbc.blueonblue.com/Resources/Personalized\\_Medicine\\_101](http://pmbc.blueonblue.com/Resources/Personalized_Medicine_101) (last visited May 26, 2015).

<sup>33</sup> Ian Koski, *Senators Coons, Hatch Introduce Bill to Combat Theft of Trade*

with issues that the Sony hacking situation<sup>34</sup> has put front and center.

There's general consensus that the problem of corporate and state-sponsored cyber-espionage is real. The challenge is what to do about it. One proposed approach has involved trade secret law.

Trade secret law, as argued by Senator Coons and others, fails in its ability to deter cyber-espionage and state sponsored cyber-attacks on corporate networks.<sup>35</sup> Therefore, a couple of bills have been introduced because there is a belief that current federal criminal law is insufficient to deal with these issues, and trade secret law needs to be beefed up so as to fix the problem.<sup>36</sup> Recognize, of course, that trade secret law is mostly a beast of state rather than federal law, so it is unusual for Congress to act on trade secret law.

Trade secret reform is designed to give more weapons to corporate entities to deal with these issues of cyber-security. It creates some interesting private causes of action under the federal Economic Espionage Act ("EEA"),<sup>37</sup> which uses Uniform Trade Secret Act ("UTSA") definitions.<sup>38</sup> Here is what to watch (among other concerns)<sup>39</sup>: like the Stop Online Piracy Act ("SOPA")<sup>40</sup> of a few years ago, which I was an active opponent of as well,<sup>41</sup> these bills include an *ex parte* seizure provision that allow plaintiffs to attempt to seize a variety of information and even assets in the interest of preventing defendants from fleeing or using an allegedly-misappropriated trade secret against the competitive interest of the plaintiffs.<sup>42</sup>

However, a concern is whether *ex parte* seizure power will lead to

---

*Secrets and Protect Jobs*, U.S. SENATOR CHRISTOPHER COONS OF DELAWARE (Apr. 29, 2014), <http://www.coons.senate.gov/newsroom/releases/release/senators-coons-hatch-introduce-bill-to-combat-theft-of-trade-secrets-and-protect-jobs>.

<sup>34</sup> See generally *Sony Hack Latest News*, THE HOLLYWOOD REPORTER, <http://www.hollywoodreporter.com/topic/sony-hack> (last visited May 26, 2015).

<sup>35</sup> Matthew F. Prewitt, *Trade Secrets in the Era of Cyber Breach*, INTELLECTUAL PROPERTY MAGAZINE, at 46 (Oct. 2014) available at [http://www.schiffhardin.com/File%20Library/Publications%20\(File%20Based\)/PDF/045\\_046-IPM\\_October\\_2014-Feat.pdf](http://www.schiffhardin.com/File%20Library/Publications%20(File%20Based)/PDF/045_046-IPM_October_2014-Feat.pdf).

<sup>36</sup> David S. Levine & Sharon K. Sandeen, *Here Come the Trade Secret Trolls*, 71 WASH. & LEE L. REV. ONLINE 230 (2015), <http://scholarlycommons.law.wlu.edu/wlur-online/vol71/iss4/3/>.

<sup>37</sup> Economic Espionage Act, 18 U.S.C. §§ 1831-1839 (2014).

<sup>38</sup> UNIF. TRADE SECRETS ACT, § 1 (amended 1985), 14 U.L.A. 369 (Supp. 1989).

<sup>39</sup> Levine & Sandeen, *supra* note 36 (discussing many concerns about the propriety and impact of the proposed legislation).

<sup>40</sup> Stop Online Piracy Act, H.R. 3261, 112th Cong. (1st Sess. 2011).

<sup>41</sup> Mark Lemley, David S. Levine, & David G. Post, *Don't Break the Internet*, 64 STAN. L. REV. ONLINE 34 (Dec. 19, 2011), <http://www.stanfordlawreview.org/online/dont-break-internet>.

<sup>42</sup> Levine & Sandeen, *supra* note 36.

abuse.<sup>43</sup> Therefore, one of the issues that I recommend to keep an eye on is the question of how Congress deals with the potential for abuse of that right. Indeed, watch for whether the solution to that problem is even discussed.

This brings home the point made earlier: The harms associated with cyber-espionage are not disputed. There is bipartisan agreement—and again, being an opponent of bills, I agree as well—that cyber-espionage is a problem. The issue, which Congress hopefully will take up in the coming year, is not the question of what the *harms* are, but whether these bills will actually *address* those harms. Personally, I am not terribly optimistic that they will. That is not a topic for my talk, but you will hear from one of the sponsors of the bill last year who undoubtedly will argue that these bills are helpful. Keep an eye out for an answer to whether this solution will actually address the stated harms.

## I. Access to Information and Trade Secrecy

Very much off the radar screen, but nonetheless an important issue is public access to information and trade secrecy. Trade secrecy is a tool of information access control in a way that you might be familiar with if you followed voting machine issues from a few years ago and the question whether those machines worked.<sup>44</sup> The code inside voting machines is a trade secret and the providers of those machines have said that you, the public, as well as the government in many instances, cannot know this code because to share it would cause competitive harm to the voting machine manufacturers from potential misuse.<sup>45</sup> This is a challenge.

When you think about these issues, consider the MEC's work on hydraulic fracturing regulation.<sup>46</sup> Why? Because the chemical industry has taken the position that the formula for the chemicals that they are putting in the ground is a trade secret.<sup>47</sup> Here is the problem: it very well may be, or at least there are arguments for it. On the other hand,

---

<sup>43</sup> See e.g., *id.*

<sup>44</sup> See David S. Levine, *Secrecy and Unaccountability: Trade Secrets in Our Public Infrastructure*, 59 FLA. L. REV. 135 (2007).

<sup>45</sup> *Id.* at 138–39.

<sup>46</sup> See *2014 Shale Gas Legislation*, SMITHENVIRONMENT BLOG (May 20, 2014), <http://www.smithenvironment.com/2014-shale-gas-legislation/>; *Fracking Chemicals: The Most Secret of Trade Secrets*, SMITHENVIRONMENT BLOG (Apr. 2, 2013), <http://www.smithenvironment.com/fracking-chemicals-the-most-secret-of-trade-secrets/>.

<sup>47</sup> Mary L. Lydon & David S. Levine, *Comment to the Bureau of Land Management Regarding Trade Secrecy in Proposed Rulemaking for Fracking on Federal Lands*, INFOJUSTICE, (Aug. 27, 2013), <http://infojustice.org/archives/30597>.

perhaps the public has an interest in knowing exactly what those formulas are and what the environmental, health, and safety harms and risks might be from the use of these chemicals—especially since the public bears the risks of anything that goes wrong—even if it is a trade secret. We should all be concerned about the chemical industry’s offloading of risk to a public that is kept in the dark.

This is not a very well recognized or understood issue, but I have been an evangelist on this issue for several years.<sup>48</sup> Active within the last few days, watch for bills coming from people like Senator Cornyn of Texas who are attempting to reform and improve freedom of information laws at the federal level, which I believe are a good thing.<sup>49</sup> To be clear, they are focusing on issues like speed of getting responses and what other exemptions look like.<sup>50</sup> They are not yet focusing on trade secrecy as an exemption to freedom of information laws, but they hopefully will.

#### **J. International Negotiations: Trans-Pacific Partnership Agreement (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP)**

Lastly, at the international level, we have two agreements that are being negotiated by the U.S. Trade Representative that have a direct impact, not just on intellectual property, but on technology policy more broadly, environmental policy, labor policy, and a host of other areas. One of them is the Trans-Pacific Partnership (“TPP”), which is being negotiated by the United States and eleven other countries, and is designed to be a “21st century trade agreement.”<sup>51</sup> The status of that agreement is that after twenty plus rounds and ministerial meetings (there is a meeting that is ongoing in Manhattan that may be ending

---

<sup>48</sup> E-mail from David Levine, Associate Professor, Elon University School of Law, to Jody Colombie, Special Assistant to the Commission, Alaska Oil and Gas Conservation Commission (Apr. 1, 2013, 07:49 EST), *available at* <http://doa.alaska.gov/ogc/frac/fraccomments/HF28.pdf>.

<sup>49</sup> *See, e.g., SJC Unanimously Approves Cornyn-Leahy FOIA Improvement Act*, JOHN CORNYN, U.S. SENATOR FOR TEX. (Feb. 5, 2015), [http://www.cornyn.senate.gov/public/index.cfm?p=NewsReleases&ContentRecord\\_id=84fd3c91-375f-4bbc-8469-3c3ee297fc8f](http://www.cornyn.senate.gov/public/index.cfm?p=NewsReleases&ContentRecord_id=84fd3c91-375f-4bbc-8469-3c3ee297fc8f).

<sup>50</sup> *See, e.g., DANIEL J. RICHARDSON & WENDY GINSBURG, CONG. RESEARCH SERV., R43924, FREEDOM OF INFORMATION ACT LEGISLATION IN THE 114TH CONGRESS: ISSUE SUMMARY AND SIDE-BY-SIDE ANALYSIS 4–5 2015, available at* <http://fas.org/sgp/crs/secrery/R43924.pdf>.

<sup>51</sup> *Trans-Pacific Partnership (TPP)*, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, <https://ustr.gov/tpp> (last visited May 31, 2015). The negotiating countries are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

now), we do not know much because the TPP negotiating text has been kept from the public. Therefore, the public is engaged in a lot of guess work. Because there has been no formal release of negotiated text, it is hard to make any predictions about what TPP might look like.<sup>52</sup>

The Trans-Atlantic Trade and Investment Partnership (“TTIP”) is an agreement being negotiated between the United States and the European Union (“EU”).<sup>53</sup> TTIP focuses on jobs, trade, better access to markets, and less red tape;<sup>54</sup> in other words, the kinds of things you would expect to come out of hopefully a successfully completed trade agreement. The eighth round of negotiations is happening right now in Brussels.<sup>55</sup>

Unfortunately, secrecy is also an issue in these negotiations. However, the EU—as an interesting negotiating move—is starting to share some information with the public so that it might understand the EU’s positions. Meanwhile, the United States remains tight lipped.<sup>56</sup> I will have more to say about this in the coming months, as I will be submitting a law review article in the fall on how and why, from a theoretical and practical perspective, we can improve access to information in negotiation of trade agreements.

Here is what you want to look for from an IP perspective: One of the issues that is coming up in TPP and TTIP is increasing liability for internet access providers (“IAP”) for their arguable facilitation of copyright infringement.<sup>57</sup> Recognize, however, that we have laws in the

---

<sup>52</sup> David S. Levine, *The Most Important Trade Agreement That We Know Nothing About*, SLATE (July 30, 2012), [http://www.slate.com/articles/technology/future\\_tense/2012/07/trans\\_pacific\\_partnership\\_agreement\\_tpp\\_could\\_radically\\_alter\\_intellectual\\_property\\_law.html](http://www.slate.com/articles/technology/future_tense/2012/07/trans_pacific_partnership_agreement_tpp_could_radically_alter_intellectual_property_law.html).

<sup>53</sup> *Transatlantic Trade and Investment Partnership (T-TIP)*, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, <https://ustr.gov/ttip> (last visited June 4, 2015).

<sup>54</sup> Fact Sheet: United States to Negotiate Transatlantic Trade and Investment Partnership with the European Union, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, (Feb. 13, 2013) <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2013/february/US-EU-TTIP>.

<sup>55</sup> See *EU and US Conclude Second Round of TTIP Negotiations in Brussels*, DELEGATION OF THE EUROPEAN UNION TO THE UNITED STATES, <http://www.euintheus.org/press-media/eu-and-us-conclude-second-round-of-ttip-negotiations-in-brussels/> (last visited May 27, 2015).

<sup>56</sup> See *Now Online—EU Negotiating Texts in TTIP*, EUROPEAN COMMISSION <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1230> (last visited May 27, 2015).

<sup>57</sup> See Jeremy Malcolm & Maira Sutton, *Latest TPP Leak Shows US Still Pushing Terrible DRM and Copyright Term Proposals—and New Threats Arise*, ELECTRONIC FRONTIER FOUNDATION (Oct. 16, 2014), <https://www.eff.org/deeplinks/2014/10/latest-tpp-leak-shows-us-still-pushing-terrible-drm-and-copyright-term-proposals>; Maira Sutton, *TAFTA, the US-EU’s*

United States like the DMCA, Section 512 of the Copyright Act<sup>58</sup>, and Section 230 of the Communications Decency Act<sup>59</sup> that create safe harbors for IAPs.<sup>60</sup> The United States may be pushing for countries to go after IAPs more aggressively than it would under our existing law.

As I alluded to earlier, there also seems to be an increased interest in preventing the circumvention of TPMs,<sup>61</sup> which is a huge issue for the content industry, in particular, as consumers infringe and pirate goods. This is still an enormous problem, but less so for the music industry today than for the film industry, notwithstanding the Sony hack which obviously was enormous but did not involve copyright as much as security.<sup>62</sup>

Speaking again of trade secrecy, trade secret standards might be ratcheted up to prevent whistleblowers and others from reporting on trade secrets that are made public.<sup>63</sup> A narrowing of copyright's fair use defense is also possible.<sup>64</sup> Within both the TPP and TTIP, the United States may be looking to export our longer copyright term.<sup>65</sup> On the TTIP side, there is a very interesting issue involving royalty payments<sup>66</sup> in radio and streaming, and investor-state dispute settlement ("ISDS") issues.<sup>67</sup>

---

*Trojan Trade Agreement: Talks (and Leaks) Begin*, ELECTRONIC FRONTIER FOUNDATION (July 8, 2013), <https://www.eff.org/deeplinks/2013/07/tafta-us-eus-trojan-trade-agreement-talks-and-leaks-begin>.

<sup>58</sup> Copyright Act, 17 U.S.C. § 512 (2012).

<sup>59</sup> Communications Decency Act, 47 U.S.C. § 230 (2012).

<sup>60</sup> See 17 U.S.C. § 512 (2012); 47 U.S.C. § 230 (2012).

<sup>61</sup> See *e.g.*, Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 79 Fed. Reg. 55,687, 55,687 (proposed on Sept. 17, 2014) (to be codified at 37 C.F.R. 201.40), *available at* <https://www.federalregister.gov/articles/2014/09/17/2014-22082/exemption-to-prohibition-on-circumvention-of-copyright-protection-systems-for-access-control>.

<sup>62</sup> *Trans-Pacific Partnership Agreement*, ELECTRONIC FRONTIER FOUNDATION, <https://www.eff.org/issues/tpp> (last visited May 29, 2015).

<sup>63</sup> See David Levine, *Trade Secrecy and the Trans-Pacific Partnership Agreement: Secret Lawmaking Meets Criminalization*, INFOJUSTICE.ORG (Oct. 27, 2014), *available at* <http://infojustice.org/archives/33502> (describing and alluding to current trade secret protection standards).

<sup>64</sup> See ELECTRONIC FRONTIER FOUNDATION, *supra* note 62.

<sup>65</sup> See, *e.g.*, Ryan Merkely, *An Open Letter to TPP Negotiators: Copyright Term Extension Makes No Sense*, CREATIVECOMMONS (July 9, 2014), <http://creativecommons.org/tag/trans-pacific-partnership>.

<sup>66</sup> See, *e.g.*, Jeremy Malcolm, *Europe Releases its TTIP Proposals on Intellectual Property*, NCAC (Jan. 8, 2015), <http://ncac.org/author/jeremy-malcolm/>.

<sup>67</sup> Theodore R. Bromund, James M. Roberts & Riddhi Dasgupta, *Investor-State Dispute Settlement (ISDS) Mechanisms: An Important Feature of High-Quality Trade Agreements*, THE HERITAGE FOUNDATION, <http://www.heritage.org/research/reports/2015/02/investor-state-dispute-settlement-isds-mechanisms-an-important-feature-of-high-quality-trade-agreements> (last visited

---

What does ISDS have to do with IP? ISDS is a process whereby corporations and private entities can challenge states based upon their regulations and argue that those regulations failed to serve their interest.<sup>68</sup> It is designed, of course, to prevent abuse of private entities by governments that may want to go in that direction but it could also be used by corporations to actually challenge regulations—like more balanced IP laws—that may not serve their best interest, but might better serve the public.

In closing, it remains an exciting time to be a cyber-lawyer, and there is a lot going on in IP and technology law and policy. While the panels today may touch on many if not all of these issues, recognize this—to the extent that anyone argues that we have settled any of these questions, they are not telling you the truth. There are smart people on all sides of these issues who have substantive arguments based upon law and policy and they should pursue their ideas and present their arguments and evidentiary support, publicly. Look and hope for that public debate, and cherish it when it happens, because it happens less than it should.

As all of my current and former IP students have heard me say, I will close on this point: Anyone that tells you that they know the optimal allocation of rights and responsibilities in IP law is lying.<sup>69</sup> We do not know. We will see that reality continue to arise in the coming year, but I, and many other wonderful colleagues throughout the academic world, plan to do what we can to narrow the understanding gap in the coming months and years.

Thank you for your time today and I hope you enjoy the panels. Have a great day!

---

WAKE FOREST JOURNAL OF BUSINESS  
AND INTELLECTUAL PROPERTY LAW

---

VOLUME 15

SUMMER 2015

NUMBER 4

---

**SAFE UNTIL PROVEN UNSAFE: SOLVING THE GROWING  
DEBATE AROUND DIETARY SUPPLEMENT REGULATION**

**Maggie Dickens<sup>†</sup>**

I. INTRODUCTION.....	577
II. BACKGROUND .....	579
A. THE HISTORY OF DIETARY SUPPLEMENT REGULATION .....	579
1. <i>The Dietary Supplement Health and Education             Act of 1994</i> .....	579
2. <i>The Politics of Dietary Supplement Regulation</i> .....	583
III. ANALYSIS .....	584
A. ADVERSE HEALTH EFFECTS OF DIETARY SUPPLEMENT USE .....	584
B. PROPOSED CHANGES TO CURRENT DIETARY SUPPLEMENT INDUSTRY REGULATIONS .....	587
1. <i>Incentivizing Manufacturing Companies</i> .....	587
2. <i>Improving the Current Regulatory Scheme</i> .....	589
C. A RESPONSE TO THE CRITICS OF INCREASED DIETARY SUPPLEMENT REGULATION .....	594
1. <i>The FDA Lacks the Resources to Enforce             Increased Regulation</i> .....	594
IV. CONCLUSION.....	596

---

<sup>†</sup> B.S. Psychology, University of Georgia (2013); J.D. candidate, May 2016, Wake Forest University School of Law. Senior Notes & Comments Editor, 2015-16, *Wake Forest Journal of Business and Intellectual Property Law*. The author would like to thank the board and staff members for preparing this article for publication.

## I. INTRODUCTION

American consumers spent \$13 billion on dietary supplements in 2013.<sup>1</sup> The multi-billion dollar supplement industry continues to grow while consumers remain clueless to the regulatory process in place, or lack thereof.<sup>2</sup> Society often idolizes weight loss, but not through the traditional approach of diet and exercise.<sup>3</sup> Instead, Americans spend \$40 billion on weight-loss programs and products annually,<sup>4</sup> as supplement manufacturers capitalize on the market's lack of regulation. An increased prevalence of diet-related illnesses, such as diabetes, heart disease, and cancer, warrants increased regulation of the dietary supplement industry to ensure safety and effectiveness of products available to consumers.<sup>5</sup>

The United States Food and Drug Administration ("FDA") is tasked with regulating dietary supplements and ingredients.<sup>6</sup> Enacted by Congress in 1994 to amend the Federal Food, Drug, and Cosmetic Act ("FDCA"), the Dietary Supplement Health and Education Act ("DSHEA") established standards for regulating dietary supplements.<sup>7</sup> Although this legislation reflects progress towards protecting consumers, twenty years have transpired and revealed the need for more stringent regulations.<sup>8</sup>

The average consumer may be unaware, but dietary supplements are not regulated in the same way as conventional food or drugs.<sup>9</sup> In fact, the regulations covering dietary supplements are somewhat lax.<sup>10</sup> For

---

<sup>1</sup> Jason Millman, *Americans Are Ignoring the Science and Spending Billions on Dietary Supplements*, WASH. POST (Feb. 4, 2015), <http://www.washingtonpost.com/blogs/wonkblog/wp/2015/02/04/americans-are-ignoring-the-science-and-spending-billions-on-dietary-supplements/>.

<sup>2</sup> *See id.*

<sup>3</sup> See Rebecca Reisner, *The Diet Industry: A Big Fat Lie*, Bloomberg Business, [http://www.businessweek.com/debateroom/archives/2008/03/the\\_diet\\_industry\\_a\\_big\\_fat\\_lie.html](http://www.businessweek.com/debateroom/archives/2008/03/the_diet_industry_a_big_fat_lie.html) (last visited May 25, 2015).

<sup>4</sup> *Id.*

<sup>5</sup> *Dietary Supplements*, FDA.GOV, <http://www.fda.gov/Food/DietarySupplement/s/> (last visited May 21, 2015).

<sup>6</sup> *See* 21 C.F.R. § 111 (2014).

<sup>7</sup> *See* 21 U.S.C. § 301 et seq. (1994); Dietary Supplement Health and Education Act of 1994, Pub. L. No. 103-417, 108 Stat. 4325 (codified as amended in scattered sections of 21 U.S.C.) (2006).

<sup>8</sup> *See* Todd Harrison, *Regulatory Review: 20 Years Since DSHEA*, NEUTRACEUTICALS WORLD (Sept. 1, 2014), [http://www.nutraceuticalsworld.com/issues/2014-09/view\\_columns/regulatory-review-20-years-since-dshea/](http://www.nutraceuticalsworld.com/issues/2014-09/view_columns/regulatory-review-20-years-since-dshea/).

<sup>9</sup> *Dietary Supplements*, *supra* note 5.

<sup>10</sup> *See About FDA Approval*, FDA.GOV, <http://www.fda.gov/NewsEvents/ProductsApprovals/ucm106288.htm> (last updated Feb. 26, 2009).

example, although food additives and drugs must receive approval from the FDA prior to entering the market, no prior approval for dietary supplements is necessary.<sup>11</sup> The controversial issue regarding dietary supplement regulation is that, while drugs must be proven safe before entering the market, supplements are *presumed* safe until proven unsafe.<sup>12</sup>

The dietary supplement industry has recently received a lot of criticism in regards to the lack of regulations.<sup>13</sup> Consumers continue to purchase supplements under the assumption that they are safe and effective; however, it is not until after a consumer has reported harm that the FDA gets involved.<sup>14</sup> Dietary supplements are assumed to be safe, thus an unsafe product is sold to the public at large until someone has an adverse reaction.<sup>15</sup> Due to the lack of consumer reporting, the true extent of harm caused by dietary supplements is not realistically known.<sup>16</sup> If a consumer reports an adverse reaction, the FDA may recall the supplement.<sup>17</sup> In more extreme situations, a harmed person may sue a manufacturer for personal injuries or false and misleading advertising. The FDA engages in a *reactionary* role by monitoring the reports of doctors or ill members of the public.<sup>18</sup>

This comment will examine dietary supplement regulation from the perspective of the substantial benefits that increased regulation of supplements could provide consumers. Part II will discuss the evolution of the FDA's role in regulating this industry and the changes warranted, including the history of and current requirements for dietary supplement regulation. Part II will also illuminate the role politics has played in the last twenty years of stagnant regulation. Finally, Part III will analyze the lack of regulations regarding the safety and effectiveness of dietary supplements, illustrating the need for reform, proposed methods for

---

<sup>11</sup> *Id.*; *FDA Regulation of Drugs Versus Dietary Supplements*, AM. CANCER SOC'Y, <http://www.cancer.org/treatment/treatmentsandsideeffects/complementaryandalternativemedicine/dietarysupplements/dietary-supplements-fda-regulations> (last updated Mar. 31, 2015).

<sup>12</sup> AM. CANCER SOC'Y, *supra* note 11.

<sup>13</sup> *See* Millman, *supra* note 1.

<sup>14</sup> AM. CANCER SOC'Y, *supra* note 11.

<sup>15</sup> Pieter A. Cohen, *Assessing Supplemental Safety—The FDA's Controversial Proposal*, 366 NEW ENG. J. MED. 389, 389 (2012), available at <http://www.nejm.org/doi/full/10.1056/NEJMp1113325>.

<sup>16</sup> *See* AM. CANCER SOC'Y, *supra* note 11.

<sup>17</sup> *Dietary Supplements - Adverse Event Reporting*, FDA.GOV, <http://www.fda.gov/Food/DietarySupplements/ReportAdverseEvent/default.htm> (last updated Jan. 1, 2014).

<sup>18</sup> *See How Consumers Can Report an Adverse Event or Serious Problem to the FDA*, FDA.GOV, <http://www.fda.gov/Safety/MedWatch/HowToReport/ucm053074.htm> (last updated Feb. 11, 2014).

reform, and a critique of opponents' arguments to increased regulation.

## II. BACKGROUND

### A. The History of Dietary Supplement Regulation

#### 1. *The Dietary Supplement Health and Education Act of 1994*

Congress enacted The Dietary Supplement Health and Education Act of 1994 ("DSHEA")<sup>19</sup> in response to growing debate surrounding consumer access to current and accurate information regarding supplements.<sup>20</sup> Senator Orrin Hatch, the chief sponsor, originally introduced this bill to Congress.<sup>21</sup> Ironically, Senator Hatch represents Utah, a state responsible for manufacturing 25% of the supplements produced in the United States.<sup>22</sup> After Congress enacted this legislation, the dietary supplement industry has become Utah's largest industry, its worth increasing from \$92 million in 1992 to over \$7 billion in 2012.<sup>23</sup>

DSHEA defined supplements as a special category of food.<sup>24</sup> The implication of this scheme is that dietary supplements are not regulated as conventional food or drugs.<sup>25</sup> While DSHEA implemented regulations for any "new ingredient," supplements sold prior to October 1994 were exempted from the legislation, and thus grandfathered into the new system.<sup>26</sup> A dietary ingredient may be one or a combination of more than one of the following: vitamin, mineral, herb or other botanical, amino acid, dietary substance to increase total dietary intake, a concentrate, metabolite, constituent, or extract.<sup>27</sup>

All drugs, even those that do not require a prescription, must be proven safe and effective prior to being sold to consumers on the

---

<sup>19</sup> Dietary Supplement Health and Education Act of 1994, Pub. L. No. 103-417, 108 Stat. 4325 (codified as amended in scattered sections of 21 U.S.C.) (2006).

<sup>20</sup> *See id.*

<sup>21</sup> Michael A. Maynard, *Are We Safe From Congress? Senator Orrin Hatch and the Politics of Vitamins*, POLITICUSUSA.COM (Nov. 10, 2013, 9:08 PM), <http://www.politicususa.com/2013/11/10/safe-congress-senator-orrin-hatch-politics-vitamins.html>.

<sup>22</sup> *Id.*; Stephen Daniells, *Dietary Supplements Become Utah's #1 Industry, Topping \$7.2 Billion*, NUTRAINGREDIENTS-USA.COM (May 23, 2012, 5:18 PM), <http://www.nutraingredients-usa.com/Markets/Dietary-supplements-become-Utah-s-1-industry-topping-7.2-billion>.

<sup>23</sup> Daniells, *supra* note 22.

<sup>24</sup> AM. CANCER SOC'Y, *supra* note 11.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *What is a Dietary Supplement?*, FDA.GOV, <http://www.fda.gov/AboutFDA/Transparency/Basics/ucm195635.htm> (last updated Apr. 29, 2015).

market.<sup>28</sup> Therefore, unlike supplements, they are considered unsafe until proven safe.<sup>29</sup> The FDA drug approval process requires a drug to undergo a series of clinical trials, which must exhibit “substantial evidence” that the drug is safe and effective for its intended use.<sup>30</sup> Furthermore, a drug must be manufactured under carefully monitored conditions and the package must include: conditions the drug is proven to treat, known side effects, contraindications, and unsafe interactions with other drugs.<sup>31</sup>

On the other hand, prior to marketing a dietary supplement, DSHEA requires *manufacturers* to ensure its products are safe, any claims made about the products are not false or misleading, and the products comply with the FDCA.<sup>32</sup> The FDA imposes a few other regulations not pertaining to this comment, such as manufacturers registering with the FDA pursuant to the Bioterrorism Act<sup>33</sup> before it produces or sells products.<sup>34</sup> DSHEA prohibits supplements from containing anything that may have “a significant or unreasonable risk of illness or injury” when used as the label advises.<sup>35</sup> A supplement manufacturer is required to provide the FDA with “reasonable evidence” that a *new*—any old ingredients are still exempt and grandfathered in—ingredient is safe before it is marketed to the public.<sup>36</sup> However, companies in the dietary supplement industry are only held to a “current good manufacturing practices” standard.<sup>37</sup> Manufacturers do not have to test new ingredients or conduct clinical trials, which could reveal potential risks to the consumer.<sup>38</sup> Instead, manufacturers and distributors are responsible for evaluating the safety and labeling of *their own* products to ensure compliance with DSHEA and FDA.<sup>39</sup>

The FDA does require manufacturers to register their facilities with

---

<sup>28</sup> AM. CANCER SOC’Y, *supra* note 11.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> *Questions and Answers on Dietary Supplements*, FDA.GOV, [http://www.fda.gov/Food/DietarySupplements/QADietarySupplements/default.htm#FDA\\_role](http://www.fda.gov/Food/DietarySupplements/QADietarySupplements/default.htm#FDA_role) (last updated Apr. 28, 2015).

<sup>33</sup> Public Health Security and Bioterrorism Preparedness and Response Act of 2002, Pub. L. No. 107-88, 116 Stat. 594 (2002).

<sup>34</sup> *Questions and Answers on Dietary Supplements*, *supra* note 32.

<sup>35</sup> AM. CANCER SOC’Y, *supra* note 11.

<sup>36</sup> *Id.*

<sup>37</sup> See 21 C.F.R. § 111.1 (2014); see also *Dietary Supplements*, FDA.GOV, *supra* note 5; *Current Good Manufacturing Practices (CGMPs)*, FDA.GOV, <http://www.fda.gov/food/guidanceregulation/cgmp/default.htm> (last updated Sept. 25, 2014).

<sup>38</sup> *Dietary Supplements*, *supra* note 5.

<sup>39</sup> *Id.*

the FDA, but no prior approval of any supplement is required before producing or marketing the supplement.<sup>40</sup> Most consumers self-prescribe supplements.<sup>41</sup> As a result, adverse effects or reactions are underreported.<sup>42</sup> While manufacturers are required to report adverse effects to the FDA, doctors and patients are not.<sup>43</sup> This reflects a bias and can consequently delay a recall of a harmful supplement, or worse, contribute to an adverse effect going unreported.<sup>44</sup> However, the FDA only requires supplement manufacturers to report “serious” adverse event reports such as death, a life-threatening experience, a birth defect, or inpatient hospitalization.<sup>45</sup> Unbeknownst to many supplement consumers, the FDA does not require a manufacturer to report “mild adverse effects,” such as headaches, which are not “serious.”<sup>46</sup>

A common legal issue facing supplement manufacturers is false or misleading labeling and advertising.<sup>47</sup> The Federal Trade Commission (“FTC”) has jurisdiction over advertising claims for supplements.<sup>48</sup> However, if the FDA discovers a supplement claim that it believes violates the FDCA, it sends a letter to the manufacturer or marketer which points out potential violations and requests claims to be withdrawn.<sup>49</sup> The FDA allows three categories of claims to be used on dietary supplement labels: health claims, nutrient content claims, and structure/function claims.<sup>50</sup> These claims are not pre-approved by the FDA, but a manufacturer must submit “substantiation that the claim is

---

<sup>40</sup> *Id.*

<sup>41</sup> *Dietary Supplements: What is Safe?*, AM. CANCER SOC’Y, <http://www.cancer.org/acs/groups/cid/documents/webcontent/002385-pdf.pdf> (last updated Mar. 31, 2015).

<sup>42</sup> AM. CANCER SOC’Y, *supra* note 11.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.*; Josh Long, *Dietary Supplement Adverse Event Reports Increase*, NATURALPRODUCTSINSIDER.COM (Apr. 2, 2014), <http://www.naturalproductsinsider.com/news/2014/04/dietary-supplement-adverse-event-reports-increase.aspx> (citing a study from the Health and Human Services Office of Inspector General which found that 20% of a sample of dietary supplements did not contain phone numbers or complete addresses, decreasing the likelihood a consumer could reach a company in regards to an emergency).

<sup>45</sup> *See* Dietary Supplement and Nonprescription Drug Consumer Protection Act, Pub. L. No. 109-462, 120 Stat. 3470 (2006); Long, *supra* note 44.

<sup>46</sup> Long, *supra* note 44.

<sup>47</sup> Joel Rothman, *Features—Researching Laws and Information on Nutritional and Dietary Supplements on the Web*, LLRX.COM (June 10, 2006), <http://www.llrx.com/features/nutrisup.htm>.

<sup>48</sup> *See* 21 U.S.C. § 301 (2006).

<sup>49</sup> *Id.*

<sup>50</sup> *Label Claims for Conventional and Dietary Supplements*, FDA.GOV, <http://www.fda.gov/Food/IngredientsPackagingLabeling/LabelingNutrition/ucm111447.htm> (last updated Nov. 26, 2014).

truthful” within thirty days after it has begun marketing the product.<sup>51</sup> A consumer may overlook that a label that uses one of these claims must provide a “disclaimer” that the FDA has not evaluated the claim.<sup>52</sup> The FDA has determined almost 300 fraudulent products that contain hidden or deceptively labeled ingredients.<sup>53</sup> Thus, as long as there is *some* “substantiation” for truth and a “disclaimer” regarding the claim, a manufacturing company is free to market unapproved, and potentially untrue, health-related claims to consumers.

Notably, the FDA does not review or approve a serving size or limit on the amount of a particular nutrient in a dietary supplement.<sup>54</sup> The FDA continues to warn consumers of the danger that some dietary supplement products contain prescription ingredients at a much higher level than those in an approved drug.<sup>55</sup> Furthermore, aside from the rules regarding “new dietary ingredients,” there is no requirement placed on manufacturers to disclose to consumers any known information pertaining to purported safety or benefits of their products.<sup>56</sup> Manufacturing companies are responsible for verifying the “Supplement Facts” on a product’s label, thus consumers are at the mercy of this profit-seeking industry to disclose honest and accurate information.<sup>57</sup>

According to the Council for Responsible Nutrition (“CRN”), 83% of adults express confidence in the “safety, quality, and effectiveness of dietary supplements.”<sup>58</sup> The CRN, a trade association representing over 150 dietary supplement manufacturers and suppliers, claims consumer confidence stems from consumers recognizing that a majority of these companies are responsible and prioritize product quality.<sup>59</sup> However, if this confidence was a true assessment of the supplement industry, there

---

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> *Beware of Fraudulent Dietary Supplements*, FDA.GOV, <http://www.fda.gov/ForConsumers/ConsumerUpdates/ucm246744.htm> (last updated Jan. 28, 2015) (noting fraudulent products usually promote weight loss, sexual enhancement, and bodybuilding).

<sup>54</sup> *Questions and Answers on Dietary Supplements*, *supra* note 32.

<sup>55</sup> *Beware of Fraudulent Dietary Supplements*, *supra* note 53 (noting numerous harmful reports connected with use of these products, including but not limited to, stroke, liver injury, kidney failure, heart palpitations, and death).

<sup>56</sup> *See id.*

<sup>57</sup> *Id.*

<sup>58</sup> *New Survey Reveals High Percentage of U.S. Population Take Dietary Supplements—and with High Confidence*, COUNCIL FOR RESPONSIBLE NUTRITION (Oct. 30, 2014), <http://www.crnusa.org/prpdfs/CRNPR14-CRNCCSurvey103014.pdf>.

<sup>59</sup> *Id.*

would not be a hot political debate regarding issue.<sup>60</sup> If DSHEA sufficiently regulated the dietary supplement industry, harm to consumers would be prevented, instead of addressed after-the-fact.<sup>61</sup> A preventative regulatory scheme would, in turn, reduce millions of dollars that companies pay to settle claims involving the adverse effects of their products.<sup>62</sup>

## 2. *The Politics of Dietary Supplement Regulation*

The dietary supplement industry extensively advertises to consumers the alleged benefits of its products.<sup>63</sup> Ultimately, it is a profit-seeking business, not a health-promoting business.<sup>64</sup> The chief sponsor of DSHEA, Senator Hatch, is a politician from Utah, a state which leads the country in the sales of supplements.<sup>65</sup> One in four dollars in the supplement market passes through Utah.<sup>66</sup>

The lack of regulatory authority in the industry, for example, no prior approval required by the FDA, attracts businesses to the market.<sup>67</sup> Even pharmaceutical companies, which are usually subject to very rigorous regulations for producing drugs, have entered the market.<sup>68</sup> Giant pharmaceutical companies essentially own the dietary supplement industry.<sup>69</sup> For example, Pfizer owns Centrum, Bayer owns One A Day, and Proctor & Gamble owns New Chapter.<sup>70</sup> The multi-billion dollar industry has invested exorbitant amounts of money on lobbyists to campaign against any increased regulatory control by the FDA.<sup>71</sup> Although Congress has reexamined and considered bills to

---

<sup>60</sup> See Timothy Egan, *The Politics of Fraudulent Dietary Supplements*, N.Y. TIMES, (Feb. 6, 2015), [http://www.nytimes.com/2015/02/06/opinion/the-politics-of-fraudulent-dietary-supplements.html?\\_r=2](http://www.nytimes.com/2015/02/06/opinion/the-politics-of-fraudulent-dietary-supplements.html?_r=2).

<sup>61</sup> Megan Dagerman, *Incentivizing Safety in the Dietary Supplement Industry*, 31 REV. LITIG. 173, 206 (2012).

<sup>62</sup> See Cassandra Burke Robertson, *Separating Snake Oil from Therapeutic Supplements: The Nexus Between Litigation and Regulation in the Dietary Supplement Industry*, 35 U. TOL. L. REV. 317, 327 (2003).

<sup>63</sup> *Dietary Supplements: An Advertising Guide for Industry*, FED. TRADE COMM'N, <http://www.ftc.gov/tips-advice/business-center/guidance/dietary-supplements-advertising-guide-industry> (last visited May 25, 2015).

<sup>64</sup> See Lynn Stuart Parramore, *Time to Tame the Dietary Supplement Industry*, ALJAZEERA AMERICA (Nov. 12, 2013, 6:00 AM), <http://america.aljazeera.com/opinions/2013/11/vitamins-herbal-dietarysupplementsregulatefda.html>.

<sup>65</sup> See Maynard, *supra* note 21.

<sup>66</sup> Egan, *supra* note 60.

<sup>67</sup> Parramore, *supra* note 64.

<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> See Alessa Thomas, *Making Sense of Supplements: Suggestions for Improving*

address the regulatory debate, the manufacturing industry lobbyists are too powerful to allow legislative change.<sup>72</sup> As the industry continues to exponentially grow, any increased regulation has been stalled since 1994.

### III. ANALYSIS

#### A. Adverse Health Effects of Dietary Supplement Use

Two words—“all natural”—can be used as a marketing tool to attract consumers to products. The FDA defines “natural ingredients” as those that are derived from “natural sources,” whereas other ingredients are not found in nature and must be synthetically produced.<sup>73</sup> Consumers automatically think that a natural ingredient must be better and safer than one that is not. However, this assumption is naïve—many toxic substances occur in the world naturally and many plants are made up of various chemicals.<sup>74</sup> For example, botanical supplements derived from plants can contain harmful chemicals, yet be marketed as “all natural.”<sup>75</sup> Moreover, often labels highlight a product’s positive aspect, such as “healthy” or “high in antioxidants,” which fails to encourage a consumer to seek any more information.<sup>76</sup> Consumer exposure to supplements accounted for over 35,000 calls to US poison control centers in 2011.<sup>77</sup> The number of adverse events reported to the FDA has continued to climb each year: 1,009 in 2010; 2,047 in 2011; and 2,844 in 2012.<sup>78</sup>

Dietary supplements can produce similar adverse health effects as drugs, illustrating the need for increased regulation more similar to the drug industry.<sup>79</sup> The range of adverse effects of supplements, including the potential unknown effects, warrant increased regulation. In

---

*the Regulation of Dietary Supplements in the United States*, 2010 MICH. ST. L. REV. 203, 212 (2010).

<sup>72</sup> See *id.*

<sup>73</sup> *Overview of Food Ingredients, Additives, & Colors*, FDA.GOV, <http://www.fda.gov/food/ingredientspackaginglabeling/foodadditivesingredients/ucm094211.htm#qanatural> (last updated Dec. 12, 2014).

<sup>74</sup> *Common Misconceptions About Dietary Supplements*, AM. CANCER SOC’Y, <http://www.cancer.org/treatment/treatmentsandsideeffects/complementaryandalternativemedicine/dietarysupplements/dietary-supplements-misconceptions> (last updated Mar. 31, 2015).

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*; see also Nicole E. Negowetti, *Defining Natural Foods: The Search for a Natural Law*, 26 REGENT U. L. REV. 329, 329 (2013-14).

<sup>77</sup> AM. CANCER SOC’Y, *supra* note 11.

<sup>78</sup> *Id.*; Long, *supra* note 44.

<sup>79</sup> See *Label Claims for Conventional and Dietary Supplements*, *supra* note 50.

*Lineberger v. Max Muscle Mktg Inc.*,<sup>80</sup> a dietary supplement manufacturer and distributor paid over \$4.2 million to settle a suit with a previously healthy twenty-nine year old man who developed acute liver and kidney failure after using its products.<sup>81</sup> Metabolife and other defendants paid \$56 million to settle personal injury claims stemming from its ephedra-related products in which it faced over 300 personal injury claims in a consolidated proceeding.<sup>82</sup> Metabolife's insurance company paid the entire global settlement and Metabolife subsequently went bankrupt.<sup>83</sup> The FDA specifically received over 900 reports of possible ephedra toxicity, some of those including severe adverse events such as stroke, heart attack, and sudden death.<sup>84</sup>

Moreover, the FDA recalled Hydroxycut products in 2009 because of twenty-three reports of serious health problems, including one death and one liver transplant.<sup>85</sup> Hydroxycut advertised itself as "America's number one weight loss supplement;"<sup>86</sup> however, it was compelled to pay a \$23.5 million to settle a suit for deceptive practices.<sup>87</sup> This amount did not even include personal injury or wrongful death claims.<sup>88</sup>

---

<sup>80</sup> See Debra S. Dunne, Laurie A. Henry, & Madeleine McDonough, \$4.2 Million Paid to Man Harmed by Supplements With Anabolic Steroids, LEXOLOGY (Feb. 7, 2014), <http://www.lexology.com/library/detail.aspx?g=f6e8f22e-f833-47e6-a1e6-968c95954df0>.

<sup>81</sup> *Id.*

<sup>82</sup> See Brown Rudnick Reaches Settlement in Metabolife Suit, BOSTON BUSINESS JOURNAL (Nov. 13, 2006, 2:52 PM), <http://www.bizjournals.com/boston/stories/2006/11/13/daily14.html>.

<sup>83</sup> *Id.*

<sup>84</sup> Ephedra, NAT'L CTR. FOR COMPLIMENTARY & INTEGRATIVE HEALTH, <https://nccih.nih.gov/health/ephedra> (last updated Jan. 25, 2015); see also Sara Atherton Mason, *Dietary Supplement Regulation: A Comparative Study*, 20 FLA. ST. J. TRANSNAT'L L. & POL'Y 103, 108 (2010-11) (highlighting that the FDA did not ban ephedrine products for nine years until 150 deaths occurred and it had received 16,000 adverse event reports).

<sup>85</sup> See *Warning on Hydroxycut Products*, FDA.GOV, <http://www.fda.gov/ForConsumers/ConsumerUpdates/ucm152152.htm> (last updated Apr. 29, 2015); see also Aaron Kase, *Hydroxycut Weight Loss Drug Settles Suit for \$23.5 Million*, LAWYERS.COM (Nov. 27, 2012), <http://blogs.lawyers.com/2012/11/hydroxycut-settles-23-million/> (listing other symptoms such as: nausea, vomiting, light-colored stools, excessive fatigue, weakness, stomach or abdominal pain, itching, and loss of appetite).

<sup>86</sup> See, e.g., *Diet: Hydroxycut*, AS SEEN ON TV SUPERSTORE, <http://www.asseenontv-superstore.com/fitness/hydroxycut.html> (last visited May 25, 2015).

<sup>87</sup> Juan Carlos Rodriguez, *Hydroxycut Consumers Reach \$25M Deal in False Ad MDL*, LAW360.COM (Nov. 5, 2012, 1:57 PM), <http://www.law360.com/articles/391821/hydroxycut-consumers-reach-25m-deal-in-false-ad-mdl>.

<sup>88</sup> Kase, *supra* note 85.

Regeneca Worldwide voluntarily recalled its appetite control dietary supplement, RegeneSlim, after the FDA confirmed the presence of DMAA, a potentially dangerous stimulant that can narrow blood vessels and arteries.<sup>89</sup> The various problems associated with the use of DMAA include a rise in blood pressure, shortness of breath, arrhythmias, tightening in the chest, and heart attack.<sup>90</sup>

Supplements may also contain fillers, contaminants, ingredients with unknown effects, or even prescription drugs and compounds not listed on the label.<sup>91</sup> Herbs are “sometimes tainted with germs, pesticides, or toxic heavy metals.”<sup>92</sup> Several botanical supplements—major ingredients containing basil, fennel, nutmeg, saffron, cinnamon, or calamus—have been shown to contain high levels of alkenyl benzenes, a compound that is known to cause malignant tumors in lab animals.<sup>93</sup> The lack of regulations contributes to the mystery of unknown drug interactions. For example, a consumer may use both a supplement and a prescription, which have not been tested concurrently, and an allergic reaction or adverse effect could result.<sup>94</sup>

Moreover, in addition to the safety issue with dietary supplements, increased regulation is warranted to address manufacturers’ misleading claims. Most of the recalls and litigation surrounding the business involve misleading claims for effectiveness or failing to disclose all ingredients in the supplement.<sup>95</sup> For example, multiple producers of glucosamine-based supplements paid \$3.1 million last year to settle a proposed class action based on misleading consumers by proclaiming joint health benefits, despite scientific evidence to the contrary.<sup>96</sup>

---

<sup>89</sup> *Regeneca Worldwide, A Division of Vivaceuticals, Inc Voluntarily Recalls RegeneSlim Appetite Control Capsules Due to the Presence of DMAA That May Pose Possible Health Risk*, FDA.GOV, <http://www.fda.gov/Safety/Recalls/ucm408674.htm> (last updated Sept. 5, 2014).

<sup>90</sup> *Id.*

<sup>91</sup> AM. CANCER SOC’Y, *supra* note 11.

<sup>92</sup> *Id.*

<sup>93</sup> Nathan Gray, *Botanical supplements may contain harmful compounds: Study*, NUTRAINGREDIENTS.COM, <http://www.nutraingredients.com/Research/Botanical-supplements-may-contain-harmful-compounds-Study> (last updated Dec. 14, 2014).

<sup>94</sup> William J. Cromie, *Dietary Supplements Can Cause Harmful Reactions With Prescription Medications*, HARV. UNIV. GAZETTE (Oct. 26, 2006), <http://news.harvard.edu/gazette/2006/10.26/11-herbs.html>.

<sup>95</sup> See AM. CANCER SOC’Y, *supra* note 11; *Recalls of Food and Dietary Supplements*, FDA.GOV, <http://www.fda.gov/food/recallsoutbreaksemergencies/recalls/default.htm> (last visited May 25, 2015).

<sup>96</sup> Caroline Simson, *Supplement Makers Pay \$3M to End Joint Health False Ad Suit*, LAW360.COM (Sept. 17, 2014, 5:02 PM), <http://www.law360.com/articles/577795/supplement-makers-pay-3m-to-end-joint-health-false-ad-suit>.

Airborne Health, Inc. agreed to pay up to \$30 million to consumers who bought its product marketed as a cold prevention and treatment remedy, which the FTC later found to be unsubstantiated.<sup>97</sup>

Recently, the New York State Attorney General's Office demanded four major retailers, Wal-Mart, Target, GNC, and Walgreens, to remove potentially dangerous herbal supplements from their shelves.<sup>98</sup> After tests revealed four out of five of the products did not contain any of the herbs listed on their labels, the authorities accused these retailers for selling fraudulent and potentially dangerous supplements.<sup>99</sup> As a result of this media attention, GNC is now defending a class action in Florida to enjoin selling four of its products: GNC Plus Ginkgo Biloba, GNC Herbal Plus St. John's Wort, GNC Herbal Plus Ginseng, and GNC Herbal Plus Echinacea.<sup>100</sup> The suit alleges deceptive labeling and violations of consumer protection laws.<sup>101</sup> The economic growth of the industry due to the ability to escape regulations is too large for miniscule settlements to deter the industry from changing its own practices.

## **B. Proposed Changes to Current Dietary Supplement Industry Regulations**

### *1. Incentivizing Manufacturing Companies*

The dietary supplement industry's lack of regulation provides manufacturing companies with significant economic incentives to pursue this market. As previously discussed, these multi-billion dollar industries are able to pay lobbyists whatever is necessary to halt giving the FDA any further regulatory authority.<sup>102</sup> Any successful regulatory reform also needs to provide these companies attractive economic

---

<sup>97</sup> *Makers of Airborne Settle FTC Charges of Deceptive Advertising; Agreement Brings Total Settlement Funds to \$30 Million*, FEDERAL TRADE COMM'N (Aug. 14, 2008), <https://www.ftc.gov/news-events/press-releases/2008/08/makers-airborne-settle-ftc-charges-deceptive-advertising>.

<sup>98</sup> Michelle Esteban, *Findings: Sand, Houseplants Found in Herbal Supplements*, KOMONEWS.COM (Feb. 3, 2015, 9:54 PM), <http://www.komonews.com/news/local/SAND-RADISH-POWDER-AND-HOUSEPLANTS-ALLEGEDLY-FOUND-IN-HERB-SUPPLEMENTS-290725721.html> (noting that sand and other fillers have been found in supplements sold by reputable companies, thus further raising suspicion).

<sup>99</sup> *Id.*

<sup>100</sup> Noreen Marcus, *A Public Danger? Lawsuit Claims GNC Herbal Supplements Are Not Herbal*, DAILY BUSINESS REVIEW (Feb. 11, 2015), <http://www.dailybusinessreview.com/id=1202717638114/A-Public-Danger-Lawsuit-Claims-GNC-Herbal-Supplements-Are-Not-Herbal?slreturn=20150206115557>.

<sup>101</sup> *Id.*

<sup>102</sup> See discussion *supra* Part II.A.ii.

incentives.

It is undisputed that the supplement industry has positively contributed to the economy;<sup>103</sup> however, this industry has profited to the detriment of consumers' lack of education.<sup>104</sup> Currently, many physicians disfavor the use of dietary supplements and therefore caution consumers to seek medical advice from a physician.<sup>105</sup> Requiring testing, scientific evidence, and overall prior-approval of supplements could effectively generate more support from the medical community at large, thus economically benefiting the industry. If manufacturers make a strong commitment to consumer safety, physicians would be more confident in administering these supplements, thus facilitating the industry to expand.

For example, to address doctors' and health care practitioners' concerns with the adverse effects of supplements, the Children's Hospital of Philadelphia was the first hospital to implement guidelines for the use of dietary supplements.<sup>106</sup> To quell doctors' skepticism towards administering supplements, manufacturers must provide a third-party written agreement that the supplement was produced under the FDA's required "good manufacturing practices," as well as a "certificate of analysis" assuring the ingredients listed on the label are actually what is in the product.<sup>107</sup> In its good faith effort to help parents decide whether to give their children supplements, the hospital has not received a positive response from manufacturers.<sup>108</sup> Roughly 90% of these companies failed to respond, and, moreover, other companies have refused to furnish documentation to authenticate their products.<sup>109</sup> Additionally, some companies lied about compliance with the FDA, even though they were found in violation of good manufacturing practices.<sup>110</sup> Some companies even admitted that they were not in

---

<sup>103</sup> *What is the current economic contribution of the dietary supplement industry to the U.S. Economy?*, NATURAL PRODUCTS FOUNDATION, [https://www.npainfo.org/App\\_Themes/NPA/docs/policy/Econ%20One%20sheet%2003-11%20final.pdf](https://www.npainfo.org/App_Themes/NPA/docs/policy/Econ%20One%20sheet%2003-11%20final.pdf) (last visited May 25, 2015).

<sup>104</sup> Michael Richman, *Over the counter steroid supplements: Are they safe?*, EXAMINER.COM (Aug. 4, 2010, 3:27 PM), <http://www.examiner.com/article/over-the-counter-steroid-supplements-are-they-safe>.

<sup>105</sup> See e.g., *id.*; Cromie, *supra* note 94.

<sup>106</sup> Greg Webb, *Children's Hospital of Phil. Concerned About Dietary Supplement Use*, THE LEGAL EXAMINER (Jan. 2, 2014, 7:45 AM), <http://charlottesville.legalexaminer.com/uncategorized/childrens-hospital-of-phil-concerned-about-dietary-supplement-use/>.

<sup>107</sup> *Id.*

<sup>108</sup> *Id.*

<sup>109</sup> *Id.*

<sup>110</sup> *Id.*

compliance.<sup>111</sup> The new plan now requires parents to sign a waiver confirming they understand the supplement may be dangerous for a child.<sup>112</sup>

Until Congress increases the FDA's regulatory authority, other medical facilities should follow the Childhood Hospital of Philadelphia's route and pressure manufacturers to be accountable for their products. Manufacturing companies are obviously incentivized by money, and declining sales from stricter guidelines in the medical community could trigger a positive response. If manufacturers commit to consumer safety, physicians may be more apt to administer and recommend the use of supplements, increasing potential sales for the industry.<sup>113</sup>

Moreover, until legislation increases the FDA's authority to regulate supplements, Congress could temporarily provide tax incentives for manufacturing companies that do seek prior approval from the FDA.<sup>114</sup> With the increased budget allotted in 2015,<sup>115</sup> available funds could be used by the FDA to review and approve dietary supplements. Furthermore, tax credits could be provided to manufacturing companies for consistent practices in accordance with FDA regulations, such as a credit awarded for five years without any recalls or a significant number of adverse reports.

## 2. *Improving the Current Regulatory Scheme*

To adequately address the current problems with the regulatory framework of dietary supplements, a *preventative* approach to regulation, as opposed to *reactionary*, is necessary.<sup>116</sup> DSHEA

---

<sup>111</sup> *Id.*

<sup>112</sup> *Id.*

<sup>113</sup> *See id.*

<sup>114</sup> *See About FDA: Promoting Safe and Effective Drugs for 100 Years*, FDA.GOV, [www.fda.gov/AboutFDA/WhatWeDo/History/ProductRegulation/PromotingSafeandEffectiveDrugsfor100Years/](http://www.fda.gov/AboutFDA/WhatWeDo/History/ProductRegulation/PromotingSafeandEffectiveDrugsfor100Years/) (last updated June 18, 2009); Ron Wilson, *Financial Assistance and Incentives for Research and Development of New Drug/Biological Products*, FDA.GOV, <http://www.fda.gov/downloads/Drugs/DevelopmentApprovalProcess/SmallBusinessAssistance/ucm127616.pdf> (last visited May 25, 2015); *FDA Should Take Further Actions to Improve Oversight and Consumer Understanding*, GOVERNMENT ACCOUNTABILITY OFFICE (Jan. 2009), <http://www.gao.gov/new.items/d09250.pdf>.

<sup>115</sup> *Justification of Estimates of Appropriations Committees*, DEP'T OF HEALTH AND HUMAN SERVS. at 3, <http://www.fda.gov/downloads/AboutFDA/ReportsManualsForms/Reports/BudgetReports/UCM432322.pdf> (last visited May 25, 2015).

<sup>116</sup> *See* Mason, *supra* note 84, at 126 ("81% of adults believe that dietary supplements should only be sold after they pass FDA safety standards.").

effectively removed the FDA's authority for preventing unsafe or ineffective supplements available to consumers on the market.<sup>117</sup> Currently, consumers are unaware if a manufacturing company made an unsupported or incorrect conclusion as to a product's safety until the product is widely sold to consumers.<sup>118</sup> Consumers' lack of education regarding the safety, efficacy, and labeling of dietary supplements exposes them to potential health risks.<sup>119</sup>

Rather than Congress choosing between drugs or food in terms of categorizing the regulation, it should instead create a separate and distinct category for supplements. Although nicotine is a type of stimulant drug, given the differences between tobacco and over-the-counter or prescription drugs, Congress chose to regulate tobacco as its own separate category.<sup>120</sup> For example, in 2009 Congress passed the Family Smoking Prevention and Tobacco Control Act, granting the FDA authority to regulate the manufacturing, distributing, and marketing of tobacco products.<sup>121</sup> Prior to the law's enactment, the FDA only regulated the tobacco industry to the extent a company made explicit health claims.<sup>122</sup> The new law thus eliminated the ability of tobacco industries to introduce products without oversight from the FDA.<sup>123</sup> Similarly, dietary supplements are different from both drugs and food, and warrant a separate method of regulation.<sup>124</sup> A preventative, independent regulatory framework would cater to the specific risks and issues presented by dietary supplements.

A preventative framework would require prior approval of dietary supplements before manufacturers make their products available to consumers. Prior approval would improve quality control beyond just

---

<sup>117</sup> See *id.*; GOVERNMENT ACCOUNTABILITY OFFICE, *supra* note 114.

<sup>118</sup> GOVERNMENT ACCOUNTABILITY OFFICE, *supra* note 114.

<sup>119</sup> *Id.*

<sup>120</sup> See *Federal Regulation of Tobacco*, PUBLIC HEALTH LAW CENTER, <http://publichealthlawcenter.org/topics/tobacco-control/federal-regulation-tobacco> (last visited May 25, 2015).

<sup>121</sup> *Center for Tobacco Products Overview*, FDA.GOV, <http://www.fda.gov/AboutFDA/CentersOffices/OfficeofMedicalProductsandTobacco/AbouttheCenterforTobaccoProducts/ucm383225.htm> (last updated Feb. 14, 2014).

<sup>122</sup> PUBLIC HEALTH LAW CENTER, *supra* note 120.

<sup>123</sup> *Overview of the Family Smoking Prevention and Tobacco Control Act: Consumer Fact Sheet*, FDA.GOV, <http://www.fda.gov/TobaccoProducts/GuidanceComplianceRegulatoryInformation/ucm246129.htm> (last updated Mar. 6, 2015).

<sup>124</sup> *About FDA: What is the difference between a dietary supplement and a conventional food?*, FDA.GOV, <http://www.fda.gov/AboutFDA/Transparency/Basics/ucm194357.htm> (last updated Jan. 26, 2015).

“current good manufacturing practices.”<sup>125</sup> The primary goal of shifting regulation from reactionary to preventative is to increase safety and effectiveness of dietary supplements to the consuming public. Supplements are different from drugs in that they are not intended to treat, diagnose, prevent, or cure diseases; so a regulatory scheme in between that of drugs and the current supplement industry is appropriate.<sup>126</sup>

The FDA should conduct testing for the composition and potency of supplements before these products are available to the public. Supplements can be as powerful as pharmaceutical drugs, so the potential for harmful effects increases.<sup>127</sup> Product purity refers to “lack of contamination or adulteration,” while product potency refers to whether “the product contains the stated amount of active ingredient.”<sup>128</sup> Unfortunately, manufacturing companies are in charge of ensuring both purity and potency.<sup>129</sup> As a consequence, adverse effects resulting from either purity or potency may occur before the FDA could require a manufacturer to stop production.<sup>130</sup> A preventative approach would address adverse effects before they occur and hold manufacturing companies accountable for what they produce.

In creating a distinct regulatory category for dietary supplements, the FDA also needs to define “natural product.” The FDA admits that it has not developed a definition for the term, but provides on its website, “it is difficult to define a food product that is ‘natural’ because the food has probably been processed and is no longer the product of the earth.”<sup>131</sup> In 1993, the FDA claimed it would consider defining

---

<sup>125</sup> See 21 C.F.R. § 111 (2014).

<sup>126</sup> See *Dietary Supplements: What You Need to Know*, FDA.GOV (May 2006) <http://www.fda.gov/downloads/Food/DietarySupplements/UCM240978.pdf> (noting the potential strong biological effects supplements can have on the human body).

<sup>127</sup> Kris Gunnars, *4 Natural Supplements That Are as Powerful as Drugs*, AUTHORITY NUTRITION (Feb. 28, 2015, 2:30 PM), <http://www.care2.com/greenliving/4-natural-supplements-that-are-as-powerful-as-drugs.html> (listing four supplements that are as effective as drugs: berberine, curcumin, red yeast rice, and garlic).

<sup>128</sup> *Supplement Savvy, Part 2: Product Potency*, CANCER NUTRITION CENTERS FOR AMERICA, <http://admin.cnceahealth.com/explore/learn/nutrition-supplements/supplement-savvy-part-2-product-potency#.VVpzA-vXc0s> (last visited May 15, 2015).

<sup>129</sup> *Supplement Savvy, Part 4: Quality and Purity*, CANCER NUTRITION CENTERS FOR AMERICA, <http://admin.cnceahealth.com/explore/learn/nutrition-supplements/supplement-savvy-part-4-quality-and-purity#.VVqMtuvXc0s> (last visited May 15, 2015).

<sup>130</sup> AM. CANCER SOC’Y, *supra* note 11.

<sup>131</sup> *What is the Meaning of “Natural” on the Label of Food?*, FDA.GOV <http://www.fda.gov/aboutfda/transparency/basics/ucm214868.htm> (last updated Apr. 29, 2015).

“natural;” however, over twenty years later, the term remains legally undefined.<sup>132</sup> Consumers equate “natural” with healthy—86% of consumers think “natural” means processed foods which do not contain any artificial ingredients—however, the current standard only prohibits artificial colorings and additives.<sup>133</sup> Many consumers would be surprised to learn that high-fructose corn syrup, partially hydrogenated oils, and genetically modified organisms can still be used in “natural” foods.<sup>134</sup>

As well as not necessarily healthy, “natural” does not always mean safe.<sup>135</sup> A supplement’s chemical makeup, how it works in the body, how it is prepared, and the dose used all contribute to a product’s safety.<sup>136</sup> For example, combining herbal supplements with prescription and nonprescription medications can cause adverse effects such as headaches, nausea, heart palpitations, and gastrointestinal problems, to name a few.<sup>137</sup> Instead of leaving it to the courts to define “natural,” the FDA should provide a legal definition to be used in dietary supplement regulation. Manufacturing companies could avoid potential litigation, all the while remaining accountable to consumers. Moreover, the FDA would have a clear method of enforcing a preventative regulatory framework by testing and assuring “natural” claims are actually safe and effective.

If a preventative regulatory framework is implemented, it is important to give the FDA the authority to issue civil monetary penalties. The FDA should be able to issue these penalties for non-compliance with prior approval before entering the market. Penalties could also be triggered upon a serious adverse event report. Furthermore, penalties could increase for manufacturers that are repeat violators of the FDA.

In creating a preventative regulatory framework, the European

---

<sup>132</sup> See Lorraine Heller, ‘Natural’ Will Remain Undefined, Says FDA, FOODNAVIGATOR-USA.COM (Jan. 4, 2008), <http://www.foodnavigator-usa.com/Suppliers2/Natural-will-remain-undefined-says-FDA>.

<sup>133</sup> *Citizen Petition*, CONSUMERS UNION: NONPROFIT PUBLISHER OF CONSUMER REPORTS (June 26, 2014), [http://www.greenerchoices.org/pdf/CR\\_FDAPetitionBanNaturalLabel.pdf](http://www.greenerchoices.org/pdf/CR_FDAPetitionBanNaturalLabel.pdf).

<sup>134</sup> *Id.*

<sup>135</sup> See *Dietary Supplements: What You Need to Know*, OFFICE OF DIETARY SUPPLEMENTS, NIH, [http://ods.od.nih.gov/HealthInformation/DS\\_WhatYouNeedToKnow.aspx](http://ods.od.nih.gov/HealthInformation/DS_WhatYouNeedToKnow.aspx) (last updated June 17, 2011).

<sup>136</sup> *Id.*

<sup>137</sup> Yvette C. Terrie, *Herbal Supplements May Not Be as Safe as They Sound*, U.S. NEWS & WORLD REPORT (June 22, 2013, 9:00 AM), <http://health.usnews.com/health-news/health-wellness/articles/2013/06/22/herbal-supplements-may-not-be-as-safe-as-they-sound>.

Union (“EU”) regulation system provides an example for guidance.<sup>138</sup> The EU only allows dietary supplements to enter the market if they have first been proven safe.<sup>139</sup> The burden of proof rests on manufacturers to prove their products are safe.<sup>140</sup> In contrast, in the United States, the burden of proof remains on the FDA to prove a particular product is unsafe or ineffective.<sup>141</sup> This mechanism in the United States is inefficient because the manufacturer possesses the relevant testing and research on its own products. As previously discussed, the FDA lacks resources, thus the burden of proving that a supplement is safe and effective should be placed on the multi-billion dollar industry before it markets the product.<sup>142</sup> Furthermore, placing this burden on manufacturing companies would facilitate competition within the industry.<sup>143</sup> A company can surpass others in the industry by producing substantiated safe and effective products.<sup>144</sup>

Consumers perceive supplements more similar to drugs than food, so they in turn assume that supplements are regulated and thus, safe.<sup>145</sup> Supplements become available to consumers, including those that will not be beneficial or could potentially harm the consumer. However, consumers’ misconceptions regarding dietary supplements illustrates the need for prior approval.<sup>146</sup> Consumers will be able to make more informed decisions regarding which supplements are safe, beneficial, and effective.<sup>147</sup> Although consumer choice is important, consumer confusion stemming from lack of regulation necessitates increased education. If consumers were more educated regarding the dietary supplement industry, it is likely they would put more pressure on the industry and legislature to increase regulation.<sup>148</sup> Currently, the lack of informed consumers contributes to a cycle of the supplement industry profiting without oversight of what it is providing to the public. Accurate information should be provided to consumers in a wider array of materials, such as health-related magazines.<sup>149</sup> The FDA should publicly stress to consumers that it does not have the regulatory

---

<sup>138</sup> See Mason, *supra* note 84, at 115.

<sup>139</sup> *Id.* at 116.

<sup>140</sup> *Id.* at 119–20.

<sup>141</sup> *Id.* at 119.

<sup>142</sup> *Id.* at 120.

<sup>143</sup> See *id.* at 122.

<sup>144</sup> See Ross Beard, *Why Customer Satisfaction is Important*, CLIENT HEARTBEAT (Jan. 20, 2014), <http://blog.clientheartbeat.com/why-customer-satisfaction-is-important/>.

<sup>145</sup> Dagerman, *supra* note 61, at 176, 199.

<sup>146</sup> *Id.* at 176.

<sup>147</sup> *Id.* at 199.

<sup>148</sup> *Id.* at 198.

<sup>149</sup> *Id.* at 199.

authority for prior approval. Increased awareness from the FDA may incentivize consumers to first research a supplement and its potential adverse effects and reactions with prescription medications prior to use. Until a campaign is initiated to properly inform consumers, they will continue to carry their assumptions and be at the mercy of the industry.

### **C. A Response to the Critics of Increased Dietary Supplement Regulation**

#### *1. The FDA Lacks the Resources to Enforce Increased Regulation*

A common criticism of increased regulation of the dietary supplement market is the lack of necessary funds to implement a new regulatory scheme.<sup>150</sup> Similar to other governmental agencies, the FDA has limited resources for dietary supplement oversight.<sup>151</sup> However, an insufficient budget affects every area of the government,<sup>152</sup> and there are feasible methods to address this issue.

The Department of Health and Human Services, within which the FDA operates, has proposed a 9% increase in the FDA's budget for the fiscal year of 2016.<sup>153</sup> Reorganization of the available budget would provide the FDA with more resources for regulatory oversight over the dietary supplement industry. However, without a comprehensive change from Congress regarding the FDA's regulatory authority, a reallocation of budget funds will only have a limited effect on the resources available to the FDA. Another route to address the FDA's lack of resources is to afford incentives for states that increase their regulatory authority to assist the FDA. For example, states that provide employees and testing facilities to aid the FDA in regulatory oversight could be rewarded with tax subsidies.

To further assist the FDA with its shortage of budget, the FDA could create a fund for research and development, clinical testing, and construction of new testing facilities. Instead of the FDA being the sole provider to this fund, state regulatory agencies, the Office of Dietary Supplements, and the Federal Trade Commission could pool resources together. Further economic incentives, such as rebates or tax benefits, would attract these entities to contribute. Not only does the pooling of

---

<sup>150</sup> *Id.* at 188; Negowetti *supra* note 76, at 331.

<sup>151</sup> Dagerman, *supra* note 61, at 188.

<sup>152</sup> See e.g., Otto Kreisher, *Carter, Dempsey Decry 'One-Year-at-a-Time' Budgeting*, SEAPOWERMAGAZINE.ORG (May 6, 2015), <http://www.seapowermagazine.org/stories/20150506-senapprops.html>.

<sup>153</sup> DEP'T OF HEALTH AND HUMAN SERVS., *supra* note 115.

resources increase the amount available to the FDA to use for regulating the supplement industry, but it also attracts the involvement of scientists.<sup>154</sup> To effectuate a more safe and effective industry, the FDA needs scientists to conduct studies and further research dietary supplements.<sup>155</sup> Research and development is expensive, but an increase in available funds could potentially attract scientists to the field.

As a result, an increase in available funds and need for the requisite expertise creates jobs. Contrary to criticism that increased regulation inevitably curtails employment, jobs available for scientists, technicians, or other employees in testing laboratories will actually increase.<sup>156</sup> It is true that increased regulations will cause a decrease of jobs in some areas; however, the data reflects that increased regulation more commonly affects the *distribution* of jobs, not the total number.<sup>157</sup>

Critics of increased regulation of the dietary supplement industry argue that prices to consumers will inevitably rise.<sup>158</sup> However, supplement manufacturers can receive 50% profit margins, while most of the top ten manufacturing companies of drugs have profit margins at about 30%.<sup>159</sup> Overall profits may decrease for some manufacturing companies; however the proposed regulatory structure provides tax incentives and subsidies, mitigating the need to increase prices for consumers.<sup>160</sup> An excuse of decreased profits should not win the debate over consumer safety. It is not argued that dietary supplements should get the same regulatory treatment as drugs, thus the extra cost on the supplement industry for prior approval will not be as expensive as drugs.

As compared to drugs, dietary supplements are not permitted to claim cure or treatment of any disease. But, if manufacturing companies

---

<sup>154</sup> Dagerman, *supra* note 61, at 201.

<sup>155</sup> *Id.*

<sup>156</sup> Marian Wang, *Do Regulations Really Kill Jobs Overall? Not So Much*, PROPUBLICA.ORG (Sept. 21, 2011, 9:50 AM), <http://www.propublica.org/blog/item/whats-the-evidence-that-regulations-kill-jobs> (noting that the claim that increased regulation necessarily kill jobs is unfounded).

<sup>157</sup> *Id.*

<sup>158</sup> *Dietary Supplements: Safe, Beneficial, and Regulated*, COUNCIL FOR RESPONSIBLE NUTRITION, <http://www.crnusa.org/CRNRegQandA.html> (last visited May 25, 2015).

<sup>159</sup> See Devon Shire, *Muscle Pharm - 50% Revenue Growth and Expanding Profit Margins*, SEEKING ALPHA (Nov. 19, 2013, 9:47 AM), <http://seekingalpha.com/article/1848761-muscle-pharm-50-percent-revenue-growth-and-expanding-profit-margins>; *Pharmaceutical Industry*, WORLD HEALTH ORGANIZATION, <http://www.who.int/trade/glossary/story073/en/> (last visited May 25, 2015).

<sup>160</sup> See Shire, *supra* note 159.

are going to add prescription drugs to supplements without knowledge of the consumer, they should have to pay for the regulatory costs.<sup>161</sup> For example, OxyElite Pro, a weight loss supplement, was found to contain the anti-depressant fluoxetine, a selective serotonin reuptake inhibitor (“SSRI”).<sup>162</sup> SSRIs are prescribed to treat depression, bulimia, obsessive-compulsive disorder, panic disorder, and premenstrual dysphonic disorder.<sup>163</sup> Seven Slim, another weight loss supplement, was found to contain phenolphthalein, an active ingredient in laxatives until it was banned in the 1990’s because it was potentially carcinogenic.<sup>164</sup> These two examples illustrate why an increased cost argument fails. If dietary supplement manufacturers do not want to pay regulatory costs, they should not create products that mimic drugs.

In addition, some companies who have spiked supplements with prescription drugs have been found employing executives with criminal backgrounds or regulatory run-ins.<sup>165</sup> For example, some crimes have involved barbiturates, crack cocaine, ecstasy, and other narcotics, as well as arrests for selling or possessing steroids or human growth hormone.<sup>166</sup> Other records have included fraud, theft, assault, and money laundering.<sup>167</sup> These crimes exemplify the easy ability to enter the industry and the lax regulations that allow consumers to be taken advantage of. The multi-billion dollar industry should be subject to more oversight by the FDA to ensure that dietary supplements are safe and effective for consumers.

#### IV. CONCLUSION

Although legislation has been introduced to Congress since DSHEA in 1994,<sup>168</sup> any increased regulatory power of the FDA has been halted.

---

<sup>161</sup> *Label Claims for Conventional Foods and Dietary Supplements*, FDA.GOV (Dec. 2013), <http://www.fda.gov/Food/IngredientsPackagingLabeling/LabelingNutrition/ucm111447.htm>.

<sup>162</sup> Brie Zeltner, *FDA Warns of Hidden Drugs in OxyElite, Seven Slim Weight Loss Supplements*, CLEVELAND.COM (Mar. 2, 2015, 12:24 PM), [http://www.cleveland.com/healthfit/index.ssf/2015/03/fda\\_warns\\_of\\_hidden\\_drugs\\_in\\_o.html](http://www.cleveland.com/healthfit/index.ssf/2015/03/fda_warns_of_hidden_drugs_in_o.html).

<sup>163</sup> *Id.*

<sup>164</sup> *Id.*

<sup>165</sup> See Alison Young, *Makers of Tainted Supplements Have Criminal Pasts*, USA TODAY (Dec. 20, 2013, 9:57 AM), <http://www.usatoday.com/story/news/nation/2013/12/19/dietary-supplements-executives-criminal-records-spiked/4114451/>.

<sup>166</sup> *Id.*

<sup>167</sup> *Id.*

<sup>168</sup> See Shane Starling, *McCain ‘Revisiting’ Supplements Reform Bill*, NUTRAINGREDIENTS-USA (Mar. 8, 2010, 7:51 PM), <http://www.nutraingredients-usa.com/Regulation/McCain-revisiting-supplements-reform-Bill?nocount>.

The dietary supplement industry has exponentially grown in the past twenty years to the detriment of consumers. A happy medium between supplement manufacturers being able to market products without any oversight and allowing consumers choice in a free market is ideal. The supplement industry's pattern of marketing products which are sometimes dangerous, ineffective, or misleading entails a need for preventative regulation. Manufacturing companies which are profiting billions of dollars a year on this industry strongly oppose increased regulation. However, the industry has proven untrustworthy and consequently should be monitored more stringently.

---

WAKE FOREST JOURNAL OF BUSINESS  
AND INTELLECTUAL PROPERTY LAW

---

VOLUME 15

SUMMER 2015

NUMBER 4

---

**IF YOU GIVE A MOUSE A TRADEMARK: DISNEY'S  
MONOPOLY ON TRADEMARKS IN THE ENTERTAINMENT  
INDUSTRY**

**Joseph Greener<sup>†</sup>**

**I. INTRODUCTION..... 599**

**II. BACKGROUND..... 600**

    A. TRADEMARK INTRODUCTION ..... 600

    B. DEADMAU5 AND DISNEY DISPUTE BACKGROUND ... 602

    C. DISNEY'S TACTICS TO PROTECT MICKEY ..... 606

**III. ANALYSIS..... 610**

    A. LANHAM ACT REMEDY REFORM ..... 610

        1. *Injunctions* ..... 611

        2. *Compensatory Damages* ..... 612

        3. *Defendant's Lost Profits* ..... 613

    B. CONSUMER CONFUSION SURVEYS..... 615

**IV. CONCLUSION ..... 618**

---

<sup>†</sup> J.D. candidate, May 2016, Wake Forest University School of Law. Editor 2015-16, Staff Member 2014-15, *Wake Forest Journal of Business and Intellectual Property Law*. The author thanks Professor Simone Rose for serving as his faculty advisor on the article and Professor Abigail Perdue for instilling in him a passion for legal writing.

## I. INTRODUCTION

If you give a mouse a trademark, the mouse will target other users of similar marks and claim infringement. If the marks of innocent and creative users are opposed, they will be forced to waste countless dollars defending their claims in court. If users are forced into court, many will be unable to afford the litigation costs and will forfeit their trademarks. If users forfeit their trademarks, the public domain will suffer a lack of creativity. If the public domain lacks creative efforts from other artists, the mouse will achieve a monopoly.

Joel Zimmerman, the world-renowned DJ deadmau5, learned this slippery slope through his efforts to trademark his own logo.<sup>1</sup> On August 18, 2014, Zimmerman filed a trademark for his mau5head logo, a mouse-shaped helmet that covers his face during his concerts.<sup>2</sup> However, Disney opposed Zimmerman's filing, claiming the mark resembles its pivotal figure, Mickey Mouse.<sup>3</sup> Following, Zimmerman used social media to attack Disney's opposition.<sup>4</sup> Disney then retracted two offers to work with Zimmerman in the near future on its *Star Wars Rebels* and *Fantasia* projects, and even had a hand in cancelling an appearance Zimmerman was supposed to make on Jimmy Kimmel.<sup>5</sup> At this time, the United States Patent and Trademark Office ("USPTO") has not resolved this case and it refuses to comment on the timing of resolution.<sup>6</sup> Some speculate that it could take years until the USPTO reviews this case, especially from an instance between two "warring parents" like Zimmerman and Disney.<sup>7</sup>

---

<sup>1</sup> Ed Brackett, *Disney Takes on DJ Deadmau5 over Mouse-ears Garb*, USA TODAY (Sept. 14, 2014, 11:54 PM), <http://www.usatoday.com/story/money/business/2014/09/04/disney-deadmau5-deadmouse-mickey-mouse/15106939/>; Adam Sherwin, *Deadmau5 Fights Disney in Mouse Ear Logo Dispute*, THE INDEPENDENT (Sept. 4, 2014), <http://www.independent.co.uk/arts-entertainment/music/news/deadmau5-fights-disney-in-mouse-ear-logo-legal-dispute-9712131.html>.

<sup>2</sup> U.S. Trademark Application Serial No. 86,370,081 (filed Aug. 18, 2014); Brackett, *supra* note 1 ("The costume stops there, typically with a T-shirt and a pair of frequently waving, tattooed arms plainly visible under the helmet.").

<sup>3</sup> Brackett, *supra* note 1.

<sup>4</sup> Eriq Gardner, *Deadmau5 Says Disney Approached Him About Re-Imagining Fantasia (Exclusive)*, THE HOLLYWOOD REPORTER (Oct. 14, 2014, 9:30 AM), <http://www.hollywoodreporter.com/thr-esq/deadmau5-says-disney-approached-him-740615>.

<sup>5</sup> *Id.*

<sup>6</sup> Stan Alcorn, *Trademark Law: Why Disney is Fighting a Canadian DJ*, MARKETPLACE (Nov. 5, 2014), <http://www.marketplace.org/topics/business/trademark-law-why-disney-fighting-canadian-dj>.

<sup>7</sup> *Id.*

This article begins with an overview of trademark law, followed by a brief history of the dispute between Zimmerman and Disney. The article will then look at the transition of Disney's intellectual property tactics over the past forty years. The article concludes with solutions to reform trademark law in order to prevent Disney from transforming its single Mickey Mouse trademark into a monopoly over all artists who want to use trademarks involving a mouse. The article suggests this can be done through altering the remedies for trademark law, allowing artists seeking trademarks to use scientific surveys, and reforming dilution laws.

## II. BACKGROUND

### A. Trademark Introduction

In 1946, Congress passed the Lanham Act to protect the trademark rights of individuals and corporations.<sup>8</sup> The Lanham Act defined a trademark as any word, name, symbol or device intended for use in interstate commerce that distinguishes a good or service and identifies its source.<sup>9</sup> Corporations and individuals utilize trademarks so that consumers can identify their products or services and to ensure quality and consistency for consumers when they use the corporation's products or services.<sup>10</sup> This association between the trademark and the corporation makes some trademarks very valuable.<sup>11</sup> Trademark law has two main purposes. First, it provides a system that eliminates customer confusion by identifying the source of the goods or services.<sup>12</sup> Second, it gives corporations and individuals the exclusive right to the mark, which encourages others in the market to compete to have their own distinct mark.<sup>13</sup>

Corporations and individuals can apply for a trademark through filing a use-based application under 15 U.S.C. § 1051(a), or an intent-to-use application under § 1051(b).<sup>14</sup> A use-based application is filed for a trademark that is already in the market whereas an intent-to-use

---

<sup>8</sup> Joseph E. Edwards, Annotation, *What Constitutes "in Commerce" Within Meaning of § 32(1)(a) of Lanham Trade-Mark Act (15 U.S.C.A. § 1114(1)) Giving Right of Action for Infringement of Trademark "in Commerce"*, 15 A.L.R. FED. 368 (1973).

<sup>9</sup> Trademark (Lanham) Act of 1946, 15 U.S.C. § 1127 (2012).

<sup>10</sup> J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS & UNFAIR COMPETITION §§ 3:2, 3:10 (4th ed. 2014).

<sup>11</sup> *Id.* at § 2:15.

<sup>12</sup> *Id.* at § 2:1.

<sup>13</sup> *Id.*

<sup>14</sup> Lanham Act § 1051.

application is filed for those who intend to begin using a trademark.<sup>15</sup> If the application is approved, the mark is placed on the USPTO's Principal Register, and the mark holder has an exclusive right to use the mark in connection with its particular good or service.<sup>16</sup>

The USPTO is not responsible for monitoring the use of the protected mark.<sup>17</sup> Instead, the USPTO focuses its efforts to make sure no other party is granted approval for a similar or identical mark.<sup>18</sup> Thus, "the owner of a registration is responsible for bringing any legal action to stop a party from using an infringing mark."<sup>19</sup>

Trademark infringement occurs when a party uses in commerce "any word, term, name, symbol, or device . . . which is likely to cause confusion or to cause mistake."<sup>20</sup> To determine whether there is a likelihood of confusion, a court will look at: (1) "the strength or distinctiveness of the mark," (2) "the similarity of the two marks," (3) "the similarity of the goods/services the marks identify," (4) "the similarity of the advertising used by the two parties," (5) "the similarity of the advertising used by the two parties," (6) "the defendant's intent," and (7) "actual confusion."<sup>21</sup> In order for a court to find a likelihood of confusion, a court does not need to find all of these factors.<sup>22</sup> Additionally, a court does not have to value the factors equally and has

---

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Trademark Basics*, U.S. PATENT & TRADEMARK OFFICE, <http://www.uspto.gov/trademarks/basics/> (last visited May 22, 2015) ("You are responsible for enforcing your rights if you receive a registration because the USPTO does not 'police' the use of marks.").

<sup>18</sup> *Id.*

<sup>19</sup> *Id.* ("While the USPTO attempts to ensure that no other party receives a federal registration for an identical or similar mark for or as applied to related goods/services, the owner of a registration is responsible for bringing any legal action to stop a party from using an infringing mark.").

<sup>20</sup> Lanham Act § 1125.

<sup>21</sup> *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1527 (4th Cir. 1984) ("To determine whether there is a likelihood of confusion under the trademark statute, courts generally consider a number of factors, which the district court, relying on *Sun-Fun Prods. v. Suntan Research & Dev.*, 656 F.2d 186, 189 (5th Cir. 1981) [did]."). Although the Supreme Court has not ruled on the factors in *Sun-Fun*, they are followed by the Fourth, Fifth, Eleventh Circuits and the Eastern District of New York. *See, e.g., Pizzeria Uno Corp.*, 747 F.2d at 1527; *Xtreme Lashes, LLC v. Xtended Beauty, Inc.*, 576 F.3d 221, 227–28 (5th Cir. 2009); *Sovereign Military Hospitaller Order of St. John of Jerusalem of Rhodes & of Malta v. Fla. Priory of the Knights Hospitallers of the Sovereign Order of St. John of Jerusalem, Knights of Malta, the Ecumenical Order*, 702 F.3d 1279, 1294 (11th Cir. 2012); *In re Joint E. & S. Dist. Asbestos Litig.*, 124 F.R.D. 538, 540 (E.D.N.Y. 1989).

<sup>22</sup> *See Modular Cinemas of Am. Inc., v. Mini Cinemas Corp.*, 348 F. Supp. 578, 582 (S.D.N.Y. 1972) ("Not all of these are always relevant or equally emphasized in each case.").

the discretion to weigh some more than others.<sup>23</sup>

When a party files for a trademark, any party who is damaged by the proposed registration listed on the USPTO's Principal Register must file an opposition in writing within thirty days.<sup>24</sup> When an opposition is filed, the USPTO sets a proceeding before the Trademark Trial and Appeal Board to resolve the dispute.<sup>25</sup> The Trademark Trial and Appeal Board may: (1) "refuse to register the opposed mark," (2) "cancel the registration of a mark or place restrictions on its use," (3) "refuse to register any mark," (4) "register the opposed mark . . . of persons who are found to be entitled to ownership," or (5) "order concurrent registration of marks along with conditions or restrictions on their use designed to prevent consumer confusion in the marketplace."<sup>26</sup>

## B. Deadmau5 and Disney Dispute Background

Joel Zimmerman, the thirty-three-year-old Canadian DJ sensation deamau5 (pronounced "dead mouse"), is famous worldwide for wearing his mau5head, a mouse-shaped helmet that covers his face during his concerts.<sup>27</sup> On August 18, 2014, Zimmerman filed a trademark for his mau5head logo, which is a registered trademark in thirty countries worldwide, including the United Kingdom, Japan, Germany, and Italy.<sup>28</sup> Zimmerman has used the mark in both the United States and worldwide for over a decade.<sup>29</sup> The mark is a caricature of a mouse head with big ears and white eyes with black X's over them like a dead mouse (see below).<sup>30</sup> Zimmerman does not claim color as part of the mark.<sup>31</sup>

---

<sup>23</sup> *Id.*

<sup>24</sup> *Opposing and Canceling a Trademark Registration*, NOLO LAW FOR ALL, <http://www.nolo.com/legal-encyclopedia/opposing-canceling-trademark-registration.html> (last visited May 21, 2015).

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> Brackett, *supra* note 1; *Deadmau5 Takes on Disney in a Trademark Dispute*, BBC NEWSBEAT (Sept. 5, 2014), <http://www.bbc.co.uk/newsbeat/article/29078605/deadmau5-takes-on-disney-in-a-trademark-dispute>.

<sup>28</sup> BBC NEWSBEAT, *supra* note 27; U.S. Trademark Application Serial No. 86,370,081 (filed Aug. 18, 2014).

<sup>29</sup> Brackett, *supra* note 1.

<sup>30</sup> U.S. Trademark Application, *supra* note 28.

<sup>31</sup> *Id.*



On September 2, 2014, Disney opposed the filing with a 171-page objection claiming that the mau5head is too similar to its own Mickey Mouse character.<sup>32</sup> Disney alleges that the trademarks are so similar that the new trademark would violate the Lanham Act because it causes confusion or mistake.<sup>33</sup> Disney's opposition stated that the mau5head is "nearly identical in appearance, connotation, and overall commercial impression to Disney's Mouse Ears Marks . . . [both marks] are comprised of a round head with prominent round mouse ears in silhouette."<sup>34</sup> Disney defended its opposition, explaining that Mickey Mouse resembled the mau5head (see below).<sup>35</sup> Disney further argued that it had been using its mouse silhouette since 1928 and the mark is now "famous," "iconic," and "classic."<sup>36</sup>

---

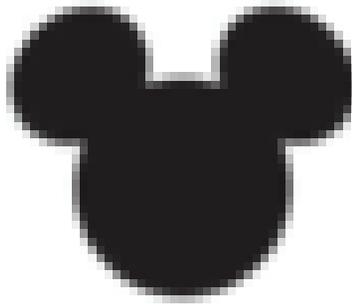
<sup>32</sup> Brackett, *supra* note 1.

<sup>33</sup> *See id.*; Lanham Act § 1125.

<sup>34</sup> Ben Rayner, *Deadmau5 Accuses Disney of Copyright Infringement*, TORONTO STAR (Sept. 6, 2014), [http://www.thestar.com/entertainment/music/2014/09/06/deadmau5\\_accuses\\_disney\\_of\\_copyright\\_infringement.html](http://www.thestar.com/entertainment/music/2014/09/06/deadmau5_accuses_disney_of_copyright_infringement.html).

<sup>35</sup> Alcorn, *supra* note 6.

<sup>36</sup> Emily Thomas, *Disney Launches Trademark War with Deadmau5 Over Those Infamous Mouse Ears*, THE HUFFINGTON POST (Sept. 4, 2014, 1:59 PM), [http://www.huffingtonpost.com/2014/09/04/disney-deadmau5-trademark-logo-lawsuit-mouse-head\\_n\\_5766050.html](http://www.huffingtonpost.com/2014/09/04/disney-deadmau5-trademark-logo-lawsuit-mouse-head_n_5766050.html).



Upon receiving news of Disney's opposition, Zimmerman turned to a common form of social media, Twitter.<sup>37</sup> Zimmerman tweeted, "[I]anded home to some interesting news: looks like Disney officially filed in opposition of my trademark . . . lawyer up Mickey."<sup>38</sup> Later on, Zimmerman tweeted, "Disney thinks you might confuse an established electronic musician/performer with a cartoon mouse. That's how stupid they think you are."<sup>39</sup> Interestingly, in a previous interview with *Rolling Stone*, Zimmerman was asked about the similarity of his brand to Disney.<sup>40</sup> Zimmerman merely said, "[s]omeone at the Disney patent office fell asleep on that one."<sup>41</sup> Perhaps Zimmerman was intending to be funny in his *Rolling Stone* interview, but upon later legal advice, he realized that paralleling his mau5head to Disney may have jeopardized his chances of registering his trademark.

On September 4, 2014, deadmau5 filed a cease and desist letter against Disney for allegedly using one of his songs in one of its cartoons.<sup>42</sup> Zimmerman believes that Disney used its song "Ghosts 'n' Stuff Re-Micks" on Disney.com without a license.<sup>43</sup> Next to the video, Disney included the caption "Enjoy a spooky cartoon Re-Micks to the tune of Deadmau5's 'Ghosts 'n' Stuff.'"<sup>44</sup> Zimmerman's cease and desist letter says that Disney's caption insinuates "a non-existent endorsement by Zimmerman."<sup>45</sup> Zimmerman and his legal counsel

---

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> Josh Eels, *The Rise of Deadmau5*, ROLLING STONE (July 5, 2012), <http://www.rollingstone.com/music/news/the-rise-of-deadmau5-20120705?page=3>.

<sup>41</sup> *Id.*

<sup>42</sup> Kory Grow, *Deadmau5 Sends Cease and Desist to Disney Over 'Infringing Video'*, ROLLING STONE (Sept. 5, 2014), <http://www.rollingstone.com/music/news/deadmau5-cease-desist-disney-20140905>.

<sup>43</sup> *Id.*

<sup>44</sup> Rayner, *supra* note 34.

<sup>45</sup> *Id.*

requested that the video be removed within two business days.<sup>46</sup> Disney removed the video on September 5, 2014.<sup>47</sup>

In October 2014, Zimmerman filed an answer to Disney's opposition, claiming that the two have co-existed with goodwill for the past decade without Disney filing for protection of its trademark.<sup>48</sup> Zimmerman explains that, not only had the two co-existed, but Disney had asked to work with him on two separate occasions.<sup>49</sup> Just a few months prior, Disney offered Zimmerman the chance to remix the *Star Wars* theme for its animated series *Star Wars Rebels*.<sup>50</sup> The offer included daily promotional spots on the Disney XD channel that services 260 million households in 141 countries.<sup>51</sup> Following Disney and Zimmerman's dispute, Disney pulled the offer.<sup>52</sup> Zimmerman attributes Disney's actions as attempts to "cash in" on the Electronic Dance Music ("EDM") market.<sup>53</sup> Disney recently released a compilation album of Disney song remixes from other famous EDM artists, including Armin Van Buuren, Avicii, and Kaskadee.<sup>54</sup>

Furthermore, Zimmerman also alleges that Disney approached him in October of 2013 about "re-imagining" *Fantasia* for the movie's 75th Anniversary.<sup>55</sup> Zimmerman's answer says that Disney pitched deadmau5 to write and perform new songs at the live *Fantasia* concerts worldwide, including the Hollywood Bowl.<sup>56</sup> Zimmerman said that Disney chose him for the project because "deadmau5 is the most innovative musician of our time, and Disney, the most successful entertainment brand to ever exist. Bringing these two visionaries together, with this particular franchise, provides an incredible opportunity that could touch millions of people around the world."<sup>57</sup>

Zimmerman was supposed to appear on Jimmy Kimmel's

---

<sup>46</sup>*Id.*

<sup>47</sup>Eriq Gardner, *Why Deadmau5' Trademark Battle With Disney Has Cost Him Dearly*, BILLBOARD, (Sept. 12, 2014, 1:00 PM), <http://www.billboard.com/articles/news/6251375/why-deadmau5-trademark-battle-with-disney-has-cost-him-dearly>.

<sup>48</sup> Gardner, *supra* note 4.

<sup>49</sup> *Id.*

<sup>50</sup> *Battle With Disney Has Cost Him Dearly*, *supra* note 47 ("In July, Disney's music division extended an offer for the DJ to remix the *Star Wars* theme for the animated series *Star Wars Rebels*, according to several sources close to the situation.").

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> Grow, *supra* note 42.

<sup>54</sup> *Id.*

<sup>55</sup> Gardner, *supra* note 4.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

Halloween episode of his television show, which is featured on Disney's ABC division.<sup>58</sup> Following this dispute, Kimmel rescinded the offer, when someone from ABC stated, "[w]e have to stay away from [deadmau5] until the matter is resolved."<sup>59</sup> Disney has refused to comment.<sup>60</sup>

The dispute has not been resolved by the USPTO at this time.<sup>61</sup> Intellectual property onlookers speculate that Disney will pay Zimmerman for infringing his song.<sup>62</sup> However, neither side appears to be backing down from their claims to the mark.<sup>63</sup> The USPTO has refused to comment on when it will review the case, but some speculate resolving this claim could take years.<sup>64</sup>

### C. Disney's Tactics to Protect Mickey

Unfortunately, deadmau5 was not the first of Disney's targets in its intellectual property disputes. "Disney is notoriously protective of its intellectual property, especially when it comes to Mickey Mouse."<sup>65</sup> In the past forty years, Disney has transitioned from a strategy of suing users of images resembling Mickey Mouse for copyright infringement to suing users of such images for trademark infringement because trademarks do not expire like copyrights.<sup>66</sup> This strategy of using copyright and trademark protection is referred to as character protection, where a corporation challenges those who infringe on its fictional character's name, physical or visual appearance, or personality.<sup>67</sup>

In the 1980s, Disney received negative publicity for twice threatening to sue organizations for infringing on its copyrights. In 1987, Disney threatened to sue three day-care centers in Hallandale, Florida that had drawings of Disney characters on its walls.<sup>68</sup> The

---

<sup>58</sup> *Id.*

<sup>59</sup> *Id.*

<sup>60</sup> *Id.*

<sup>61</sup> Murray Rosenbaum, *Deadmau5 v. Disney*, HUFFINGTON POST (Sept. 15, 2014), [http://www.huffingtonpost.com/murray-rosenbaum/deadmau5-vs-disney\\_b\\_5813936.html](http://www.huffingtonpost.com/murray-rosenbaum/deadmau5-vs-disney_b_5813936.html) (last updated Feb. 12, 2015) ("My guess is that Disney will pay deadmau5 for the infringement on his intellectual property, but then begin a huge battle over the deadmau5 logo and the similarity between it and Mickey Mouse.").

<sup>62</sup> *Id.*

<sup>63</sup> *Id.*

<sup>64</sup> Alcorn, *supra* note 6.

<sup>65</sup> *Id.*

<sup>66</sup> Gerald S. Jagorda, *The Mouse That Roars: Character Protection Strategies of Disney and Others*, 21 T. JEFFERSON L. REV. 235, 242 (1999).

<sup>67</sup> *Id.* at 235, 237.

<sup>68</sup> Paul Richter, *Disney's Tough Tactics: Entertainment: Critics View the*

dispute was resolved when Universal painted pictures of the Flintstones over the Disney characters.<sup>69</sup> This story received coverage from the *Los Angeles Times*, which described Disney's tactics to protect its intellectual property as "bare-knuckle."<sup>70</sup> Following the dispute, Hallandale's mayor threatened "to ban Mickey Mouse from the city limits."<sup>71</sup> In 1989, Disney seemed likely to sue the Academy of Motion Picture Arts and Sciences for using a parody of Snow White during the opening of the Oscars.<sup>72</sup> Although neither lawsuit went to court, Disney perpetuated a reputation that it will fight to protect its intellectual property, especially when it comes to protecting the precious face of Mickey Mouse.

In 1990, Disney sued a business of street vendors for copyright infringement after the vendor sold shirts with the faces of Mickey and Minnie Mouse.<sup>73</sup> The United States Court of Appeals for the District of Columbia Circuit ("DC Circuit") awarded Disney a permanent injunction, which required the vendors to cease using Mickey's face as well as pay an award of attorneys' fees.<sup>74</sup> Although the DC Circuit vacated a previous judgment requiring the vendor to pay Disney \$15,000, critics of the decision believe that "the court was influenced to take this extraordinary step to safeguard the characters of the Disney menagerie because they have become such American icons."<sup>75</sup> This decision, coupled with a Ninth Circuit decision from 1978 that prohibited a comic book artist from depicting a Disney character in a vulgar way,<sup>76</sup> "added another weapon to Disney's arsenal for character protection."<sup>77</sup>

In 1998, when Disney's copyright over Mickey Mouse would soon expire, Disney worked to extend its copyright beyond the statutory limits.<sup>78</sup> Disney brought a bill to the Senate for the Copyright Term Extension Act of 1998 ("CTEA"), which proposed a twenty-year

---

*Company As the Fiercest of Hollywood's Bare-Knuckle Fighters. Disney Maintains It is Held to a Higher Standard than Others*, L.A. TIMES, (July 8, 1990), [http://articles.latimes.com/1990-07-08/business/fi-486\\_1\\_walt-disney](http://articles.latimes.com/1990-07-08/business/fi-486_1_walt-disney).

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> Jessica Litman, *Mickey Mouse Emeritus: Character Protection and the Public Domain*, 11 U. MIAMI ENT. & SPORTS L. REV. 429, 432 (1994).

<sup>73</sup> *Walt Disney Co. v. Powell*, 897 F.2d 565, 567 (D.C. Cir. 1990).

<sup>74</sup> *Id.* at 570.

<sup>75</sup> *Id.*; Jagorda, *supra* note 66, at 242.

<sup>76</sup> *See Walt Disney Prods. v. Air Pirates*, 581 F.2d 751, 756 (9th Cir. 1978).

<sup>77</sup> Jagorda, *supra* note 66, at 243.

<sup>78</sup> *Id.* ("In an effort to counter the temporal restriction of copyright, owners of characters have turned to the concepts of trademark and unfair competition for protection.").

extension to American copyright limits for works like Mickey Mouse that would enter the public domain in 2003.<sup>79</sup> Prior to the passage of the CTEA—referred to as the Mickey Mouse Protection Act—copyrights lasted the life of the author plus 50 years, or 75 years for corporations.<sup>80</sup> The CTEA extended corporate works to 120 years after creation or 95 years after publication, whichever is earlier.<sup>81</sup>

In 2003, Justice Ruth Bader Ginsburg wrote for a seven-member majority that Congress had the authority to extend existing copyright terms for individuals and corporations as long as the terms are not infinite and satisfy the Supreme Court's "limited times" requirement.<sup>82</sup> Ginsburg believed doing so was among Congress's powers and such extensions were "historical practice."<sup>83</sup> In his dissent, Justice Breyer disagreed with the logic that copyrights should be extended merely because individuals today lived longer than at the passing of the Copyright Act.<sup>84</sup> Justice Breyer also warned that the copyright extension would only help create corporate monopolies.<sup>85</sup> These extensions will expire in October 2018 unless Congress intervenes.<sup>86</sup>

Although Congress and the Courts provided Disney with major power to protect Mickey Mouse, the CTEA demonstrated that copyright protection for Mickey may eventually expire and that it must equally protect Mickey as a trademark to achieve full character protection.<sup>87</sup> Disney began to focus on protecting its trademarks under the Lanham Act where it was not limited to the "temporal limits" of copyright law.<sup>88</sup> In 1981, Disney challenged a Colonie, New York bar called "Mickey's Mousetrap," claiming that it had infringed on Mickey Mouse's trademark to the point that it would cause customer confusion.<sup>89</sup> The two owners, Mickey Colarusso and Mickey Visk, had a sign outside their bar with a mouse wearing a top hat and jacket.<sup>90</sup> The owners

---

<sup>79</sup> Rosenbaum, *supra* note 61.

<sup>80</sup> *Id.*; Josh Young, *Ask TPU: Is Disney Picking on Deadmau5?*, THEME PARK UNIV., (Dec. 16, 2014), <http://themeparkuniversity.com/disney/ask-tpu-disney-picking-deadmau5/>.

<sup>81</sup> Young, *supra* note 80.

<sup>82</sup> *Eldred v. Ashcroft*, 537 U.S. 186, 204 (2003).

<sup>83</sup> *Id.*

<sup>84</sup> *Id.* at 263.

<sup>85</sup> *Id.* at 246.

<sup>86</sup> Timothy B. Lee, *15 Years Ago, Congress Kept Mickey Mouse out of the Public Domain. Will They Do It Again?*, WASH. POST (October 25, 2013), <http://www.washingtonpost.com/blogs/the-switch/wp/2013/10/25/15-years-ago-congress-kept-mickey-mouse-out-of-the-public-domain-will-they-do-it-again/>.

<sup>87</sup> Jagorda, *supra* note 66, at 245–46.

<sup>88</sup> *Id.* at 243–44.

<sup>89</sup> Young, *supra* note 80.

<sup>90</sup> Albin Krebs & Robert McG. Thomas Jr., *Notes on People: The Mouse that*

attempted to appease Disney by adding a mustache and sunglasses on the mouse, but Disney was unsatisfied.<sup>91</sup> Ultimately, the bar was unable to afford the cost of defending their claim against the corporate entity, so they dropped the word “Mickey’s” from the bar’s name and painted over the mouse face on the sign.<sup>92</sup>

Disney challenged Filmation Associates in the United States District Court for the Central District of California for a series of animated movies including *The New Adventures of Pinocchio*, *Alice Returns to Wonderland*, and *The Continuing Adventures of the Jungle Book*.<sup>93</sup> Disney claimed that these movies would be confused as Disney movies like the Disney Classics: *Pinocchio*, *Alice in Wonderland*, and *The Jungle Book*.<sup>94</sup> The court concluded that consumers would confuse Filmation’s movies as Disney Classics, utilizing the confusion factors previously mentioned in Section II A.<sup>95</sup>

The court’s ruling is rather surprising, given Disney borrowed fictional characters in the creation of these movies.<sup>96</sup> Some trademark scholars argue that even Mickey Mouse was not completely original as it used preexisting elements of other cartoon mice and that this combination of elements should be returned to the public domain in order to avoid a monopoly on mouse characters.<sup>97</sup> Another simply says, “Disney and its brethren must permit future creators to build on what has already been produced, as they were allowed to do.”<sup>98</sup> I am sure Joel Zimmerman agrees.

---

*Roared Trademark*, N.Y. TIMES (Oct. 24, 1981), <http://www.nytimes.com/1981/10/24/nyregion/notes-on-people-the-mouse-that-roared-trademark.html>.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.*

<sup>93</sup> *Walt Disney Prods. v. Filmation Assoc.*, 628 F. Supp. 871, 874 (C.D. Cal. 1986).

<sup>94</sup> *Id.*

<sup>95</sup> *Id.* at 880.

<sup>96</sup> Jagorda, *supra* note 66, at 241 (“Disney has a unique perspective in this area because it is both an owner, as well as a user, of fictional characters.”).

<sup>97</sup> Litman, *supra* note 72, at 433 (“Walt Disney created Mickey Mouse using preexisting elements. Mickey was not the first cartoon mouse, nor the first cute cartoon mouse.”); *id.* at 434–35 (“[W]hile we want to give Mickey Mouse enough protection that the Disney Company can comfortably release the first Mickey Mouse movie without worrying that Filmation will enter the market with an identical squeaky-voiced mouse character, we don’t want to give the Disney Company a 75, or 95, year monopoly on all films involving mice, or all characters with squeaky voices.”); Young, *supra* note 80 (“It’s also worth noting that by now, Mickey Mouse should be in the public domain and the Disney Company shouldn’t have ownership of him anymore.”); Rosenbaum, *supra* note 61 (“To add a whole new level to this issue, in all technicality Mickey Mouse SHOULD be in the public domain. Mickey Mouse, along with a whole slew of original Disney characters, should have entered the public domain back in 2003.”).

<sup>98</sup> Jagorda, *supra* note 66, at 251.

---

### III. ANALYSIS

Reform of the Lanham Act is necessary to prevent Disney from bullying artists like Zimmerman from using trademarks similar to Mickey Mouse. First, Congress should ameliorate the Lanham Act's remedies to discourage corporations like Disney from bringing cases only to scare away others from filing marks. Secondly, the USPTO should expand its use of scientific surveys so mark holders can more easily demonstrate a lack of customer confusion. Third, Congress should reform dilution laws so that Disney cannot hide behind them when they are unable to claim customer confusion. These changes will prevent Disney from scaring away all other artists who want to use mouse images in a creative fashion.

#### A. Lanham Act Remedy Reform

Even though Disney is unlikely to prove that Zimmerman infringed on its Mickey Mouse trademark, Disney is now able to use Zimmerman to intimidate other creative minds from claiming marks remotely similar to Disney's. Even worse, Disney is attempting to scare away other artists from using anything mouse related in creating their marks. "Many companies believe that by challenging your trademark every once in a while, it ensures you get to protect it from other people coming in and using it, or something similar to it, and potentially making money off of your brand."<sup>99</sup> Yet these corporations often invoke their trademark rights as "symbolic actions" to merely scare off potential mark holders, not because they truly feel that their trademark has been infringed.<sup>100</sup>

Disney in particular has been characterized as part of "an active campaign to protect the copyrights and trademarks."<sup>101</sup> Disney estimates that one-quarter of Disney's 800 lawsuits and regulatory cases each year involve copyright and trademark disputes.<sup>102</sup> Does Disney really fear that the picture of a mouse on the sign of "Mickey's Mousetrap" in Colonie, New York, would be confused for Disney's iconic Mickey Mouse? Or is it more likely that Disney used this instance to disincentivize people from using marks similar to Mickey

---

<sup>99</sup> Young, *supra* note 80.

<sup>100</sup> Alcorn, *supra* note 6 ("In part, this may be because you need to exercise trademark rights in order to retain them. 'Trademark owners often feel they need to take symbolic actions,' says Tushnet.").

<sup>101</sup> See Richter, *supra* note 68.

<sup>102</sup> *Id.* at 4 ("About one-quarter of the 800 lawsuits and regulatory cases Disney pursues each year are over copyright and trademark actions, Disney has estimated.").

Mouse?

If the latter is the case, the Lanham Act's remedies must be reformed to penalize corporations like Disney for using these scare tactics as they frustrate the purpose of protecting the creative efforts of all. The Lanham Act provides three forms of remedies: (1) injunctions, (2) compensatory damages, and (3) defendant's profits.<sup>103</sup> Although the Lanham Act has gone through numerous changes over the years, the remedies and provisions have not been changed since 1946.<sup>104</sup> By reforming the remedies, Disney will be more reluctant to oppose other trademarks.

### 1. *Injunctions*

In order for a mark holder to issue an injunction to stop a party from using an infringing mark, the mark holder must demonstrate:

- (1) that it has suffered an irreparable injury;
- (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
- (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted;
- and (4) that the public interest would not be disserved by a permanent injunction.<sup>105</sup>

Prior to 2006, mark holders seeking equitable relief in the form of an injunction had a presumption of an irreparable injury.<sup>106</sup> In *eBay*, a Supreme Court case involving injunctive relief for patent cases, the Court explained that there may be instances where patent holders will need to demonstrate an irreparable injury.<sup>107</sup> Although *eBay* was a decision involving injunctive relief for patent cases, the Ninth Circuit has often applied it to trademarks.<sup>108</sup> The Ninth Circuit interpreted *eBay* as meaning that, mark holders must "proffer evidence sufficient to establish a likelihood of irreparable harm."<sup>109</sup> The decision insinuated that mark holders now must demonstrate concrete evidence that cannot be fixed by monetary damages, such as damage to the company's

---

<sup>103</sup> Lanham Act, 15 U.S.C. §§ 1116–1117 (2012).

<sup>104</sup> Mark A. Thurmon, *Federal Trademark Remedies: A Proposal for Reform*, 5 AKRON INTELL. PROP. J. 137, 139 (2010).

<sup>105</sup> *Id.*; *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). The Court refers to this test as one of the "well established principles of equity."

<sup>106</sup> *eBay*, 547 U.S. at 391–93.

<sup>107</sup> *Id.*

<sup>108</sup> *See, e.g.*, *Herb Reed Enters., LLC v. Fla. Entm't Mgmt., Inc.*, 736 F.3d 1239, 1249 (9th Cir. 2013).

<sup>109</sup> *Id.* at 1251.

business reputation.<sup>110</sup>

J. Thomas McCarthy, a leading commentator on trademarks, believes that *eBay* should not be applied to trademark analysis.<sup>111</sup> McCarthy argues that “the reason for the trademark presumption of irreparable injury is that once a probability of proving likelihood of confusion at trial is shown, the trademark owner's business goodwill and reputation are at risk . . . the plaintiff's reputation is threatened: it is in the hands of the defendant.”<sup>112</sup> However, this is not always the case. Disney did not oppose Zimmerman's trademark because of true risk to its reputation; Disney opposed the mark to scare him away. By allowing a presumption of an irreparable injury, Disney is one step closer to preventing Zimmerman from ever wearing his mau5head again. Disney did not suffer an irreparable harm because there was no injury to its reputation at all. Courts should follow the Ninth Circuit's lead and force corporations to prove an injury first before they can burden others like Zimmerman with an injunction that prevents them from registering their trademarks.

## 2. *Compensatory Damages*

Moreover, mark holders are able to recover compensatory damages under the Lanham Act to compensate for the damage of consumer confusion.<sup>113</sup> Congress determined mark holders could not seek punitive damages under the Lanham Act and courts have found that monetary damages should be for “compensation and not a penalty.”<sup>114</sup> However, for those seeking a trademark, when another party opposes their trademark, they are forced into a prolonged battle with expensive attorney fees and a delay in claiming their mark. Congress passed the Lanham Act “for mark holders to bring claims only when they ‘undermine consumers’ ability to rely on protected marks.”<sup>115</sup> Yet reform to compensatory damages is necessary to prevent corporations like Disney from bringing claims when consumer confusion is not present.

Even if the party's opposition fails, the party seeking mark approval only gets their mark, and is ineligible for compensatory damages other

---

<sup>110</sup> *Id.* at 1250 (“Evidence of loss of control over business reputation and damage to goodwill could constitute irreparable harm.”).

<sup>111</sup> Thurmon, *supra* note 104, at 154 n.69.

<sup>112</sup> J. Thomas McCarthy, TRADEMARKS AND UNFAIR COMPETITION, § 30:47 (4th ed. 2005).

<sup>113</sup> Lanham Act, 15 U.S.C. § 1116 (2012).

<sup>114</sup> *Id.* at § 1117(a).

<sup>115</sup> Thurmon, *supra* note 104, at 159.

than attorney fees.<sup>116</sup> The Lanham Act allows courts to award attorney fees only in “exceptional cases,” but does not define exceptional.<sup>117</sup> This has made it rare that attorney fees are awarded in trademark cases.<sup>118</sup> The Lanham Act should be reformed to eliminate the exceptional requirement so that courts have more discretion in awarding attorney fees.<sup>119</sup> Such a requirement “creates an even playing field, and it imposes an additional risk upon both parties” because the Lanham Act states the prevailing party, whether plaintiff or defendant, can qualify for attorney fees.<sup>120</sup> This rule will make sure that those opposing marks will “carefully consider the legal merits of their positions before engaging in expensive and protracted trademark litigation.”<sup>121</sup>

Broader discretion for courts to award attorney fees will help parties like Zimmerman in two ways. First, Zimmerman will be able to be compensated for the expensive attorney fees to defend his mark. More importantly, this will encourage parties who are not in Zimmerman’s financial position, like Mickey’s Mousetrap, to seek protection of their marks against corporate giants. Although Disney may argue that it has a right to protect its valuable mark, it should not be able to target weaker parties. Such parties will no longer fear the expensive costs of litigation if they have a good case in demonstrating a lack of consumer confusion because they can qualify for attorney fees. Further, Mickey’s Mousetrap would be incentivized to challenge corporate giants who use their marks that they would not challenge because of the rare chance they would have qualified for attorney fees. Secondly, these corporate giants will be cautious in opposing the marks of others for fear they will have to pay their attorney fees. This will prevent Disney from making excessive trademark challenges merely as a symbolic action to scare off others. Therefore, reforming the Lanham Act to allow easier access to attorney fees will rectify some of the problems faced by Zimmerman and Mickey’s Mousetrap.

### 3. *Defendant’s Lost Profits*

Furthermore, the Lanham Act’s remedy awarding the plaintiff a defendant’s profits should be restructured to account for lost profits that a defendant may incur from the plaintiff’s opposition. Currently under the Lanham Act, a plaintiff who prevails on a charge of infringement

---

<sup>116</sup> *Id.* at 174.

<sup>117</sup> *Id.*

<sup>118</sup> *Id.*

<sup>119</sup> *Id.* at 174–75.

<sup>120</sup> *Id.* at 175.

<sup>121</sup> *Id.*

can charge a defendant for the profits not received because of customer confusion.<sup>122</sup> This remedy was intended to fulfill the Lanham Act's purpose of ensuring that parties do not profit from infringing.<sup>123</sup> However, "the Lanham Act's remedial scheme has never satisfactorily accomplished this objective" because "a trademark owner proves willful infringement or some other type of culpable misconduct by the infringer in order to obtain an award of profits."<sup>124</sup>

If one of the purposes of the Lanham Act is to ensure that parties do not profit from conduct that prevents the other party from earning profits, a defendant should also have the opportunity to prove that a plaintiff's opposition to their trademark has prevented them from earning profits. For example, if Zimmerman could demonstrate that Disney's opposition to its trademark prevented him from earning profits, he should be able to claim those profits under the Lanham Act. In a sense, Disney's opposition has in part cost Zimmerman the profits he would have earned working with *Star Wars Rebels* and *Fantasia*, along with profits earned from appearing on Jimmy Kimmel.

A remedy of lost profits may even be more applicable for defendants like Mickey's Mousetrap. Mickey's Mousetrap may have been able to prevail in its trademark dispute over its sign, but because it could not afford the expensive cost of litigation, the bar was forced to drop the word "Mickey's" from the bar's name and paint over the mouse face on the sign.<sup>125</sup>

If this change caused Mickey's to lose profits, the bar should be entitled to recoup those lost profits. Such a rule would dissuade Disney from targeting weaker parties if it fears it may have to pay part of their profits.

To prove infringement, a defendant should not have to prove that the plaintiff intended to tamper with the defendant's profits. Under the Lanham Act, in order for a plaintiff to receive a portion of the defendant's profits, they must demonstrate that the defendant engaged in willful or culpable infringement.<sup>126</sup> Many intellectual property commentators believe that plaintiffs should not have to prove willful or culpable infringement because the standard requires too much of a burden for plaintiffs.<sup>127</sup> However, this has not stopped courts from enforcing this standard.<sup>128</sup>

---

<sup>122</sup> *Id.* at 168.

<sup>123</sup> *Id.*

<sup>124</sup> *Id.*

<sup>125</sup> Krebs, *supra* note 90.

<sup>126</sup> Thurmon, *supra* note 104, at 168 ("Some commentators have argued against this practice, but the courts, for the most part, have continued to impose this requirement.").

<sup>127</sup> *Id.*

<sup>128</sup> *Id.*

If defendants are able to charge plaintiffs for lost profits, they should similarly not have to prove that the infringement was willful or culpable. Instead, defendants should be entitled to their lost profits if they can merely demonstrate that the plaintiff's opposition caused them to lose profits. Allowing defendants to seek profits would protect parties like Zimmerman and Mickey's Mousetrap from plaintiff oppositions that are intended to scare off defendants. Therefore, the Lanham Act should be reformed to add an opportunity for defendants to claim lost profits.

## B. Consumer Confusion Surveys

In trademark disputes, it can be difficult for a plaintiff to truly demonstrate that the public confused the defendant's mark with that of the plaintiff's.<sup>129</sup> In order to prove confusion, attorneys utilize confusion surveys that ask individuals to identify the defendant's marks.<sup>130</sup> If the results demonstrate that many people identified the defendant's mark as the plaintiff's, then the plaintiff can use the results of the survey to prove that the defendant's mark caused confusion under the Lanham Act.<sup>131</sup> These confusion surveys have been found reliable and as having scientific value, especially where attorneys and courts that deal with intellectual property issues are becoming more familiar.<sup>132</sup> As the use of confusion surveys increase, they "are increasingly being relied upon as both a litigation and settlement tool."<sup>133</sup> Despite the importance of these surveys, courts view these surveys improperly, which leads to a frustration of the purposes of the Lanham Act.<sup>134</sup> The Lanham Act should be amended to use surveys that look at the marks in the context of the consumer. Such reform would ensure that plaintiffs do not use improper surveys to sway a judge to rule in their favor.

Trademark scholars disagree on how surveys are used in the practice of trademark disputes. For example, McCarthy believes that a "survey is accepted and relied upon when the judge already has his or her mind made up in favor of the survey results; and a survey is rejected and torn

---

<sup>129</sup> Jacob Jacoby, *Experimental Design and the Selection of Controls in Trademark and Deceptive Advertising Surveys*, 92 TRADEMARK REP. 890, 890-91 (2002).

<sup>130</sup> *Id.*

<sup>131</sup> *Id.*

<sup>132</sup> *Id.*

<sup>133</sup> *Id.*

<sup>134</sup> See Jacob Jacoby, Amy H. Handlin, & Alex Simonson, *Survey Evidence in Deceptive Advertising Cases Under the Lanham Act: A Historical Review of Comments from the Bench*, 84 TRADEMARK REP. 541 (1994).

apart when the judge subjectively disagrees with the survey results.”<sup>135</sup> Jacob Jacoby, whose knowledge of trademark converges with consumer surveys, conducted an empirical study in 1994 looking at how judges view empirical surveys.<sup>136</sup> Jacoby and his colleagues found “instances where courts have ‘torn apart’ surveys for scientifically indefensible reasons.”<sup>137</sup>

They found that this was mostly due to the fact that the judges lack the social science background necessary to interpret if these surveys were properly conducted.<sup>138</sup> Jacoby’s research demonstrated that of the forty cases they researched involving surveys, 55% were given considerable weight, 22% were given moderate weight, and 23% were given little or no weight.<sup>139</sup> Therefore, it is startling that the Lanham Act does not provide sufficient guidance for judges on how to weigh survey evidence, yet these surveys can be a significant part of their decision-making process.

Confusion surveys are intended to “simulate reality as closely as possible” so a court can truly understand whether consumer confusion was present.<sup>140</sup> Yet judges only view confusion surveys that “look at the mark in isolation” by comparing the similarity of the marks.<sup>141</sup> Jacoby says that by forcing individuals to view the mark in isolation, the results are inaccurate.<sup>142</sup> He suggests that confusion surveys be viewed by individuals in the context where consumers actually view the marks.<sup>143</sup> This way, the surveys would more accurately illustrate that consumers are confused in the context where they would see the two marks. For example, there is a difference between determining consumer confusion using a survey that shows consumers viewing a t-shirt with the deadmau5 mark on it versus showing them the simple mouse silhouette pictured above.

In the case of Disney and Zimmerman, Jacoby says that judges should not compare the marks in isolation by comparing the mouse silhouettes to each other.<sup>144</sup> Jacoby says that “the confusion case boils down to what’s in the mind of the person who picks a mau5head t-shirt off the rack-and whether they’ll think the deadmau5 item was made by,

---

<sup>135</sup> *Id.* at 546.

<sup>136</sup> *See id.* at 544–46.

<sup>137</sup> *Id.* at 546.

<sup>138</sup> *Id.*

<sup>139</sup> *Id.* at 550.

<sup>140</sup> Alcorn, *supra* note 6.

<sup>141</sup> *Id.*

<sup>142</sup> *Id.*

<sup>143</sup> *Id.*

<sup>144</sup> *Id.*

affiliated with, or allowed by Disney.”<sup>145</sup> Stan Alcorn decided to conduct a confusion survey outside of a mall in Queens, New York.<sup>146</sup> Alcorn showed a group of electronic music fans a picture of a deadmau5 shirt and asked them to identify to whom the mark belonged.<sup>147</sup> He concluded that “[a]mong [Zimmerman’s] fans, everyone knew the symbol immediately, and had no confusion about Disney’s involvement.”<sup>148</sup>

Based on the results of Alcorn’s survey, looking at the mau5head mark in isolation hurts Zimmerman’s argument. Electronic music fans who are more likely to encounter Zimmerman’s mark would not confuse it with Disney’s. When merely comparing the two mouse silhouettes, Zimmerman’s mark is more similar to Disney’s; however, consumers who encounter one of his products in a store are less likely to be confused. These consumers are more likely to associate Zimmerman’s mark with deadmau5 in a store than if they saw a silhouette in isolation. Thus, the Lanham Act should be amended to use surveys that consider the context of consumers to fully achieve the Lanham Act’s goal of punishing parties who have truly caused customer confusion.

Furthermore, reforming the Lanham Act to give guidance to judges who are reviewing consumer surveys would place defendants in a better position to defend against plaintiffs’ trademark infringement claims. Typically, only plaintiffs use confusion surveys to show confusion amongst consumers.<sup>149</sup> On the other hand, defendants generally do not provide contrary surveys that show a lack of consumer confusion.<sup>150</sup> Instead, defendants criticize the procedures in which the surveys were conducted to prove that consumers do not confuse the marks.<sup>151</sup> If courts require surveys to be administered in the proper context, defendants would likely conduct their own surveys that would give them an opportunity to demonstrate a more accurate understanding of the two marks. This would make sure that trademark decisions are not about the judge’s understanding of social science but rather, on the results of accurate surveys. Moreover, precise surveys would allow a larger number of these cases to be settled outside of court, thus saving court resources. Therefore, amending the Lanham Act’s requirements of consumer surveys would incentivize defendants to administer their own survey, refocus the court’s decision, and increase settlement of

---

<sup>145</sup> *Id.*

<sup>146</sup> *Id.*

<sup>147</sup> *Id.*

<sup>148</sup> *Id.*

<sup>149</sup> Jacoby, *supra* note 134, at 548–49.

<sup>150</sup> *Id.* at 549.

<sup>151</sup> *Id.*

trademark infringement disputes.

In summary, courts view confusion surveys in isolation and not in the context in which consumers view these marks. Consumers who view a picture of Zimmerman's mau5head in isolation view it differently than when consumers view it in the context of deadmau5's merchandise. Requiring courts to view marks in their proper context will increase the defendants' use of confusion surveys, which will ensure that judges utilize more accurate surveys in making their decisions and will not have to question the social science behind these surveys. Additionally, more of these cases can be settled outside of court because the parties can rely on the results of these surveys to prove whether there was a presence of consumer confusion. Thus, reform of confusion surveys is imperative.

#### IV. CONCLUSION

The goal of this article was to analyze the trademark dispute between Joel Zimmerman and Disney to find necessary reform under the Lanham Act. The article looked at an overview of trademark law followed by Disney's intellectual property tactics and how they compared to Disney's trademark opposition to Zimmerman's mark. The analysis of this article centered on reform to the Lanham Act. The article demonstrates that Congress should revise the Lanham Act's remedies for (1) injunctions, (2) compensatory damages, and (3) defendant's lost profits. First, Disney should not receive a presumption of an irreparable injury so that it does not burden parties like Zimmerman with an injunction that prevents them from registering their trademarks. Second, defendants should be able to claim attorney fees to incentivize parties to challenge corporations like Disney. This will also force Disney to be cautious in opposing the marks of others for fear they will have to pay their attorney fees and reduce Disney's excessive trademark challenges that are only performed to scare others. Third, if a defendant loses profits because of the plaintiff's opposition, the defendant should be able to charge the plaintiff for those lost profits. In addition to remedial reform, courts should view confusion surveys in isolation and not in the context in which consumers view these marks. Reforming consumer surveys will ensure that judges utilize more accurate surveys in making their decisions that will increase settlements outside of court.

If you give a mouse a trademark, the court can allow a company to achieve an intellectual property monopoly. If, instead, you don't give a mouse a trademark and you reform the remedy and survey mechanisms that impact the court's decision, trademark law will be one step closer to making sure that Disney does not inhibit the public domain of

creativity and discourage other artists from seeking protection for their marks.

---

---

WAKE FOREST JOURNAL OF BUSINESS  
AND INTELLECTUAL PROPERTY LAW

---

---

VOLUME 15

SUMMER 2015

NUMBER 4

---

---

**COMMERCIALITY AND FAIR USE**

**D.R. Jones<sup>†</sup>**

I. INTRODUCTION.....	621
II. LEGISLATIVE HISTORY – ADDING A PHRASE TO THE FIRST FACTOR .....	623
III. EARLY POST-ENACTMENT CASES .....	628
IV. <i>SONY</i> AND <i>HARPER &amp; ROW</i> – CREATING PRESUMPTIONS.....	630
V. POST- <i>SONY</i> TREATMENT.....	634
VI. CLARIFICATION ARRIVES – <i>CAMPBELL V. ACUFF- ROSE</i> .....	635
VII. POST- <i>CAMPBELL</i> : PRESUMPTIONS RETREAT, TRANSFORMATIVE USE RISES.....	637
VIII. DIFFERENT PURPOSE AS TRANSFORMATIVE USE. 643	
A. CHANGING TRANSFORMATION – <i>SWATCH GROUP</i> ....	644
B. SEARCH ENGINES AND DATABASES.....	645
C. THE PATENT APPLICATION CASES.....	649
IX. COMMERCIAL USE – PUBLIC BENEFIT .....	652
X. CONCLUSION.....	653

---

<sup>†</sup> Assistant Professor of Law, The University of Memphis Cecil C. Humphreys School of Law.

## I. INTRODUCTION

Under the Copyright Act of 1976 (hereinafter, the “1976 Copyright Act”),<sup>1</sup> copyright holders have extensive rights over copyrighted works.<sup>2</sup> These rights are subject to exceptions set forth in the Act.<sup>3</sup> One powerful exception to the rights of copyright holders is the doctrine of fair use. Under this exception, it is possible to use a copyrighted work without the copyright holder’s permission.<sup>4</sup> Fair use is a long-standing judicial doctrine.<sup>5</sup> In the United States, the doctrine of fair use originated in *Folsom v. Marsh*.<sup>6</sup> In that case, Justice Story outlined the factors that would become the basis of the fair use doctrine. The factors to determine if a party had engaged in fair use of a work were “the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.”<sup>7</sup>

Congress adopted the common law doctrine of fair use as Section 107 of the 1976 Copyright Act.<sup>8</sup> A court’s determination of fair use under Section 107 “calls for a case-by-case analysis.”<sup>9</sup> In its analysis, the court considers and “weighs together”<sup>10</sup> the nonexclusive four factors listed in Section 107.<sup>11</sup> The first factor is a critical part of overall

---

<sup>1</sup> See Copyright Act of 1976, 17 U.S.C. §§ 101-1332 (2012).

<sup>2</sup> 17 U.S.C. § 106.

<sup>3</sup> 17 U.S.C. §§ 107-122.

<sup>4</sup> 17 U.S.C. § 107.

<sup>5</sup> See H.R. REP. NO. 94-1476, at 65 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5678 (noting that “the judicial doctrine of fair use [is] one of the most important and well established limitations on the exclusive right of copyright owners”).

<sup>6</sup> *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841). The term “fair use” first appeared in *Lawrence v. Dana*, 15 F. Cas. 26, 44 (C.C.D. Mass. 1869).

<sup>7</sup> *Folsom*, 9 F. Cas. at 348.

<sup>8</sup> 17 U.S.C. § 107. Section 107 provides that “the fair use of a copyrighted work . . . is not an infringement of copyright.” There was no provision for fair use in the previous Federal law, which was the 1909 Copyright Act (Copyright Act of 1909, 35 Stat. 1075, repealed by 1976 General Revision of Copyright Law, Pub. L. No. 94-553, 90 Stat. 2541 (1976)).

<sup>9</sup> *Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569, 577 (1994); see also H.R. REP. NO. 94-1476, at 66 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5680 (“Beyond a very broad statutory explanation of what fair use is and some of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis.”).

<sup>10</sup> *Campbell*, 510 U.S. at 578.

<sup>11</sup> The four factors listed in § 107 are “(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.” 17 U.S.C.

---

fair use analysis. This factor addresses “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.”<sup>12</sup>

The purpose of this essay is to review and reflect on the reference to “a commercial nature” in the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes.” The essay traces how courts have considered commerciality of a use in fair use analysis from the initial inclusion of the wording in the statute through recent cases applying “transformative” use analysis.

Part II reviews the legislative history of Section 107 to reveal how the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes” appeared in Section 107 at the very end of the lengthy process that led to the enactment of the 1976 Copyright Act. Its appearance did not indicate that commercial uses were favored or disfavored. Part III discusses how courts during the period immediately following the enactment of the 1976 Copyright Act interpreted the phrase and dealt with uses of a commercial nature. Part IV discusses the impact of two United States Supreme Court cases in the mid-1980s that elevated consideration of the “commercial nature” of a use to a potentially determinative factor in fair use analysis. Part V discusses the confusion following these cases as reflected in judicial opinions. Part VI discusses how another Supreme Court case, *Campbell v. Acuff-Rose Music, Inc.*,<sup>13</sup> clarified the role of commerciality in fair use analysis and established “transformative” use analysis as an integral part of fair use determinations. Part VII reviews judicial treatment of fair use following the *Campbell* decision, including persistence in following rejected presumptions and confusion regarding the meaning of “transformative.” Part VIII discusses how acceptance of a different purpose as transformative use benefited users of copyright works for commercial purposes. It also discusses how a determination of transformative use can change the weight given commerciality and how it affects the fourth factor analysis. Part IX notes how in some commercial use cases courts consider the public benefit of the defendant’s use. The essay concludes in Part X by summarizing the treatment of commerciality in fair use analysis including the current status.

---

§ 107(1)-(4) (2012).

<sup>12</sup> 17 U.S.C. § 107(1) (2012).

<sup>13</sup> *Campbell*, 510 U.S. at 569.

---

## II. LEGISLATIVE HISTORY – ADDING A PHRASE TO THE FIRST FACTOR

The legislative history of the 1976 Copyright Act stretches over twenty years through reports, hearings, bills, committee reports and Congressional debate.<sup>14</sup> In the vast expanse of the legislative history of the 1976 Copyright Act, the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes” appeared as part of Section 107(1) only in the last months leading up to the passage of the 1976 Copyright Act.<sup>15</sup> All versions of bills prior to the final bill either included limited language in the fair use section<sup>16</sup> or referred only to the “purpose and character of the use” for the first

---

<sup>14</sup> The work that led to the passage of the 1976 Copyright Act started in 1955 when the Copyright Office used Congressionally appropriated funds to authorize a series of studies on copyright law issues. *See* Legislative Appropriations Act of 1955, ch. 568, 69 Stat. 499 (1955); H.R. REP. NO. 94-1476, at 46 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5660. There were other attempts to revise copyright law after the enactment of the Copyright Act of 1909 (Pub. L. No. 60-349, 35 Stat. 1075), which are documented in SUB. COMM. ON PATENTS, TRADEMARKS, AND COPYRIGHTS, 86TH CONG., COPYRIGHT REVISION 13 (Comm. Print 1960). For researching the legislative history of the 1976 Copyright Act, there are two helpful sets, both of which are available through HeinOnline. They are: ALAN LATMAN & JAMES F. LIGHTSTONE, THE KAMINSTEIN LEGISLATIVE HISTORY PROJECT: A COMPENDIUM AND ANALYTICAL INDEX OF MATERIALS LEADING TO THE COPYRIGHT ACT OF 1976 (1981) (containing over 160 legislative history materials) and GEORGE S. GROSSMAN, OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (2001) (containing full text of legislative history materials). *See* Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857 (1987) (discussing the development of the 1976 Copyright Act); WILLIAM F. PATRY, THE FAIR USE PRIVILEGE IN COPYRIGHT LAW 261-365 (2nd ed. 1995) (discussing the development of the 1976 Copyright Act); *see also* BARBARA RINGER, SECOND SUPPLEMENTARY REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW: 1975 REVISION BILL OCTOBER - DECEMBER 1975 31-49 (1975) (hereinafter “Second Supplementary Report”).

<sup>15</sup> On February 19, 1976, the Senate passed S. 22, which was an act for the general revision of copyright law. 122 Cong. Rec. 3841-59 (1976). Section 107(1) in S. 22 referred only to “the purpose and character of the use.” 122 Cong. Rec. 3843. On September 3, 1976, the House of Representatives offered an amendment to S. 22 in the nature of a substitute. H.R. Rep. No. 94-1476, at 1 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659. It is in this amended version of S. 22 that the new phrase appears. The House Report contains a chart which compares the language of each section of S. 22 and the House version. H.R. Rep. No. 94-1476, at 186-358 (1976), *reprinted in* GEORGE S. GROSSMAN, 17 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY 186-358 (2001). The comparison of language in § 107 appears on page 202. This chart is not in U.S.C.C.A.N.

<sup>16</sup> *See, e.g.*, H.R. 4347, 89th Cong. (1st Sess. 1965); S. 1006, 89th Cong. § 107 (1965).

factor.<sup>17</sup> The history shows that there was no intent to highlight or single out commercial uses for different treatment under fair use analysis. As discussed below, the legislative history does not support later negative treatment of commercial uses in courts' fair use analysis.

The addition of this phrase was a product of the extensive compromise and bargaining that occurred in the drafting of the 1976 Copyright Act. The language of the Copyright Act did not originate through Congressional action.<sup>18</sup> Instead, it derived from "compromises negotiated among those with economic interests in copyright."<sup>19</sup> The primary parties involved in the negotiation were publishers, authors and representatives of educational institutions.<sup>20</sup> As Barbara Ringer, the Register of Copyrights, noted:

Except for the most prescriptive and technical of its provisions, practically everything in the law is the product of at least one compromise, and many provisions have evolved from a long series of compromises reflecting constantly changing technology, competing commercial and financial interests, political and social conditions, judicial and administrative developments and—not least by any means—individual personalities.<sup>21</sup>

The drafting of the provision on fair use occurred through this process of negotiation and compromise. The addition of the phrase "including whether such use is of a commercial nature or is for nonprofit

---

<sup>17</sup> See, e.g., HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 1ST SESS., COPYRIGHT LAW REVISION PART 3: PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW § 6 (Comm. Print 1963) (offering a preliminary draft of a bill that listed the "purpose and character of the use" as a factor for consideration); H.R. 11947, 88th Cong. § 6 (1964) (containing just the language "purpose and character of the use").

<sup>18</sup> Litman, *supra* note 14, at 860-61 ("[M]ost of the statutory language was not drafted by members of Congress or their staffs at all.")

<sup>19</sup> *Id.* at 869. Congress acted by appointing committees and groups to negotiate the terms of the new law.

<sup>20</sup> COPYRIGHT LAW REVISION: HEARINGS ON H.R. 2223 BEFORE THE SUBCOMM. ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE OF THE HOUSE JUDICIARY COMM., 94th Cong. 1790 (1975), *reprinted in* GEORGE S. GROSSMAN, 16 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY 1790 (2001) (testimony of Barbara Ringer, Register of Copyrights, on negotiations among authors, publishers and educators leading to the language of section 107 and its accompanying legislative history).

<sup>21</sup> Barbara Ringer, *First Thoughts on the Copyright Act of 1976*, 22 N.Y.L. SCH. L. REV. 477, 482 (1977), *available at* [http://heinonline.org/HOL/Page?handle=hein.journals/nyls22&div=28&g\\_sent=1&collection=journals](http://heinonline.org/HOL/Page?handle=hein.journals/nyls22&div=28&g_sent=1&collection=journals).

educational purposes” did not arise out of any concern for the application of fair use to commercial versus noncommercial use. Instead, it arose from the protracted debate over whether to address educational use with specific exceptions in the new copyright act. Concerns about educational use of copyrighted works dominated the negotiations regarding the fair use provision.<sup>22</sup> Photocopying for educational purposes was an especially contentious issue.<sup>23</sup> Educational organizations wanted more certainty in the fair use provision that nonprofit educational uses would receive fair use treatment.<sup>24</sup> In 1964, the Ad Hoc Committee on Copyright Law Revision, representing numerous educational organizations,<sup>25</sup> recommended an addition to the proposed fair use provision that would provide a presumption of fair use for “non-commercial use by a nonprofit educational institution or organization for nonprofit educational purposes.”<sup>26</sup> There was no agreement on adding any broad exception or presumption, such as the 1964 recommendation.<sup>27</sup> There were, however, additions to the proposed statute to address some concerns of educators. In 1966, the House Committee on the Judiciary added new proposed language in the fair use provision.<sup>28</sup> This language provided that “use by reproduction in copies or phonorecords” could be

---

<sup>22</sup> H.R. REP. NO. 94-1476, at 65-74 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5679. The House Report that accompanied the House substitute bill in September 1976 noted that the “specific wording of Section 107” was “the result of a process of accretion, resulting from the long controversy over the related problems of fair use and the reproduction (mostly by photocopying) of copyrighted material for educational and scholarly purposes.” *Id.* at 66. Professor Litman described these negotiations as “tortuous.” Litman, *supra* note 14, at 875.

<sup>23</sup> H.R. REP. NO. 94-1476, at 66, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5679.

<sup>24</sup> See COPYRIGHT LAW REVISION: HEARINGS ON H.R. 2223 BEFORE THE SUBCOMM. ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE OF THE HOUSE JUDICIARY COMM., 94th Cong. 1790 (1975), *reprinted in* GEORGE S. GROSSMAN, 16 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY 1790 (2001) (Testimony of Barbara Ringer regarding the concerns of educators about the application of fair use).

<sup>25</sup> A list of the organizations is in U.S. COPYRIGHT OFFICE REPORT, DISCUSSION DRAFT 1961-1964, PART 4: TRANSCRIPT OF MEETING ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW, JANUARY 15, 1964, at 217, *reprinted in* GEORGE S. GROSSMAN, 3 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY AT 217 (2001).

<sup>26</sup> COPYRIGHT LAW REVISION, PART 5: STATEMENT BY AD HOC COMMITTEE ON COPYRIGHT LAW REVISION, TRANSCRIPT OF MEETING ON 1964 REVISION BILL, AUGUST 6, 1964, at 100. See discussion of this statement in WILLIAM F. PATRY, PATRY ON FAIR USE § 9.7 (2014).

<sup>27</sup> H.R. REP. NO. 89-2237, at 60 (1966) (The House Committee on the Judiciary stated that: “a specific exemption freeing certain reproductions of copyrighted works for educational and scholarly purposes from copyright control is not justified.”).

<sup>28</sup> *Id.* at 60-61.

a fair use.<sup>29</sup> This addition was to address the uncertainty as to whether photocopying could be a fair use.<sup>30</sup> The Committee in its report discussed the four factors in the proposed fair use section through the lens of “typical classroom situations,” thus demonstrating how strongly issues of educational use dominated the drafting of the fair use provision.<sup>31</sup> Of note regarding the first factor was a discussion of the “nonprofit element.”<sup>32</sup> The Committee first noted that “it is possible to imagine situations in which *use by a teacher* in an educational organization operated for profit . . . would constitute fair use.”<sup>33</sup> The Committee then stated that “the *nonprofit character of the school* in which the teacher works should be one factor to consider in determining fair use.”<sup>34</sup> These statements suggested the possibility that the nature of the institution, not the use, could affect the fair use determination.

In October 1975, the Register of Copyrights issued a Second Supplementary Report, which contained a discussion of the proposed act and a summary of the efforts to enact legislation.<sup>35</sup> In discussing the fair use proposals, the Register noted that educators had argued that there was a “not-for-profit” limitation on copyright holders’ rights that would encompass copying.<sup>36</sup> The Register dismissed this argument, observing that under the 1909 Act, there was such a limitation, but it only applied to certain public performances.<sup>37</sup> The Register then stated:

---

<sup>29</sup> *Id.* (discussing the added language to H.R. 4347). This same language appears in H.R. REP. NO. 90-83, at 31-32 (1967). This report accompanied H.R. 2512, which was identical to H.R. 4347 as reported out of the Committee on the Judiciary. H.R. REP. NO. 90-83, at 1 (1967). Another addition to the proposed statute was language added to protect a teacher from excessive liability if he or she “honestly believed” that the use of a work was fair use. H.R. REP. NO. 89-2237, *supra* note 27, at 60.

<sup>30</sup> H.R. REP. NO. 89-2237, *supra* note 27, at 61.

<sup>31</sup> *Id.* at 62. The same language appears in H.R. Rep. No. 83, at 33.

<sup>32</sup> H.R. REP. NO. 89-2237, at 62.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

<sup>35</sup> Second Supplementary Report, *supra* note 14.

<sup>36</sup> *Id.* at 27-29, 52.

<sup>37</sup> *Id.* at 52-53; *see* Sections 1(c) and 1(e) of the 1909 Copyright Act (Copyright Act of 1909, 35 Stat. 1075, §§ 1(c) and (e), *repealed by* 1976 General Revision of Copyright Law, Pub. L. No. 94-553, 90 Stat. 2541 (1976)); *see also* COPYRIGHT LAW REVISION: HEARINGS ON H.R. 2223 BEFORE THE SUBCOMM. ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE OF THE HOUSE JUDICIARY COMM., 94TH CONG. 1793 (1975), *reprinted in* GEORGE S. GROSSMAN, 17 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY 1793 (2001) (Testimony of Barbara Ringer); PATRY, *supra* note 26, at § 9:7. The House Committee on the Judiciary discussed that the proposed new copyright act did not provide any requirements that certain copyright holder rights applied only to “for-profit” uses. The Committee noted that “[t]he line between commercial and ‘nonprofit’ organizations is increasingly difficult to draw” and therefore there could not be any requirement that a right applied only to “for-profit” uses. H.R. REP. NO. 94-1476, at 62-63 (1976),

---

[A]lthough *the commercial or nonprofit character of a use* is not necessarily conclusive with respect to fair use, in combination with other factors, it can and should weigh heavily in fair use decisions. It would certainly be appropriate to emphasize this point in the legislative commentary dealing with fair use and educational photocopying.<sup>38</sup>

This language foreshadows the discussion of fair use in the House Report on the final legislation that became the 1976 Copyright Act.<sup>39</sup>

In the Second Supplementary Report, the Register commented that the “tortuous history” of the fair use provision had resulted in a text that expressed legislative intent and was acceptable to the various parties that had been involved in the process.<sup>40</sup> Despite the Register’s advice that it would “be unwise and unnecessary to tinker with the language of section 107 as it stands,”<sup>41</sup> there was one more set of changes that added the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes.”<sup>42</sup>

This additional phrase appeared in a House amendment in the nature of a substitute to S. 22, which the Senate had passed on February 19, 1976.<sup>43</sup> In discussing the additional language, House Report 1476 noted that the Committee on the Judiciary still did not support any exemption for educational and scholarly uses.<sup>44</sup> The additions to Section 107 were to meet the need of teachers for “greater certainty.”<sup>45</sup> The Committee adopted the language in an earlier report concerning fair use in “classroom situations,” which included the discussion of the “nonprofit element” in determining if classroom use was fair use.<sup>46</sup> Most interestingly, the Committee echoed the Register of Copyrights in the Second Supplementary Report by maintaining that this additional phrase was not “to be interpreted as any sort of not-for-profit limitation [on the rights of copyright holders] on educational uses of copyrighted

---

*reprinted in* 1976 U.S.C.C.A.N. 5659, 5679.

<sup>38</sup> Second Supplementary Report, *supra* note 14, at 53 (emphasis added).

<sup>39</sup> H.R. REP. NO. 94-1476, at 66, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5680.

<sup>40</sup> Second Supplementary Report, *supra* note 14, at 50.

<sup>41</sup> *Id.*

<sup>42</sup> For a discussion of the inclusion of this language *see supra* note 15.

<sup>43</sup> This amendment struck all of the language of S. 22 and substituted the House’s wording for the entire act. *See supra* note 15 for discussion of this action.

<sup>44</sup> *See* H.R. REP. NO. 94-1476, at 66–67, *reprinted in* 1976 U.S.C.C.A.N. at 5680 (quoting H.R. REP. NO. 90-83, at 31 (1967)).

<sup>45</sup> *See* H.R. REP. NO. 94-1476, at 67 (quoting H.R. REP. NO. 90-83, at 31 (1967)).

<sup>46</sup> *See* H.R. REP. NO. 94-1476, at 66–67.

works.”<sup>47</sup> The Committee’s statement of the purpose for the addition also echoes the Second Supplementary Report: “[The additional phrase] is an express recognition that, as under the present law, *the commercial or non-commercial character* of an activity, while not conclusive with respect to fair use, can and should be weighed along with other factors in fair use decisions.”<sup>48</sup> There are some differences from the Register’s language, e.g. the Committee states that the character of the activity should be “weighed along with other factors” while the Register states that the character should “weigh heavily” along with other factors.<sup>49</sup> While there are differences in language, the Committee’s discussion still focused on educational uses.<sup>50</sup>

The fair use provision of the 1976 Copyright Act “resulted from elaborate, protracted, down-to-the-wire negotiations.”<sup>51</sup> The inclusion of the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes” arose out of those negotiations to acknowledge that educational uses could be fair use.<sup>52</sup> The additional language was to appease educational interests since there was no adoption of an express exception for educational use.<sup>53</sup> The reference is not to “noncommercial” or “nonprofit uses” but specifically to “*nonprofit educational purposes.*” The House Judiciary Committee’s comments in House Report 1476 recognize that non-profit educational use fits into a broader examination of factors in fair use analysis, including the “commercial or non-profit character of an activity.”<sup>54</sup> Commercial use would also be a part of this overall examination of factors. There is no suggestion in the House Report that courts should disfavor commercial uses or favor nonprofit educational uses in fair use analysis.<sup>55</sup>

### III. EARLY POST-ENACTMENT CASES

Cases interpreting Section 107 immediately after the enactment of the 1976 Copyright Act considered whether a defendant’s use was

---

<sup>47</sup> *Id.* at 66, reprinted in 1976 U.S.C.C.A.N. at 5679.

<sup>48</sup> H.R. REP. NO. 94-1476, at 66. The reference to the “present law” was to the common law application of the fair use doctrine.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> Litman, *supra* note 14, at 883.

<sup>52</sup> PATRY, *supra* note 26, at § 3.3.

<sup>53</sup> Professor Patry describes this addition as a “sop to an unhappy interest group by recognizing in the statute itself that their type of use was one that might be fair in appropriate circumstances.” *Id.*

<sup>54</sup> H.R. REP. NO. 94-1476, at 66, reprinted in 1976 U.S.C.C.A.N. at 5679.

<sup>55</sup> *See id.*

commercial, but did not apply any special weight to this determination. For example, in *Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, the Fifth Circuit Court of Appeals criticized the district court for adopting a “per se rule that commercial motive destroys the defense of fair use.”<sup>56</sup> In *Triangle Publications*, the defendant had used the plaintiff’s copyrighted work in an advertisement.<sup>57</sup> The district court focused solely on the defendant’s commercial purpose in rejecting the defendant’s fair use argument and did not consider any other factors under Section 107.<sup>58</sup> In interpreting the recently enacted Section 107, the district viewed the term “commercial” as contrasting negatively with favored non-profit educational uses.<sup>59</sup> The Fifth Circuit corrected this analysis, quoting House Report 1476.<sup>60</sup> The court clarified that while the commercial nature of the use was relevant, it was not decisive.<sup>61</sup> While the court noted that “any commercial use tends to cut against a fair use defense,” it gave less weight to this fact after examining closely the characteristics of the use.<sup>62</sup> After analyzing all four factors, the Fifth Circuit determined that the defendant was entitled to the fair use defense.<sup>63</sup>

In another case, *Consumers Union of United States, Inc. v. General Signal Corp.*, the Second Circuit interpreted the references in Section 107 to “commercial nature” and “nonprofit educational purposes” as simply providing illustrations of types of uses to consider in analyzing the first factor.<sup>64</sup> While the court acknowledged that the defendant’s purpose was commercial, it examined other factors regarding the character of the use.<sup>65</sup> The court determined that the first factor favored the defendants since the use was to present factual information of value to the public.<sup>66</sup> The court ultimately determined that all four factors favored the defendant.<sup>67</sup>

---

<sup>56</sup> *Triangle Publ’ns, Inc. v. Knight-Ridder Newspapers, Inc.* 446 F. Supp. 875, 1175 (S.D. Fla. 1978), *aff’d on other grounds*, 626 F.2d 1171 (5th Cir. 1980).

<sup>57</sup> *Id.* at 1172.

<sup>58</sup> *Id.* at 1175.

<sup>59</sup> *Knight-Ridder*, 445 F. Supp. at 880.

<sup>60</sup> *Triangle*, 626 F.2d at 1175.

<sup>61</sup> *Id.*

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 1178.

<sup>64</sup> *Consumers Union of United States, Inc. v. Gen. Signal Corp.*, 724 F.2d 1044, 1049 (2d Cir. 1983).

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> *See id.* at 1051.

---

#### IV. *SONY* AND *HARPER & ROW* – CREATING PRESUMPTIONS

The first case in which the United States Supreme Court considered the fair use provision of the 1976 Act was *Sony Corp. of America v. Universal City Studios*.<sup>68</sup> In *Sony*, Justice Stevens posited that “a commercial or profit-making purpose” would be “presumptively” unfair.<sup>69</sup> Neither the statutory language nor the House Report support this statement. The *Sony* case arose in 1976 when the holders of copyrights for movies and programs sued companies that manufactured and distributed Betamax video tape recorder machines.<sup>70</sup> The plaintiffs had licensed some works for broadcast on television.<sup>71</sup> Purchasers of the machines could use the machines to record television programs, including the plaintiffs’, for viewing at a later time.<sup>72</sup> This recording involved making a copy of the program.<sup>73</sup> The Supreme Court examined whether the unauthorized copying of programs was not copyright infringement because it was fair use.<sup>74</sup>

Justice Stevens, discussing the first factor, noted that “[a]lthough not conclusive, the first factor requires that ‘the commercial or nonprofit character of an activity’ be weighed in any fair use decision.”<sup>75</sup> Justice Stevens quoted House Report 1476 instead of the statute, which placed the private home use in *Sony* within the broader context of considering the character of an activity.<sup>76</sup> At the same time, the language in the House Report suggests a dichotomy whereas the statutory language

---

<sup>68</sup> *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417 (1984). The *Sony* case was also the first time the Supreme Court issued an opinion on fair use. In two other cases in which the Court considered fair use issues, there was a split decision and the Court issued no opinion. *See Benny v. Loew's, Inc.*, 239 F.2d 532 (9th Cir. 1956), *aff'd without opinion* sub nom.; *CBS, Inc. v. Loew's Inc.*, 356 U.S. 43 (1958); *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973), *aff'd without opinion*, 420 U.S. 376 (1975).

<sup>69</sup> *Sony*, 464 U.S. at 449 & n.32.

<sup>70</sup> *Id.* at 420.

<sup>71</sup> *Id.* at 421.

<sup>72</sup> *Id.* at 420-21.

<sup>73</sup> *Id.* at 422-23.

<sup>74</sup> *Id.* at 447. For a discussion of the *Sony* case, *see* Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917 (2005). The fair use analysis arose in an unusual set of circumstances in the *Sony* case. The plaintiffs sued the device manufacturers for contributory infringement. The fair use discussion was nested in a discussion of whether the machines had any non-infringing uses. Judge Leval referred to *Sony* as “a bizarre lawsuit.” Pierre N. Leval, *Nimmer Lecture: Fair Use Rescued*, 44 U.C.L.A. L. REV. 1449, 1455 (1997).

<sup>75</sup> *Sony*, 464 U.S. at 448-49 (quoting H.R. REP. NO. 94-1476, at 66, *reprinted in* 1976 U.S.C.C.A.N. 5679).

<sup>76</sup> *Id.*

offers an example.<sup>77</sup> This quote from the House Report refers to “weighing” whether a use is commercial or “nonprofit” along with other factors.<sup>78</sup> Yet, Justice Steven then pronounced that the use of a Betamax “would presumptively be unfair” if it “were used to make copies for a commercial or profit-making purpose.”<sup>79</sup> This statement suggests that there is no “weighing” of this fact; it is a presumption. The District Court in *Sony* determined that the use of the Betamax machines for private home use was noncommercial.<sup>80</sup> Justice Stevens, noting the District Court’s determination, pronounced that if a use is noncommercial, there is a presumption that it is fair.<sup>81</sup> In discussing the fourth factor, Justice Stevens restated the presumptions regarding commercial and noncommercial use: “Thus, although every commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright, noncommercial uses are a different matter.”<sup>82</sup> There is no support in House Report 1476 or the statute for these statements concerning commercial and noncommercial use.<sup>83</sup> The drafting history of Section 107 also does not support these statements.<sup>84</sup> The Supreme Court ultimately determined that the unauthorized, private noncommercial use of the Betamax for copying was a non-infringing use.<sup>85</sup> The statements in the opinion concerning commercial use seem superfluous given that the use was noncommercial. The Court also discussed the commercial nature of the use under both the first and fourth factors,<sup>86</sup> leading to “double counting.”<sup>87</sup> Double counting occurs when the commercial

---

<sup>77</sup> Lloyd L. Weinreb, *Fair's Fair: A Comment on the Fair Use Doctrine*, 103 HARV. L. REV. 1137, 1154 & n.60 (1990) (discussing the use of the House Report language instead of the statutory language).

<sup>78</sup> H.R. REP. NO. 94-1476, at 66.

<sup>79</sup> *Sony*, 464 U.S. at 449. Jay Dratler, Jr., *Distilling the Witches' Brew of Fair Use in Copyright Law*, 43 U. MIAMI L. REV. 233, 263 (1988). Professor Dratler refers to this juxtaposition of sentences as “one of the most remarkable non-sequiturs in Supreme Court jurisprudence.”

<sup>80</sup> *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 454 (C.D. Cal. 1979) *aff'd in part, rev'd in part*, 659 F.2d 963 (9th Cir. 1981) *rev'd*, 464 U.S. 417 (1984).

<sup>81</sup> *Sony*, 464 U.S. at 449 (“The contrary presumption is appropriate . . . because the District Court’s findings plainly establish that time-shifting for private home use must be characterized as a noncommercial, nonprofit activity.”).

<sup>82</sup> *Id.* at 451. See Dratler, *supra* note 79, at 263-66 (discussing this portion of the *Sony* opinion).

<sup>83</sup> See H.R. REP. NO. 94-1476, at 66; 17 U.S.C. §107(1) (2012).

<sup>84</sup> See discussion *supra* Part II.

<sup>85</sup> *Sony*, 464 U.S. at 456.

<sup>86</sup> See *id.* at 449-51.

<sup>87</sup> See William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1661, 1672-73 (1988).

nature of the use raises a presumption under the first factor that the use is unfair, and then under the fourth factor the commercial nature of the use raises a presumption of market harm.

Just a year after the *Sony* opinion, the Supreme Court heard another case involving fair use, *Harper & Row v. Nation Enterprises*.<sup>88</sup> The Court, quoting *Sony*, reiterated the presumption that “every commercial use of copyrighted material is . . . an unfair exploitation.”<sup>89</sup> In *Harper & Row*, a magazine, *The Nation*, had obtained through an unauthorized source a copy of Gerald Ford’s unpublished memoir.<sup>90</sup> Excerpts from the memoir were published in an article in *The Nation*.<sup>91</sup> Harper & Row had an agreement with Ford to publish the memoir and also had entered into an agreement with *Time* magazine to publish excerpts.<sup>92</sup> The publication of the article in *The Nation* resulted in *Time*’s cancellation of its agreement with Harper & Row.<sup>93</sup> The Court determined that *The Nation*’s use of the excerpted material was not fair use.<sup>94</sup> Justice O’Connor, in discussing the purpose of the use, first stated that: “The fact that a publication was commercial as opposed to nonprofit is a separate factor that *tends to weigh against* a finding of fair use.”<sup>95</sup> This statement suggests that a commercial use carries some negative weight. She then, however, quotes the statement from *Sony* that commercial uses are presumptively unfair.<sup>96</sup> These statements in *Harper & Row* simply continued the confusion and reinforced the commercial/nonprofit (noncommercial) dichotomy. The Court also declared that “[t]he crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price.”<sup>97</sup> This statement is circular in that if a use is a fair use, there would be no “customary price” to pay.<sup>98</sup>

---

<sup>88</sup> *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985).

<sup>89</sup> *Id.* at 562.

<sup>90</sup> *Id.* at 542.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* at 543.

<sup>94</sup> *Id.* at 569.

<sup>95</sup> *Id.* at 562.

<sup>96</sup> *Id.* In a dissent, Justice Brennan challenged the Court’s negative consideration of commercial use because the defendant’s use was news reporting, a type of use listed in the preamble of Section 107. *Id.* at 592 (Brennan, J., dissenting) (“To negate any argument favoring fair use based on news reporting or criticism because that reporting or criticism was published for profit is to render meaningless the congressional imprimatur placed on such uses.”).

<sup>97</sup> *Id.* at 562.

<sup>98</sup> For a discussion of the circularity of this statement, see Leval, *supra* note 74, at 1460; see also Dratler, *supra* note 79, at 281; Fisher, *supra* note 87, at 1674 n.66;

There was no discussion of commercial use in the Court's analysis of market harm. The Court, however, declared that the effect on the market is "the single most important element of fair use."<sup>99</sup> If a commercial use raises a presumption of market harm and the fourth factor is the most important, then a commercial use will likely fail to meet fair use analysis.<sup>100</sup>

During the ten years following *Sony*, a third Supreme Court case offered no additional insight in applying fair use analysis. *Stewart v. Abend* concerned the distribution of a film based on a short story.<sup>101</sup> The film's producers distributed the film without the permission of the holders of the renewal term of the copyright in the short story.<sup>102</sup> The focus of the Court's discussion was on the making of derivative works and the renewal of copyrights,<sup>103</sup> but the Court also briefly considered the defendants' fair use argument.<sup>104</sup> In discussing the first factor, the Court merely noted that the defendants' use was not educational and it yielded twelve million dollars.<sup>105</sup> The Court, quoting *Sony*, stated that unauthorized commercial use of copyrighted works was unfair.<sup>106</sup> After reviewing the four factors, the Court agreed with the appellate court that the case was "a classic example of an unfair use."<sup>107</sup>

The Court's statements in *Sony* and *Harper & Row* elevated the commercial/non-profit determination from a simple consideration to a potentially determinative factor in fair use analysis. For the next ten years, courts struggled to apply these pronouncements concerning commercial and noncommercial use.

---

William F. Patry & Shira Perlmutter, *Fair Use Misconstrued: Profit Presumptions, and Parody*, 11 CARDOZO ARTS & ENT. L.J. 667, 684 (1993).

<sup>99</sup> *Harper & Row*, 471 U.S. at 566.

<sup>100</sup> Scholars noted that this powerful combination of the presumption of market harm from *Sony* and the elevation of the fourth factor from *Harper & Row* results in making commerciality a determinative factor. Patry & Perlmutter, *supra* note 98, at 703 ("the commercial nature of the use [becomes] so powerful as to be nearly conclusive").

<sup>101</sup> *Stewart v. Abend*, 495 U.S. 207 (1990).

<sup>102</sup> *See id.* at 211-14.

<sup>103</sup> *Id.* at 217-36.

<sup>104</sup> *Id.* at 236-38.

<sup>105</sup> *Id.* at 237.

<sup>106</sup> *Id.* *See also* *Abend v. MCA, Inc.*, 863 F.2d 1465, 1482 (9th Cir. 1988) (quoting *Sony* in a brief discussion of fair use).

<sup>107</sup> *Stewart*, 495 U.S. at 238 (quoting *MCA*, 863 F.2d at 1482).

---

## V. POST-SONY TREATMENT

Fair use decisions after *Sony* and *Harper & Row* ranged widely in application.<sup>108</sup> In *Financial Information, Inc. v. Moody's Investors Service, Inc.*,<sup>109</sup> a case decided soon after *Sony*, the Second Circuit declared that *Sony* required it to “recognize a presumption of unfair use” because the defendant’s use of the copyrighted material was commercial.<sup>110</sup> In its first factor analysis the court claimed that “*Sony* repeatedly stresse[d] that the ‘first factor’—whether the use is commercial or nonprofit—not only must necessarily be a part of a court’s analysis, but must also, *if the use proves commercial, give rise to a presumption of unfair use.*”<sup>111</sup> This statement reduced the first factor analysis to a determination of the commerciality of the defendant’s use. Given this analysis, it was easy for the court to conclude that since the defendant’s use was commercial, it was therefore “presumptively unfair.”<sup>112</sup> The court then repeated the *Sony* presumption in its analysis of the fourth factor, maintaining that harm to the copyright owner “may be presumed” if the use is commercial.<sup>113</sup> The defendant was unable to rebut the presumption and therefore, its fair use defense failed.<sup>114</sup>

At the other end of the spectrum, in *Maxtone-Graham v. Burtchaell*,<sup>115</sup> the Second Circuit thoughtfully discussed the contradictory statements in *Sony* regarding commercial use as well as the later treatment of commercial use in *Harper & Row*. The plaintiff, following the language in *Sony*, argued that a commercial use is presumptively unfair.<sup>116</sup> The Second Circuit rejected this interpretation, refusing to rely solely on the Court’s statement in *Sony* that every commercial use is unfair.<sup>117</sup> The court noted the Supreme Court’s reliance on House Report 1476, which refers to weighing the commercial nature of a use along with other factors.<sup>118</sup> Viewing the

---

<sup>108</sup> See Dratler, *supra* note 79, at 282-83 (discussing the confusion after the *Sony* and *Harper & Row* decisions and the differing ways courts treated commercial use in fair use analysis); see also Patry & Perlmutter, *supra* note 98, at 706-07; Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PA. L. REV. 549, 600-03 (2008) (discussing the results of a study of fair use cases).

<sup>109</sup> *Fin. Info., Inc. v. Moody's Investors Serv., Inc.*, 751 F.2d 501 (2d Cir. 1984).

<sup>110</sup> *Id.* at 509.

<sup>111</sup> *Id.* at 508 (emphasis added).

<sup>112</sup> *Id.*

<sup>113</sup> *Id.* at 510.

<sup>114</sup> *Id.* at 509.

<sup>115</sup> See *Maxtone-Graham v. Burtchaell*, 803 F.2d 1253 (2d Cir. 1986).

<sup>116</sup> *Id.* at 1262.

<sup>117</sup> *Id.*

<sup>118</sup> *Id.*

Court's discussion of commercial use in the context of the House Report language, the Second Circuit stated that the Court's statements did not alter "the traditional multi-factor fair use inquiry."<sup>119</sup> The Second Circuit also noted the statement in *Harper & Row* that a commercial use "tends to weigh against a finding of fair use."<sup>120</sup> In summarizing this discussion, the Second Circuit rejected the argument that the Court "intended to attach heightened significance to the element of commerciality."<sup>121</sup> In analyzing the defendant's use, the Second Circuit refused to choose between "two polar characterizations, 'commercial' and 'non-profit.'"<sup>122</sup> The court determined that the defendant's work contained educational elements that outweighed "the commercial aspects of the book."<sup>123</sup>

## VI. CLARIFICATION ARRIVES – *CAMPBELL V. ACUFF-ROSE*

In 1994, the Supreme Court heard another fair use case, *Campbell v. Acuff-Rose Music, Inc.*<sup>124</sup> The Court firmly rejected the presumption that commercial uses are unfair and declared that the commercial nature of a use is not determinative.<sup>125</sup> The Court also rejected the presumption that all commercial uses cause market harm.<sup>126</sup> In *Campbell*, a copyright holder of the song "Oh, Pretty Woman" sued the creators of a parody of the song.<sup>127</sup> The district court determined that the defendants' parody constituted a fair use of the original song.<sup>128</sup> The Sixth Circuit Court of Appeals reversed this decision, declaring that the defendants' "blatantly commercial purpose" prevented the use of the original song from being a fair use.<sup>129</sup> The fair use analysis of the district court and the court of appeals in *Campbell* demonstrate the different interpretations of the *Harper & Row* discussion of commercial use. The district court focused on the language in *Harper & Row* that a

<sup>119</sup> *Id.*

<sup>120</sup> *Id.* (quoting *Harper & Row*, 471 U.S. at 562).

<sup>121</sup> *Maxtone-Graham*, 803 F.2d at 1262.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.*

<sup>124</sup> See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

<sup>125</sup> *Id.* at 583-85, 594.

<sup>126</sup> *Id.* at 591, 594.

<sup>127</sup> *Id.* at 573.

<sup>128</sup> *Acuff-Rose Music, Inc. v. Campbell*, 754 F. Supp. 1150, 1160 (M.D. Tenn. 1991), *rev'd*, 972 F.2d 1429 (6th Cir. 1992), *rev'd*, 510 U.S. 569 (1994).

<sup>129</sup> *Acuff-Rose Music, Inc. v. Campbell*, 972 F.2d 1429, 1439 (6th Cir. 1992), *rev'd*, 510 U.S. 569 (1994). Highlighting the court's focus on commercial use is the court's statement that "[i]t is likely, for example, that an identical use of the copyrighted work in this case at a private gathering on a not-for-profit basis would be a fair use."

commercial use “merely ‘tends to weigh against a finding of fair use.’”<sup>130</sup> The court of appeals, on the other hand, noted this language but then asserted that the Court in *Harper & Row* had “expressly affirmed” the presumption that every commercial use is presumptively unfair.<sup>131</sup>

The Supreme Court, in reversing the court of appeals’ decision, stated that the lower court erred “[i]n giving virtually dispositive weight to the commercial nature of the parody” including the court of appeals’ presumption of market harm.<sup>132</sup> The Court noted that “[i]f, indeed, commerciality carried presumptive force against a finding of fairness, the presumption would swallow nearly all of the illustrative uses listed in the preamble paragraph of § 107.”<sup>133</sup> The Court restored the consideration of commerciality to simply “one element of the first factor enquiry.”<sup>134</sup> In its discussion, the Court rejected the statement in *Sony* that all commercial uses are presumptively unfair.<sup>135</sup> By rejecting this presumption, the Court clarified that the commercial or non-profit nature of a use only “tends to weigh” against fair use, and that weight will vary.<sup>136</sup>

The Court rejected the presumption under the first factor that a commercial use is unfair, but it did not completely reject the presumption under the fourth factor that a commercial use causes market harm.<sup>137</sup> Instead, the Court refined this presumption regarding market harm by focusing on the transformative nature of the defendant’s use.<sup>138</sup> The Court focused the overall fair use inquiry on whether the new work merely “supersedes” the original or whether it is “transformative.”<sup>139</sup> A finding of transformative use alters the fair use inquiry: “[T]he more transformative the new work, the less will be the

---

<sup>130</sup> *Acuff-Rose Music, Inc.*, 754 F. Supp. at 1154 (quoting *Harper & Row*, 471 U.S. at 562).

<sup>131</sup> *Acuff-Rose Music*, 972 F.2d at 1436-37. The court of appeals also adopted the presumption from *Sony* that there was a “likelihood of market harm” since the use was commercial. *Id.* at 1438.

<sup>132</sup> *Campbell*, 510 U.S. at 583-84, 590-91, 594.

<sup>133</sup> *Id.* at 584.

<sup>134</sup> *Id.*

<sup>135</sup> *Id.* at 584-85.

<sup>136</sup> *Id.* at 585 (quoting *Harper & Row*, 471 U.S. at 562). By rejecting the statement in *Sony* that commercial uses are unfair, the Court in *Campbell* was also negating the use of that statement in *Harper & Row*.

<sup>137</sup> *Id.* at 583-84, 591. The Court held that the court of appeals erred in the application of the presumption of market harm (emphasis added).

<sup>138</sup> Barton Beebe, *supra* note 108, at 618.

<sup>139</sup> *Campbell*, 510 U.S. at 579 (quoting *Folsom v. Marsh*, 9 F.Cas. 342, 348 (C.C.D. Mass. 1841); and Pierre N. Leval, *Commentary, Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990)).

significance of other factors, like commercialism, that may weigh against a finding of fair use.”<sup>140</sup> In discussing the fourth factor, the Court stated that “[n]o ‘presumption’ or inference of market harm . . . is applicable to a case involving something beyond mere duplication for commercial purposes.”<sup>141</sup> If a commercial use is “a mere duplication of the entirety of the original” then it supersedes the original, and it is “likely that cognizable harm to the original will occur.”<sup>142</sup> This use would be non-transformative. On the other hand, if the use is transformative, then it is less likely that the use is a substitution for the original and “market harm may not be so readily inferred.”<sup>143</sup> The commerciality of the use does not by itself merit a presumption of harm.<sup>144</sup> Instead, the inference or presumption is stronger or weaker depending on the transformative nature of the use.<sup>145</sup>

## VII. POST-CAMPBELL: PRESUMPTIONS RETREAT, TRANSFORMATIVE USE RISES

The Supreme Court’s adoption of transformative use analysis altered courts’ overall treatment of fair use cases.<sup>146</sup> Added to this altered treatment was the Court’s rejection of presumptions regarding commercial and noncommercial uses. After *Sony*, there was a concern that courts would find typical commercial uses of copyrighted works to be unfair.<sup>147</sup> After the decision in *Campbell*, it appeared that commerciality of a use would simply be part of overall factor analysis rather than a trigger for a cursory decision that a use is unfair.<sup>148</sup> This

---

<sup>140</sup> *Campbell*, 510 U.S. at 579.

<sup>141</sup> *Id.* at 591.

<sup>142</sup> *Id.* An example of a case in which the court applied the *Campbell* analysis is *Schiffer Pub., Ltd. v. Chronicle Books*, No. CIV.A. 03-4962, 2004 WL 2583817, at \*12 (E.D. Pa. Nov. 12, 2004). The court determined that the defendants copied the plaintiffs’ work verbatim and used it with little modification. The court concluded that this “‘commercial use amounts to mere duplication of the entirety of an original,’ and thus ‘supersedes the objects of the original and serves as a market replacement for it, making it likely that cognizable market harm to the original will occur.’” *Id.* (internal quotations omitted).

<sup>143</sup> *Chronicle Books*, 2004 WL 2583817 at \*12.

<sup>144</sup> *Campbell*, 510 U.S. at 584-85.

<sup>145</sup> *Id.*

<sup>146</sup> Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 LEWIS & CLARK L. REV. 715, 719 (2011); see also Pierre N. Leval, *supra* note 74, at 1465-66.

<sup>147</sup> See Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917, 949 (2005); Pierre N. Leval, *supra* note 74, at 1463-64.

<sup>148</sup> See Patry & Perlmutter, *supra* note 98, at 706-07 (1993) (discussing the cursory analysis courts used in following the *Sony* presumptions). Examples of post-*Sony* cases that used this cursory analysis are: *Fin. Info., Inc. v. Moody's Investors Serv., Inc.*, 751 F.2d 501, 508-09 (2d Cir.1984) and *Acuff-Rose Music, Inc. v.*

treatment benefited users of copyrighted works for commercial purposes since they were no longer facing a “per se disqualification”<sup>149</sup> in asserting fair use.

After the *Campbell* decision, however, some courts continued to follow the *Sony* presumptions, or, even more confusingly, to cite both *Sony* and *Campbell* regarding consideration of commerciality.<sup>150</sup> For example, in *Micro Star v. Formgen Inc.*, the Ninth Circuit quoted *Campbell* to note that the existence of a commercial purpose did not end the discussion, but then quoted the *Sony* presumption that all commercial uses are presumably unfair.<sup>151</sup> The court then, in a footnote, commented that under *Campbell* a transformative use would lessen the weight of commercialism.<sup>152</sup> Since the defendant’s use was commercial and not transformative, the implicit conclusion under the first factor analysis was that the use was unfair.<sup>153</sup> In another case ten years after *Micro Star*, the Ninth Circuit relied on *Sony*’s double presumptions in determining that the defendant’s use was unfair.<sup>154</sup> In *Leadsinger, Inc. v. BMG Music Publishing*, the court noted under the first factor that the defendant’s purpose was commercial and therefore presumptively unfair under *Sony*.<sup>155</sup> Under the fourth factor, the court simply stated: “We have . . . concluded that [the defendant’s] use is intended for commercial gain, and it is well accepted that when ‘the intended use is for commercial gain,’ the likelihood of market harm ‘may be presumed.’”<sup>156</sup> The court ignored *Campbell*’s pronouncements concerning the commerciality presumptions.

Reliance on the *Sony* presumptions has persisted in more recent decisions. In *Monge v. Maya Magazines, Inc.*, the Ninth Circuit reviewed a magazine’s use of photographs and not only quoted the *Sony* presumption but mangled the discussion in *Harper & Row* of commercial use.<sup>157</sup> In discussing the first factor, the Court, quoting *Sony*, noted that every commercial use is presumptively unfair.<sup>158</sup> Then the court fused two quotes from *Harper & Row*: commercial use is a factor that “tends to weigh against a finding of fair use” because “the

---

*Campbell*, 972 F.2d 1429, 1439 (6th Cir. 1992), *rev'd*, 510 U.S. 569 (1994).

<sup>149</sup> Patry & Perlmutter, *supra* note 98, at 707.

<sup>150</sup> See PATRY, *supra* note 26, § 3:4.

<sup>151</sup> *Micro Star v. Formgen, Inc.*, 154 F.3d 1107, 1113 (9th Cir. 1998).

<sup>152</sup> *Id.* at 1113 n.6.

<sup>153</sup> *Id.* at 1113.

<sup>154</sup> *Leadsinger, Inc. v. BMG Music Publishing*, 512 F.3d 522 (9th Cir. 2008).

<sup>155</sup> *Id.* at 530 (quoting *Sony*, 464 U.S. at 451). The court rejected the defendant’s argument that its use was transformative.

<sup>156</sup> *Id.* at 531 (quoting *Sony*, 464 U.S. at 451).

<sup>157</sup> *Monge v. Maya Magazines, Inc.*, 688 F.3d 1164 (9th Cir. 2012).

<sup>158</sup> *Id.* at 1176.

---

user stands to profit from exploitation of the copyrighted material without paying the customary price.”<sup>159</sup> This fusion of two very separate statements from *Harper & Row* creates an assumption that users of works for commercial purposes are not “paying the customary price.” *Monge* was a 2012 case, but in 2014, a California district court quoted the *Monge*-fused language as if it were a direct quote from *Harper & Row*, thus potentially perpetuating a misinterpretation.<sup>160</sup> The ongoing usage of the *Sony* and *Harper & Row* quotes concerning commercial use, despite later clarification, demonstrates the need for defendants to understand and articulate the appropriate interpretation of these statements.<sup>161</sup>

Another challenge in asserting fair use of copyrighted works for commercial purposes was establishing that the use was “transformative.” Given the importance of transformative use analysis, establishing whether a use is transformative can be determinative of the outcome of a case. Studies of fair use decisions have determined that transformative use has dominated fair use analysis since the Supreme Court’s decision in *Campbell*.<sup>162</sup> While a non-transformative use could still qualify as a fair use,<sup>163</sup> a finding of transformativeness has a strong influence on the overall analysis and outcome. The influence is especially strong because of the Court’s close connection between the first and fourth factors.<sup>164</sup> The Court in *Campbell* restored “commerciality” as part of the evaluation of factors in fair use analysis, but retained an inference that a non-transformative commercial use was

---

<sup>159</sup> *Id.* (quoting *Harper & Row*, 476 U.S. at 562) (emphasis added to show added language).

<sup>160</sup> *Erickson Prods., Inc. v. Kast*, No. 5:13-CV-05472 HRL, 2014 WL 5474741, at \*2 (N.D. Cal. Oct. 28, 2014).

<sup>161</sup> While the cases cited in this paragraph are all from the Ninth Circuit, other courts have also perpetuated the *Sony* presumption. See, e.g., *Ivory v. Holme*, No. 8:07-CV-2354-T-TBM, 2009 WL 513720, at \*7 (M.D. Fla. Feb. 27, 2009) (quoting *Sony*, 464 U.S. at 417) (stating that “the Supreme Court has clarified that a ‘commercial or profit-making purpose’ is presumptively unfair”); *Thomas M. Gilbert Architects, P.C. v. Accent Builders & Developers, LLC*, 629 F. Supp. 2d 526, 533 (E.D. Va. 2008) (quoting *Campbell* regarding transformative works, but then stating that “where the primary use of the copyrighted work is for a commercial purpose” the use is presumptively unfair).

<sup>162</sup> Netanel, *supra* note 146, at 734, 736, 746; see also Michael D. Murray, *What is Transformative? An Explanatory Synthesis of the Convergence of Transformation and Predominant Purpose in Copyright Fair Use Law*, 11 CHL-KENT J. INTELL. PROP. 260, 261 (2012) (“The transformative test . . . has become the defining standard for fair use.”); Matthew Sag, *Predicting Fair Use*, 73 OHIO ST. L.J. 47, 84 (2012) (“[E]vidence . . . confirms the centrality of transformative use.”).

<sup>163</sup> *Campbell*, 510 U.S. at 579.

<sup>164</sup> See Pierre N. Leval, *Campbell v. Acuff-Rose: Justice Souter's Rescue of Fair Use*, 13 CARDOZO ARTS & ENT. L.J. 19, 22–23 (1994).

likely to be a substitution for the original.<sup>165</sup> The Court, in effect, retained double-counting under the first and fourth factors by linking a finding of non-transformative use under the first factor to the likelihood of market harm under the fourth factor.<sup>166</sup> Illustrating the connection between a determination of transformativeness and market harm, with regard to a commercial use, is the decision in *Oasis Publishing Co. v. West Publishing Co.*<sup>167</sup> In evaluating the fourth factor, the court referred to the presumption in *Sony* that a commercial use will harm the market for the original work.<sup>168</sup> The court then noted that under *Campbell*, the presumption did not apply if the use was transformative.<sup>169</sup> The court determined that the defendant's use was not transformative, and therefore, the court presumed market harm to the plaintiff.<sup>170</sup>

Given the importance of establishing that a use was transformative, the lack of clarity in the meaning of "transformative" was especially challenging in determining whether a commercial use would qualify. In *Campbell*, the Court stated that in analyzing the first factor:

"the central purpose" is to determine if "the new work merely 'supersede[s] the objects' of the original . . . or instead *adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message . . .* in other words, whether and to what extent the new work is 'transformative.'<sup>171</sup>

This statement was ambiguous as to the definition of transformative.<sup>172</sup> Court decisions following *Campbell* lacked clarity and consistency in

---

<sup>165</sup> See *Campbell*, 510 U.S. at 591.

<sup>166</sup> Jeremy Kudon, *Form over Function: Expanding the Transformative Use Test for Fair Use*, 80 B.U. L. REV. 579, 605 (2000); see Laura G. Lape, *Transforming Fair Use: The Productive Use Factor in Fair Use Doctrine*, 58 ALB. L. REV. 677, 716 (1995).

<sup>167</sup> *Oasis Publishing Co. v. West Publishing Co.*, 924 F. Supp. 918 (D. Minn. 1996).

<sup>168</sup> *Id.* at 928; see Matthew D. Bunker, *Eroding Fair Use: The "Transformative" Use Doctrine After Campbell*, 7 COMM. L. & POL'Y 1, 18–20 (2002) (discussing the relationship between a finding of transformativeness under the first factor and a finding of market harm under the fourth factor).

<sup>169</sup> *Oasis Pub Co.*, 924 F. Supp. at 929.

<sup>170</sup> *Id.* In discussing the first factor, the court had also rejected the defendant's argument that the use was transformative. *Id.* at 927.

<sup>171</sup> *Campbell*, 510 U.S. at 579 (emphasis added). The Court quoted Judge Leval's influential article on fair use in its discussion of transformative use. Pierre N. Leval, *supra* note 139, at 1111.

<sup>172</sup> See Netanel, *supra* note 146, at 746–47.

interpretation.<sup>173</sup> It was unclear whether a transformative work should have a different purpose from the original, a different character, or both.<sup>174</sup> Did there need to be some alteration in the work or incorporation of the work into a new work, or would simply having a different purpose suffice? One commentator reviewed decisions in the six years after the *Campbell* decision and determined that courts rejected claims of transformative use for works lacking “explicit, additional creative value.”<sup>175</sup> He lamented that these determinations “precluded the use of the fair use defense for all secondary works that fail to provide explicit commentary, criticism, parody or scholarship.”<sup>176</sup> If a use needed to have “additional creative value” in order to be transformative, this could be problematic for some commercial uses that required use of an unaltered copy of a work.

An illustration of cases focused on the requirement of alteration and additional creativity is the Second Circuit decision in *Infinity Broadcast Corp. v. Kirkwood*.<sup>177</sup> In this case, the defendant retransmitted radio programs to subscribers.<sup>178</sup> The district court acknowledged that the defendant did not change the original broadcasts.<sup>179</sup> The court instead determined that the defendant’s different purpose for the use of the broadcasts supported fair use.<sup>180</sup> The court of appeals reversed the decision.<sup>181</sup> The court recognized that the defendant’s purpose for the use was different from the purpose of the original broadcasts.<sup>182</sup> The court stated, however, that “difference in purpose is not quite the same

---

<sup>173</sup> See Matthew D. Bunker, *Transforming the News: Copyright and Fair Use in News-Related Contexts*, 52 J. COPYRIGHT SOC’Y 309, 326 (2004) (“Criteria for transformativeness seem underdeveloped, if not absent.”); Diane Leenheer Zimmerman, *The More Things Change, the Less They Seem “Transformed”*: Some Reflections on Fair Use, 46 J. COPYRIGHT SOC’Y 251, 251 (1998) (“[T]he use of the term [transformative] seemed governed by no set meaning, and the conclusions reached about transformativeness—its presence or absence—were wildly divergent.”).

<sup>174</sup> Netanel, *supra* note 146, at 746–47; see Rebecca Tushnet, *Copy This Essay: How Fair Use Doctrine Harms Free Speech and How Copying Serves It*, 114 YALE L.J. 535, 546 (2004) (expressing concerns that “transformative” use required “new, critical meaning”).

<sup>175</sup> Jeremy Kudon, *Form over Function: Expanding the Transformative Use Test for Fair Use*, 80 B.U. L. REV. 579, 597–98 (2000).

<sup>176</sup> *Id.* at 599.

<sup>177</sup> *Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104 (2d Cir. 1998).

<sup>178</sup> *Infinity Broad. Corp. v. Kirkwood*, 965 F. Supp. 553, 554 (S.D.N.Y. 1997), *rev’d*, 150 F.3d 104 (2d Cir. 1998).

<sup>179</sup> *Id.* at 557.

<sup>180</sup> *Id.*

<sup>181</sup> *Infinity Broad. Corp.*, 150 F.3d at 112.

<sup>182</sup> *Id.* at 108.

thing as transformation.”<sup>183</sup> Since the defendant’s use involved no new expression, meaning, or message, it was not transformative.<sup>184</sup> The court concluded its discussion of fair use by stating that the defendant “creates nothing and advances no body of knowledge or criticism. He simply takes [the plaintiff’s] unaltered broadcasts and markets them to a specific clientele.”<sup>185</sup> The court of appeals ultimately determined that the defendant’s use was unfair.<sup>186</sup>

Other concerns arose in *American Geophysical Union v. Texaco Inc.* (“Texaco”).<sup>187</sup> In *Texaco*, scientists working for Texaco made unauthorized copies of articles from journals for later reference in their research.<sup>188</sup> Publishers of the journals sued Texaco for infringement.<sup>189</sup> Texaco argued that the copying constituted a fair use of the works.<sup>190</sup> Both the district court and the Second Circuit determined that the copying was not transformative.<sup>191</sup> The district court determined that Texaco lost under the first factor analysis not only because the copying was not transformative, but because “it was carried on in a commercial context for the purpose of producing profits.”<sup>192</sup> Even though there were no resales of the copies and the scientists used the copies “to assist in socially valuable scientific research,” their research was still “conducted for commercial gain.”<sup>193</sup> The Second Circuit acknowledged that the “link between Texaco’s commercial gain” and the copying was “somewhat attenuated.”<sup>194</sup> Texaco gained no “direct or immediate commercial advantage” from the scientists’ copying.<sup>195</sup> The court stated, however, that it “need not ignore” Texaco’s “for-profit nature” and determined that “Texaco ‘reap[ed] at least some indirect

---

<sup>183</sup> *Id.* at 108.

<sup>184</sup> *Id.*

<sup>185</sup> *Id.* at 111–12.

<sup>186</sup> *Id.* at 112.

<sup>187</sup> *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913 (2d Cir. 1994), *amending and superseding* 37 F.3d 881 (2d Cir).

<sup>188</sup> *Id.* at 915–16.

<sup>189</sup> *Id.* at 914–15.

<sup>190</sup> *Id.*

<sup>191</sup> *Am. Geophysical Union v. Texaco Inc.*, 802 F. Supp. 1, 13 (S.D.N.Y. 1992); *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 922 (2d Cir. 1994). The district court decision was before the *Campbell* decision. Interestingly, Judge Leval, who wrote the opinion for the district court, discussed transformative use. Judge Leval is author of the article the Supreme Court relied upon in its discussion of transformative use in *Campbell*. See *Campbell*, 510 U.S. at 579 (1994) (citing Piere N. Leval, *supra* note 139, at 1111).

<sup>192</sup> *Am. Geophysical Union*, 802 F. Supp. at 16.

<sup>193</sup> *Id.*

<sup>194</sup> *Texaco*, 60 F.3d at 922.

<sup>195</sup> *Id.* at 921.

---

economic advantage” from the copying.<sup>196</sup> This determination was disturbing in that it focused on the nature of the user and not just the use itself.<sup>197</sup> It also assumed that this “intermediate use” which “*might* have led to the development of new products”<sup>198</sup> was enough to consider the use unfair under the first factor. It raised the issue of whether any uses by commercial users could meet the first factor test. Under the fourth factor, the Second Circuit focused on the loss of licensing revenues for the copied articles.<sup>199</sup> The court determined that there was a “workable market” to obtain licenses to copy the articles.<sup>200</sup> The loss of licensing revenue, and “to a minor extent” some subscription revenue, resulted in the demonstration of “substantial harm” under the fourth factor.<sup>201</sup> After reviewing all four factors, the Second Circuit affirmed the district court’s decision that the copying was not fair use.<sup>202</sup>

### VIII. DIFFERENT PURPOSE AS TRANSFORMATIVE USE

For users of works for commercial purposes, many interpretations of the transformative use test after *Campbell* were not helpful in that they focused on the need to add to or alter the original work. Over time, however, courts recognized that a different purpose *alone* could constitute a transformative use. Studies focused on courts’ application of transformative use analysis determined that in later cases courts have predominately focused on the purpose of the defendant’s work rather than the content.<sup>203</sup> It is a different purpose, not “new expressive content” that determines if the secondary work is transformative.<sup>204</sup> Further, there are a significant number of cases finding a transformative use when the defendant copied the entire work without alteration and used it for a different purpose.<sup>205</sup> These cases are especially prevalent

---

<sup>196</sup> *Id.* at 922.

<sup>197</sup> The Second Circuit noted that it was not considering whether the outcome of the analysis would be different if the scientists were making copies as independent researchers rather than for a company. *Id.* This comment also focused on the nature of the employment of the scientists rather than the use.

<sup>198</sup> *Id.* at 921 (emphasis added).

<sup>199</sup> *Id.* at 930.

<sup>200</sup> *Id.*

<sup>201</sup> *Id.* at 931.

<sup>202</sup> *Id.*

<sup>203</sup> R. Anthony Reese, *Transformativeness and the Derivative Work Right*, 31 COLUM. J.L. & ARTS 467, 485 (2008); Murray, *supra* note 162, at 261; Netanel, *supra* note 146, at 747.

<sup>204</sup> Netanel, *supra* note 146, at 748. The dominance of transformative use analysis also appeared after 2005. *Id.* at 734, 736.

<sup>205</sup> *Id.* at 748; Reese, *supra* note 203, at 485.

after 2005.<sup>206</sup> This expanded interpretation of transformative use supported determinations that commercial uses not involving alterations in the original work could qualify for fair use treatment. Examples of these cases show how an expansive range of uses in commercial contexts that qualified as fair use. The cases illustrate the significant effect that transformative identification has on fair use analysis and outcome of cases involving commercial uses. In a study of fair use cases from 1995 to 2010, Professor Netanel determined that “the plaintiff won on fair use in 90.3% of the cases in which the court held that the use was commercial but not (unequivocally) transformative.”<sup>207</sup> Plaintiffs, however, won in “only 12.5% of the cases in which the court held that the use was both commercial and unequivocally transformative.”<sup>208</sup> Essentially, “a judicial finding that the use is also unequivocally transformative trumps the significance of commerciality.”<sup>209</sup>

#### A. Changing Transformation – *Swatch Group*

The case of *Swatch Group Management Services, Ltd. v. Bloomberg, L.P.*, is especially interesting because of the comparison of the two opinions that the Second Circuit issued in this case.<sup>210</sup> In *Swatch Group*, Bloomberg distributed to its subscribers an unauthorized copy of a recorded Swatch conference call involving company executives and investment analysts.<sup>211</sup> The Second Circuit determined that Bloomberg’s use and distribution of the recording were fair use even though Bloomberg had distributed an unaltered copy of the recording in its entirety without any added commentary.<sup>212</sup> Under the first factor analysis, the court determined that Bloomberg’s use of the work was transformative solely due to its different message and purpose.<sup>213</sup> The Second Circuit initially issued an opinion in which it

---

<sup>206</sup> Netanel, *supra* note 146, at 748.

<sup>207</sup> *Id.* at 743 n.125.

<sup>208</sup> *Id.* Professor Netanel notes that “[f]or the period 2006-2010, [the] plaintiff win rates were 88.2% versus 20%, respectively.” *Id.*

<sup>209</sup> *Id.*

<sup>210</sup> *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P. (Swatch Group II)*, 756 F.3d 73 (2d Cir. 2014), *amending and superseding* *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P. (Swatch Group I)*, 742 F.3d 17 (2d Cir. 2014).

<sup>211</sup> *See Swatch Group II*, 756 F.3d at 78–79. The call was to discuss company earnings and was by invitation only. Media representatives were not invited to join the call. *Id.* at 78.

<sup>212</sup> *See id.* at 92.

<sup>213</sup> *See Swatch Group II*, 756 F.3d at 84–85. Bloomberg disseminated the recording to evidence “newsworthy information of what Swatch Group executives had said.” *Id.* at 85. Swatch used the call to assure analysts of the reliability of its

discussed how non-transformative uses could be fair use.<sup>214</sup> In that initial opinion, the court stated that even though “Bloomberg did not transform Swatch’s work through additional commentary or analysis” the first factor analysis still favored fair use.<sup>215</sup> The court did not discuss a different purpose for determining transformative use.<sup>216</sup> The amending and superseding opinion contains substantial additional discussion of the defendant’s purpose and the transformativeness of this purpose.<sup>217</sup> In its final opinion, the court assigned “*relatively little weight*” to the commercial nature of the use given the lack of proof of any “commercial exploitation.”<sup>218</sup> In the original opinion, in which the court determined that Bloomberg’s use was not transformative, the court assigned the commercial nature of the use “*somewhat reduced weight*.”<sup>219</sup> In both opinions, the court determined that the use was fair, but in the opinion in which the use was transformative, the weight of commerciality changed.

## B. Search Engines and Databases

A series of cases involving search engines and searchable databases illustrate how the identification of a different purpose as transformative use supported findings that commercial uses qualified for fair use treatment.<sup>220</sup> These cases highlight the connection between a finding of transformative use and the weight accorded to commerciality. They also demonstrate the connection between a finding of transformative use and the treatment of commerciality under the fourth factor.

Two cases involved the use of thumbnail images of copyrighted works as internet search tools. In *Kelly v. Arriba Soft Corp.* and *Perfect 10, Inc. v. Amazon.com, Inc.*, the Ninth Circuit held that the use of the thumbnail images as search tools was transformative, even though there were no alterations in the images.<sup>221</sup> *Kelly* provides the basic

---

previously announced earnings. *See id.* The Second Circuit contrasted Bloomberg’s message (“this is what they said”) with Swatch’s message (“this is what you should believe”). *Id.* Bloomberg’s different purpose gave its “use at least an arguably transformative character.” *Id.*

<sup>214</sup> *See Swatch Group I*, 742 F.3d at 28.

<sup>215</sup> *Id.* at 29.

<sup>216</sup> *See id.* at 28–30.

<sup>217</sup> *See Swatch Group II*, 756 F.3d at 84–86.

<sup>218</sup> *Id.* at 83 (emphasis added).

<sup>219</sup> *Swatch Group I*, 742 F.3d at 28 (emphasis added).

<sup>220</sup> One of the cases (*HathiTrust*) does not involve a commercial use, but illustrates the important connection between a finding of transformative use under the first factor and the effect on market analysis under this fourth factor.

<sup>221</sup> *Kelly v. Arriba Soft Corp.*, 336 F.3d at 819; *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d at 1165.

recognition that a different purpose can qualify as a transformative use.<sup>222</sup> In *Kelly*, the defendant's use was transformative and did not supersede the original works because the defendant's purpose was to "improv[e] access to information on the internet" while the plaintiff's purpose was "artistic expression."<sup>223</sup> The court briefly mentioned commerciality, noting that since the defendant's use "was not highly exploitative, the commercial nature of the use weigh[ed] only slightly against a finding of fair use."<sup>224</sup>

*Perfect 10* involved Google's use of thumbnail images.<sup>225</sup> This case highlighted not only the identification of a different purpose as transformative use, but the effect that identification of transformative use could have on weight of commerciality. The case also demonstrates how transformative use negates *Campbell's* modified presumption against commercial use under the fourth factor. In *Perfect 10*, the Ninth Circuit followed its reasoning in *Kelly*, determining that Google's use was "highly transformative" even though Google used exact, unaltered copies of the works.<sup>226</sup> This use turned the images into "a pointer directing a user to a source of information."<sup>227</sup> The district court determined that there were possible superseding uses for the thumbnail images (use on cell phones) and possible commercial benefits to Google because some of the thumbnail images directed users to websites that participated in Google's AdSense program.<sup>228</sup> The district court, therefore concluded that the commerciality of Google's use of the images resulted in the first factor weighing "slightly" *in favor of the plaintiff*.<sup>229</sup> The Ninth Circuit disagreed with this assessment, determining that the first factor weighed "heavily in favor of Google" due to the "transformative nature" of the use.<sup>230</sup> The court relied on *Campbell* to support its conclusion that the transformative nature of the use outweighed "any incidental superseding use or the minor commercial aspects of Google's search engine and website."<sup>231</sup> Transformative use therefore changed the weight of the first factor from slightly in favor of the plaintiff to heavily in favor of the defendant. In discussing the fourth factor, the Ninth Circuit rejected any presumption

---

<sup>222</sup> *Kelly*, 336 F.3d at 819.

<sup>223</sup> *Id.*

<sup>224</sup> *Id.* at 818.

<sup>225</sup> *Perfect 10*, 508 F.3d at 1155.

<sup>226</sup> *Id.* at 1165 ("even making an exact copy of a work may be transformative so long as the copy serves a different function than the original work").

<sup>227</sup> *Id.*

<sup>228</sup> *Id.* at 1165-66.

<sup>229</sup> *Id.* at 1167.

<sup>230</sup> *Id.* (emphasis added).

<sup>231</sup> *Id.* (quoting *Campbell*, 510 U.S. at 579).

that commerciality resulted in the likelihood of market harm. Relying on *Campbell*, the court noted that “this presumption does not arise when a work is transformative.”<sup>232</sup> Since Google’s use was highly transformative, there could be no presumption of market harm.<sup>233</sup>

Other cases in which courts determined that a different purpose alone constituted a transformative use involved the use of copyrighted works in the creation of searchable databases. These cases also illustrate the limited weight given to commercial uses, if a use is transformative, and the effect of transformative use on fourth factor analysis. In *A.V. ex rel. Vanderhye v. iParadigms, LLC*, the defendant created a database of the full, unaltered text of student papers that users could search to determine plagiarism.<sup>234</sup> Users could only see matches for searches and not the full papers.<sup>235</sup> The Fourth Circuit determined that the defendant’s use was transformative because the use was for “an entirely different function and purpose than the original works.”<sup>236</sup> The plaintiffs argued that the defendant was a for-profit company that was receiving revenues for use of its database so the defendant’s admittedly commercial use was presumptively unfair.<sup>237</sup> The court dismissed this argument, noting *Campbell’s* rejection of the presumption.<sup>238</sup> The court agreed with the district court’s assessment that due to the transformative nature of the defendant’s use, the commercial aspect of the use was not significant.<sup>239</sup>

*Authors Guild, Inc. v. Google, Inc.* also involved the creation of a searchable database through the scanning and digitization of books.<sup>240</sup> The database was searchable, but users could only see a “snippet view” of results of searches.<sup>241</sup> The District Court for the Southern District of New York held that Google’s use of the digitized works was “highly transformative.”<sup>242</sup> While Google used the full text of the works, Google’s use had a much different purpose than the use of the original books.<sup>243</sup> Users were not reading the scanned books; they were using the words from the books as “pointers.”<sup>244</sup> The district court recognized

---

<sup>232</sup> *Id.* at 1168.

<sup>233</sup> *Id.*

<sup>234</sup> *A.V. ex rel. Vanderhye v. iParadigms, LLC*, 562 F.3d 630 (4th Cir. 2009).

<sup>235</sup> *See id.* at 634.

<sup>236</sup> *Id.* at 639.

<sup>237</sup> *Id.* at 638. The plaintiffs relied on the *Sony* presumption.

<sup>238</sup> *Id.* at 639.

<sup>239</sup> *Id.*

<sup>240</sup> *Authors Guild, Inc. v. Google Inc.*, 954 F. Supp. 2d 282, 285-87 (S.D.N.Y. 2013).

<sup>241</sup> *Id.*

<sup>242</sup> *Id.* at 291.

<sup>243</sup> *Id.*

<sup>244</sup> *Id.*

that Google was a for-profit entity and the scanning project was largely a commercial endeavor.<sup>245</sup> The court noted that Google did not receive any direct commercial benefit from the scanning and operation of the database.<sup>246</sup> Although the court considered that Google could benefit indirectly from the use of the database, it did not give the factor much weight.<sup>247</sup> The court barely discussed the fourth factor since there was no evidence that there was any substitute offered for the original books.<sup>248</sup> In a similar case, *Authors Guild, Inc. v. HathiTrust*, the Second Circuit held that the creation of a searchable database of the full text of scanned books was a “quintessentially transformative use.”<sup>249</sup> The court focused on the defendant’s different purpose for the use.<sup>250</sup> The court in *HathiTrust* discussed the fourth factor in terms of whether the defendant’s use served as a substitute for the original work.<sup>251</sup> The court emphasized that “any economic ‘harm’ caused by transformative uses does not count, because such uses . . . do not serve as substitutes for the original work.”<sup>252</sup> Since the defendant’s use was transformative, there was no substitute for the original works, and it did not matter that there might be licensing available.<sup>253</sup>

Another case involving the creation of a searchable database was *Fox News Network, LLC v. TVEyes, Inc.*<sup>254</sup> In *TVEyes*, the defendant maintained a searchable database of audio-visual content gathered from televisions and radio stations on a 24/7 basis.<sup>255</sup> Some of the plaintiff’s programs were included in the database.<sup>256</sup> The defendant recorded the entire content, but subscribers could only obtain access to limited

---

<sup>245</sup> *Id.* (noting that “for the year ended December 31, 2011, [Google] reported over \$36.5 billion in advertising revenues”).

<sup>246</sup> *Id.*

<sup>247</sup> *Id.* at 291-92.

<sup>248</sup> *Id.* at 292-93.

<sup>249</sup> *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 97 (2d Cir. 2014). *HathiTrust* did not involve a commercial entity, but is useful to reference because of the discussion of the effect of transformative use on licensing.

<sup>250</sup> *Id.*

<sup>251</sup> *Id.* at 99.

<sup>252</sup> *Id.*

<sup>253</sup> *Id.* at 99-100 (“Lost licensing revenue counts under Factor Four only when the use serves as a substitute for the original and the full-text-search use does not.”). The Second Circuit cites *Campbell*, 510 U.S. at 591-92, and *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 614 (2d Cir. 2006) in its discussion concerning licensing. For a discussion of the *Bill Graham Archives* case, see *infra* text accompanying notes 290-293.

<sup>254</sup> *Fox News Network v. TVEyes, Inc.*, 43 F. Supp. 3d 379, 383 (S.D.N.Y. 2014).

<sup>255</sup> *Id.* at 383-85.

<sup>256</sup> *Id.*

---

portions of the programs identified through a search.<sup>257</sup> The District Court for the Southern District of New York determined that the defendant through its search function provided a unique service that did not serve the same function as the original programming.<sup>258</sup> The court recognized that TVEyes was a for-profit entity and obtained revenues from its services.<sup>259</sup> The court did not assign this factor much weight, finding that first factor weighed in favor of the defendant.<sup>260</sup> In analyzing the fourth factor, the court stated that “any economic harm caused by transformative uses” would not factor into the analysis because transformative uses are not “substitutes for the original work.”<sup>261</sup>

In yet another case, *White v. West Publishing Corp.*, the U.S. District Court for the Southern District of New York determined that the inclusion of digitized legal briefs, memoranda, and documents in West and Lexis searchable databases was fair use.<sup>262</sup> The court determined that the database providers’ use of the digitized documents to provide “an interactive legal research tool” was transformative.<sup>263</sup> The purpose of the original documents was to provide legal services, while the database providers used the documents to aid in research.<sup>264</sup> The defendants also “add[ed] something new” to the documents through coding, linking, and other modifications.<sup>265</sup> The court acknowledged that the defendants’ use was for commercial benefit, but noted that the weight of that factor was limited due to the transformative nature of the use.<sup>266</sup>

### C. The Patent Application Cases

Two cases involving patent applications offer not only a discussion of different purpose as transformative use, but also how a finding of transformative use affects a claim for licensing fees. These cases also addressed some of the arguments from *Texaco* concerning intermediate uses.

In *American Institute of Physics v. Winstead PC*<sup>267</sup> and *American*

---

<sup>257</sup> *Id.* at 383.

<sup>258</sup> *Id.* at 393.

<sup>259</sup> *Id.* at 385-86.

<sup>260</sup> *Id.* at 393-94.

<sup>261</sup> *Id.* at 395.

<sup>262</sup> *West v. White Publ’g. Corp.*, 29 F. Supp. 3d 396, 400 (S.D.N.Y. 2014).

<sup>263</sup> *Id.* at 399.

<sup>264</sup> *Id.*

<sup>265</sup> *Id.*

<sup>266</sup> *See id.*

<sup>267</sup> *Am. Inst. Of Physics v. Winstead PC*, Civ. A. No. 3:12-CV-1230-M, 2013

*Institute of Physics v. Schwegman*,<sup>268</sup> publishers sued law firms for copyright infringement, alleging that the firms had not obtained permission before filing copies of copyrighted articles in patent applications.<sup>269</sup> In both cases, judges determined that the defendants' copying constituted fair use as a matter of law and granted summary judgment for the defendants.<sup>270</sup> Both judges concluded that the defendants' copying was transformative because the defendants used the copies for a different purpose than the original.<sup>271</sup> The defendants' purpose was to provide the articles as evidence of the existence of information relevant in the context of the patent process.<sup>272</sup> The plaintiffs' purpose was to provide current research to the scientific community.<sup>273</sup> The use was transformative even though the defendants used exact, unaltered copies.<sup>274</sup>

In both cases, the plaintiffs argued that the defendant law firms were for-profit businesses that derived commercial benefits from the copying, a factor which should weigh against them under the first factor analysis.<sup>275</sup> In *Schwegman*, the judge determined that due to the defendants' different "evidentiary" purpose for using the works, the defendants did not "unfairly exploit" the copyrighted works.<sup>276</sup> In *Winstead*, the judge stated that even if the use occurred in a "commercial context," that factor was not determinative.<sup>277</sup> Since the defendants' use was transformative, under *Campbell*, the significance of any commercialism would decrease.<sup>278</sup>

---

WL 6242843, at \*1 (N.D. Tex. Dec. 3, 2013).

<sup>268</sup> Am. Inst. Of Physics v. Schwegman, Civ. No. 12-528, 2013 WL 4666330, at \*1 (D. Minn. Aug. 30, 2013). The district court adopted the magistrate judge's report and recommendation after a de novo review. 2013 WL 4666330 at \*1. The magistrate judge's opinion is included in full as the district court's opinion.

<sup>269</sup> *Winstead*, 2013 WL 6242843, at \*1; *Schwegman*, 2013 WL 4666330, at \*2.

<sup>270</sup> *Winstead*, 2013 WL 6242843, at \*13; *Schwegman*, 2013 WL 4666330, at \*2.

<sup>271</sup> *Winstead*, 2013 WL 6242843, at \*5; *Schwegman*, 2013 WL 4666330, at \*10.

<sup>272</sup> *Winstead*, 2013 WL 6242843, at \*5-6; *Schwegman*, 2013 WL 4666330, at \*10-12.

<sup>273</sup> See *Winstead*, 2013 WL 6242843, at \*5; *Schwegman*, 2013 WL 4666330, at \*10. In *Schwegman*, the judge distinguished *Texaco* by discussing that in *Texaco* the researchers were using the copies for the same original purpose the original articles were produced. 2013 WL 4666330 at \*13.

<sup>274</sup> *Winstead*, 2013 WL 6242843, at \*5, 10; *Schwegman*, 2013 WL 4666330, at \*10-11, 17. For a detailed discussion of these opinions, see D.R. Jones, *Law Firm Copying and Fair Use: An Examination of Different Purpose and Fair Use Markets*, 56 S. TEX. L. REV. 101 (2014).

<sup>275</sup> See *Winstead*, 2013 WL 6242843, at \*6-8; *Schwegman*, 2013 WL 4666330, at \*12.

<sup>276</sup> *Schwegman*, 2013 WL 4666330, at \*12.

<sup>277</sup> *Winstead*, 2013 WL 6242843, at \*8.

<sup>278</sup> *Id.*

The plaintiffs in *Winstead* relied on *Texaco* to argue that the defendants' were obtaining an indirect commercial profit from the hourly charges for attorneys' time spent reviewing the articles.<sup>279</sup> The judge rejected this argument, stating that the money derived was from "the use of the attorney's own time and not the content of the article."<sup>280</sup> She distinguished *Texaco* by noting that in that case, the defendant's use was not transformative. She focused, however, on the court's determination in *Texaco* that the use of the copies was a substitute for additional subscriptions.<sup>281</sup> This was a focus on the market impact in *Texaco* and not on the use of the copies for the same purpose as the original works. In both cases, under the fourth factor analysis, the plaintiffs argued that they lost licensing fees for the copies.<sup>282</sup> In *Winstead*, the judge relied on *Campbell* to negate an inference of market harm for commercial uses.<sup>283</sup> Since the defendants' use was transformative, substitution and market harm could not be inferred.<sup>284</sup> The judge also noted that the public benefit derived from defendant's copying outweighed any potential fees.<sup>285</sup> In *Schwegman*, the plaintiffs relied on *Texaco* to argue that the defendant should pay licensing fees where licenses were available.<sup>286</sup>

The judge in *Schwegman* distinguished *Texaco*, noting that in *Texaco*, the defendant's purpose for using the articles was not different from the intended purpose for the original.<sup>287</sup> Therefore, the use in that case "superseded the originally intended use."<sup>288</sup> In *Schwegman*, the defendants' use was for a "new and different purpose" and therefore did not supplant the market.<sup>289</sup> The judge relied on *Bill Graham Archives v. Dorling Kindersley Ltd.*,<sup>290</sup> to discuss how a determination of a transformative use under the first factor affected analysis under the

---

<sup>279</sup> *Id.* at \*7. The plaintiffs also argued that the defendants were operating a "commercial enterprise" by profiting charging clients for copies. *Id.* at \*6. The judge rejected this argument, noting that the defendants received no profit from the copies. Even if they charged clients for the copies, they only recouped costs. *Id.* at \*7–8.

<sup>280</sup> *Id.* at \*7.

<sup>281</sup> *Id.*

<sup>282</sup> *Winstead*, 2013 WL 6242843, at \*11; *Schwegman*, 2013 WL 4666330, at \*14.

<sup>283</sup> *Winstead*, 2013 WL 6242843, at \*11.

<sup>284</sup> *Id.*

<sup>285</sup> *Id.* at \*12. The public benefit was derived from minimizing costs in patent application filings and maximizing accuracy in the patent process. *Id.*

<sup>286</sup> *Schwegman*, 2013 WL 4666330, at \*15.

<sup>287</sup> *Id.*

<sup>288</sup> *Id.*

<sup>289</sup> *Id.*

<sup>290</sup> *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605 (2d Cir. 2006).

fourth factor.<sup>291</sup> In *Bill Graham Archives*, the Second Circuit held that the use of reduced-size images of posters in a biographical work constituted a transformative use of the posters due to the different purpose for the use.<sup>292</sup> Since the use was transformative, it was not relevant that a license was available for the use.<sup>293</sup> The judge in *Schwegman* discussed that the defendants' use, like the use in *Bill Graham Archives*, was transformative and therefore within a "transformative market."<sup>294</sup> The loss of any fees therefore did not result in market harm to the plaintiffs.<sup>295</sup>

These cases highlight the importance of determining whether a use is transformative. The determination not only affects the first factor; it can override a plaintiff's argument for licensing fees.

### IX. COMMERCIAL USE – PUBLIC BENEFIT

An interesting part of the fair use analysis in some of the cases involving commercial use is a determination under the fourth factor that the defendant's use provides a "public benefit," which is weighed as part of the consideration.<sup>296</sup> Several cases illustrate that courts in the fourth factor analysis consider the public benefit of a commercial use. For example, the court in *TVEyes* stated how public benefit fits in the analysis: "The fourth factor requires a balance between the 'benefit the public will derive if the use is permitted, and the personal gain the copyright owner will receive if the use is denied.'"<sup>297</sup> The court determined that TVEyes provided "substantial benefit to the public" through its searchable database of television and radio programming.<sup>298</sup> The court concluded that the fourth factor did not weigh against fair use, given that "the *de minimis* nature of any possible competition is considered in comparison to the substantial public service TVEyes provides."<sup>299</sup> Similarly, in *Swatch Group*, the court determined that "[a]lthough Bloomberg copied the recording without changing it,

---

<sup>291</sup> *Schwegman*, 2013 WL 4666330, at \*15.

<sup>292</sup> *Bill Graham Archives*, 448 F.3d at 613.

<sup>293</sup> *Id.* at 615.

<sup>294</sup> *Schwegman*, 2013 WL 4666330, at \*15.

<sup>295</sup> *Id.* at \*14–15.

<sup>296</sup> One court has indicated an inclination to favor commercial uses that exhibit a public purpose. The Second Circuit has "been more solicitous of the fair use defense in works, which though intended to be profitable, aspired to serve broader public purposes." *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366, 1375 (2d Cir. 1993).

<sup>297</sup> *TVEyes*, 43 F. Supp. 3d at 396.

<sup>298</sup> *Id.* at 397 (quoting *Bill Graham Archives*, 448 F.3d at 610).

<sup>299</sup> *Id.*

Bloomberg's use served the important public purpose of disseminating important financial information, without harm to the copyright interests of the author."<sup>300</sup> In *American Institute of Physics v. Winstead PC*, the judge recognized a public benefit in the filing of copies of articles as part of patent applications.<sup>301</sup> In discussing the fourth factor, the judge stated that the public benefit of "minimiz[ing] excessive costs in patent applications and maximiz[ing] the accuracy of the patent process" outweighed any gain to the plaintiffs from potential fees.<sup>302</sup> While in the cases discussed above the court had identified a minimum market impact on the plaintiff, in *Winstead*, the plaintiff had claimed licensing fees.<sup>303</sup> The judge was recognizing that the public benefit of the defendants' use outweighed this claim.<sup>304</sup>

In two other cases, the courts in summarizing the fair use analysis recognized the public benefit of the defendant's commercial use. In *Authors Guild, Inc. v. Google Inc.*, the District Court for the Southern District of New York recognized the significant public benefits of the Google Books database.<sup>305</sup> In *American Institute of Physics v. Schwegman*, the judge finalized the discussion of fair use by noting the defendants' through their filing of copies in patent applications "confer[ed] a public benefit" that promoted the progress of science and useful arts.<sup>306</sup>

## X. CONCLUSION

Fair use analysis under Section 107 of the 1976 Copyright Act focuses on the use, not the user. Commercial entities are entitled to rely on fair use, and many have been successful in their reliance.<sup>307</sup> Commercial uses, however, have received varied treatment under Section 107 since its enactment and in some courts may still be subject to a presumption of unfairness. A careful study and understanding of

---

<sup>300</sup> *Swatch Group II*, 756 F.3d at 92.

<sup>301</sup> *Am. Inst. Of Physics v. Winstead*, Civ. A. No. 3:12-CV-1230-M, 2013 WL 6242843, at \*12 (N.D. Tex. Dec. 3, 2013).

<sup>302</sup> *Id.*

<sup>303</sup> *Id.* at \*11.

<sup>304</sup> *Id.* at \*9.

<sup>305</sup> *Google, Inc.*, 954 F. Supp. 2d at 293.

<sup>306</sup> *Am. Inst. of Physics v. Schwegman*, Civ. No. 12-528, 2013 WL 4666330, at \*18 (D. Minn. Aug. 30, 2013).

<sup>307</sup> As Professor Sag noted, "[t]he right to make fair use of a copyrighted work is equally applicable to Fortune 500 companies as it is to struggling artists." Sag, *supra* note 174, at 85. Professor Sag notes that some lawyers that are unfamiliar with copyright law assume a for-profit entity cannot qualify for fair use, which is not the case. *Id.* at 59. Cases discussed in Part VII of this Essay reflect a diversity of different commercial entities that have successfully proven fair use.

the history and interpretation of Section 107(1) of the 1976 Copyright Act is essential to increase the possibility that a commercial use will qualify for fair use treatment. The reference to the “commercial nature” of a work was added to Section 107 without any intent to institute a presumption of unfairness or to indicate that commerciality was more important than other factors.<sup>308</sup> If there was any intent, it was to retain the treatment of commerciality simply as one of the factors considered in a fair use determination.<sup>309</sup> Prior to the enactment of the 1976 Copyright Act, courts considered commerciality as a factor in fair use analysis, but not necessarily as a determining factor.<sup>310</sup> The Supreme Court’s pronouncement in *Sony* of a presumption of unfairness elevated the importance of commerciality in potential effect, especially in linking determinations of unfairness in the first and fourth factors. The Court in *Campbell* seemingly rejected the presumption that all commercial uses were unfair, although the *Sony* pronouncement still haunts some opinions. The Court in *Campbell* also retained a limited presumption that under the fourth factor, a commercial use was unfair if it was not transformative. The transformative use test from *Campbell* has become the dominant analysis in fair use decisions, making it important that a use qualify as transformative to increase the likelihood that the use will receive fair use treatment. A determination of transformative use can affect both the first and fourth factor analysis, even outweighing a plaintiff’s claim for licensing fees through a ready market. For commercial uses, it is helpful that in following *Campbell*, courts recognized that a different purpose for the use of a work could be transformative even if there was no alteration in the work.<sup>311</sup> This analysis expanded the universe of uses that could qualify for fair use treatment. Commercial uses, such as the creation of databases of searchable works, benefited from this analysis. Recent transformative use analysis<sup>312</sup> provides a positive vehicle for users of copyrighted works for commercial purposes to qualify for fair use. This analysis restores commerciality as simply a factor in fair use analysis rather than a determiner of outcome.

---

<sup>308</sup> See H.R. REP. NO 94-1476, at 66, reprinted in 1976 U.S.C.C.A.N. at 5679 (“[This amendment] is an express recognition that, as under the present law, the commercial or non-profit character of an activity, while not conclusive with respect to fair use, can and should be weighed along with other factors in fair use decisions.” (emphasis added)).

<sup>309</sup> *Id.*

<sup>310</sup> See, e.g., *Rosemont Enters. v. Random House, Inc.*, 366 F.2d 303, 307 (2d Cir. 1966).

<sup>311</sup> As discussed in Part IX, demonstrating a public benefit can also support an argument for fair use treatment. The cases mentioned in that section reflect diverse types of activities that courts identified as generating a public benefit.

<sup>312</sup> See discussion *supra* Part VIII.

---

WAKE FOREST JOURNAL OF BUSINESS  
AND INTELLECTUAL PROPERTY LAW

---

VOLUME 15

SUMMER 2015

NUMBER 4

---

**PATENT LAW CHALLENGES FOR THE INTERNET  
OF THINGS**

**W. Keith Robinson<sup>†</sup>**

**I. INTRODUCTION..... 657**

**II. BACKGROUND ..... 661**

    A. THE INTERNET OF THINGS ..... 661

    B. CURRENT EXAMPLES OF THE INTERNET OF THINGS . 663

**III. THE PATENT SYSTEM AND THE INTERNET OF  
THINGS ..... 664**

    A. A PATENT FRAMEWORK FOR IOT ..... 664

    B. PATENTING IOT TECHNOLOGY ..... 666

    C. ENFORCING IOT PATENTS ..... 668

    D. PATENT QUALITY ..... 669

**IV. CONCLUSION..... 670**

---

<sup>†</sup> Assistant Professor of Law, SMU Dedman School of Law; J.D. *Cum Laude*, 2004, Duke University School of Law; B.S. Electrical Engineering, 1999, Duke University; the author formerly practiced at Foley & Lardner LLP in Washington, D.C. A version of this paper was presented at Wake Forest University School of Law and the Indiana University, Robert H. McKinney School of Law. I would like to thank professors Simone Rose, Xuan-Thao Nguyen and Emily Morris for their helpful comments and feedback.

## ABSTRACT

*In the near future, emerging technologies will allow billions of everyday devices to be connected via the Internet. This increasingly popular phenomenon is referred to as the Internet of Things (“IoT”). The IoT is broadly defined as technology that allows everyday devices to (1) become “smart” and (2) communicate with other smart devices. Estimates indicate that the market for smart devices, such as wearables, will grow to \$70 billion dollars in the next ten years. Like many other emerging technologies, the entrepreneurs and companies developing these applications will seek patent protection for their inventions. In turn, the current U.S. patent system will present challenges for IoT technologies.*

*Many of the patent issues that were prevalent for Internet Age inventions will also be of concern for IoT technology. Specifically, IoT technology raises issues concerning patentability, joint infringement and patent quality. This essay provides a brief overview of these issues and concludes that although patentability and joint infringement will present challenges for the IoT, they are not insurmountable. Further, the essay predicts that the new United States Patent and Trademark Office (“USPTO”) quality initiatives will likely lead to the existence of IoT patents of a more reasonable scope than the heavily criticized Internet Age patents of the late 90’s and early 2000’s.*

*In sum, the IoT presents tremendous potential for consumers. In addition, this emerging technology will present patent practitioners, policy-makers and scholars with the opportunity to observe, question and, if necessary, modify the patent system to promote innovation and continued growth in IoT technologies and applications.*

## I. INTRODUCTION

Imagine that as you are leaving work one evening you receive a text message on your smart phone. The message reminds you to pick up milk on your way home. This may sound like a typical occurrence, except instead of the message originating from your spouse or roommate, it was sent by your refrigerator.<sup>1</sup> In addition to this reminder, your refrigerator has also sent information to your car's GPS that contains directions to a grocery store with the best milk price and that is conveniently located on your route home.<sup>2</sup> When you arrive at the grocery store, your milk is bagged and waiting for you. Finally, your credit card is charged for the price of the milk as you leave the store.<sup>3</sup> Welcome to the world of the Internet of Things.

The IoT consists of a complex network of connected smart objects and devices.<sup>4</sup> IoT technology basically consists of three elements: (1) smart devices, (2) protocols for facilitating communication between the smart devices, and (3) systems and methods for storing and analyzing data acquired by the smart devices.<sup>5</sup> How companies will implement

---

<sup>1</sup> See Owen Thomas, *What if Our Refrigerators Get a Little Too Smart?*, READWRITE (May 22, 2014), <http://readwrite.com/2014/05/22/smart-refrigerators-connected-home-digital-fitness> (explaining how a combination of sensors and smart devices, including a refrigerator that could drastically transform an ordinary day of the average citizen); see also Avi Itzkovitch, *The Internet of Things and the Mythical Smart Fridge*, UX MAGAZINE (Sept. 18, 2013), <http://uxmag.com/articles/the-internet-of-things-and-the-mythical-smart-fridge> (discussing various capabilities of a smart and connected refrigerator).

<sup>2</sup> See *Global Patents Reflect Advances in Connected and Self-driving Cars*, ECON. TIMES, Jan. 20, 2015, <http://economictimes.indiatimes.com/news/international/business/global-patents-reflect-advances-in-connected-and-self-driving-cars/articleshow/45947342.cms> (discussing the increased patent activity in technologies related to automobile navigation telematics).

<sup>3</sup> See Keith Mercier, *The Internet of Things Will Transform Retail As We Know It*, FORBES (Jan. 12, 2015, 9:00 AM), <http://www.forbes.com/sites/ibm/2015/01/12/the-internet-of-things-will-transform-retail-as-we-know-it> (discussing numerous ways in which the internet of things will transform retail sales).

<sup>4</sup> Gerd Kortuem et al., *Smart Objects as Building Blocks for the Internet of Things*, IEEE 30, 44 (Frederic Thiesse & Florian Michahelles eds., Jan./Feb. 2010), <http://www.fahim-kawsar.net/papers/Kortuem.IEEEInternet2010.Camera.pdf>.

<sup>5</sup> See Peng-fei Fan & Guang-zhao Zhou, *Analysis of the Business Model Innovation of the Technology of Internet of Things in Postal Logistics*, IEEE 532, 532 (2011) ("The Internet of Things, which bases on the Internet, uses a variety of information sensing identification device and information processing equipment, such as RFID, GPS, GIS, JIT, EDI, and other devices to combine with the Internet to form an extensive network in order to achieve information and intelligence for Entity.").

and use this technology raises a number of issues in various legal contexts including privacy, criminal law, and intellectual property.<sup>6</sup> This essay focuses on some of the intellectual property concerns, namely challenges that patent law may pose for IoT technology.

Similar to basic internet technology, IoT technologies facilitate collaboration and the sharing of information in a rapid and efficient manner.<sup>7</sup> Accordingly, it is likely that IoT technology will encounter similar patent related challenges to those experienced with Internet Age inventions. Specifically, IoT technology raises issues concerning patentability, joint infringement, and patent quality. This essay provides a brief overview of those issues and concludes that patentability and joint infringement are major challenges for IoT technologies. However, once properly understood, these challenges can be managed and may even present opportunities to improve the current patent system. Further, this essay predicts that the new USPTO quality initiatives, such as post grant procedures and the covered business method review, will likely lead to the existence of IoT patents of a more reasonable scope than the heavily criticized Internet Age patents of the late 90's and early 2000's.

Several commentators have discussed the legal implications of the IoT in broader contexts.<sup>8</sup> In contrast, this essay presents a brief overview of two rapidly developing, doctrinal challenges for IoT technology—patentability and joint infringement.<sup>9</sup> Uniquely, this essay is one of the first to discuss IoT technology in light of the most recent changes to the Federal Circuit's joint infringement jurisprudence.<sup>10</sup> Further, this essay briefly discusses how the USPTO's post grant proceedings might impact the patentability of IoT technology.

According to a recent report by the consulting firm Accenture, IoT is a catalyst for the rapid growth and development of digital businesses.<sup>11</sup> Further, a significant amount of patenting activity and

---

<sup>6</sup> See, e.g., Scott R. Peppet, *Regulating the Internet of Things: First Steps Toward Managing Discrimination, Privacy, Security, and Consent*, 93 TEX. L. REV. 85, 117 (2014) (discussing legal issues concerning the Internet of Things such as discrimination, privacy and security).

<sup>7</sup> Fan & Zhou, *supra* note 5, at 532.

<sup>8</sup> See, e.g., Peppet, *supra* note 6; see also Kevin Werbach, *Sensors and Sensibilities*, 28 CARDOZO L. REV. 2321, 2323 (2007).

<sup>9</sup> See *Alice Corp. Pty. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2358 (2014) (addressing the issue of patent eligibility); *Akamai Techs., Inc., v. Limelight Networks, Inc.*, No. 09-01372, 2015 WL 2216261, at \*6 (Fed. Cir. May 13, 2015) (addressing the issue of joint infringement).

<sup>10</sup> See *Akamai*, 2015 WL 2216261, at \*6.

<sup>11</sup> *Digital Business Era: Stretch Your Boundaries*, ACCENTURE TECHNOLOGY VISION, at 59, available at [http://techtrends.accenture.com/us-en/downloads/Accenture\\_Technology\\_Vision\\_2015.pdf](http://techtrends.accenture.com/us-en/downloads/Accenture_Technology_Vision_2015.pdf).

legal developments concern core technologies that are the backbone of IoT—electronic consumer devices and software.<sup>12</sup>

One challenge for inventors of certain types of IoT applications will be overcoming the test for patent eligibility.<sup>13</sup> An inventor may obtain a patent for “any new and useful process, machine, manufacture, or composition of matter.”<sup>14</sup> However, courts have struggled to apply this deceptively simple statutory language to Internet Age inventions. One difficulty is that, although the courts have maintained that software is eligible for patenting, software that is simply used to carry out an abstract idea may not be patentable.<sup>15</sup> Since IoT technology will rely heavily on software, it will also be susceptible to patent eligibility challenges.

Another challenge for IoT innovators will be enforcing their patent rights against potential infringers. IoT technology is interactive and collaborative. Specifically, the IoT relies on communication between two or more smart objects and/or consumers.<sup>16</sup> Even if inventors obtain patents on new methods and protocols for facilitating interactivity between multiple participants, the patents still may be very difficult to enforce against multiple infringers.<sup>17</sup> This problem is commonly referred to as joint infringement. The recent case law in this area has struggled to come to a consensus on how liability for infringing interactive method claims is assessed among multiple participants.<sup>18</sup> Thus, even if IoT patentees are successful in obtaining patent protection, the doctrine of joint infringement may pose a second hurdle for patented IoT technology.

Finally, some of the USPTO’s new procedures relating to patent quality might have a significant impact on IoT patents. In 2011, President Obama signed the America Invents Act (“AIA”) into law.<sup>19</sup>

---

<sup>12</sup> See *IFI Claims 2014 Top US Patent Assignees*, IFI CLAIMS PATENT SERVICES, [http://www.ificlaims.com/index.php?page=misc\\_top\\_50\\_2014](http://www.ificlaims.com/index.php?page=misc_top_50_2014) (last visited June 5, 2015) (showing that the top 10 assignees of patents in 2014 are software and consumer electronic companies).

<sup>13</sup> Paul England & Kathleen Murphy, *Patent Issues and the Internet of Things*, TAYLOR WESSING (Feb. 2014), [http://www.taylorwessing.com/download/article\\_patent\\_iiot.html](http://www.taylorwessing.com/download/article_patent_iiot.html).

<sup>14</sup> 35 U.S.C. § 101 (2012).

<sup>15</sup> See *Alice*, 134 S. Ct. at 2357.

<sup>16</sup> See Kortuem et al., *supra* note 4, at 34.

<sup>17</sup> See generally W. Keith Robinson, *Economic Theory, Divided Infringement and Enforcing Interactive Patents*, 67 FLA. L. REV. (forthcoming 2015) (discussing the impact of various theories for joint infringement liability on the enforcement of interactive inventions).

<sup>18</sup> See, e.g., *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 134 S. Ct. 2111, 2117 (2014) (rejecting the Federal Circuit’s partial inducement rule).

<sup>19</sup> Press Release, The White House, President Obama Signs America Invents

The new law allowed the patent office to create several proceedings aimed at increasing patent quality.<sup>20</sup> Three that are relevant for the purposes of this paper include inter partes review, post grant review, and covered business methods review.<sup>21</sup> These procedures will undoubtedly be used to challenge not only the patentability of IoT inventions, but also their scope.

Given the challenges above, what will be the impact of the patent system on IoT technology? Conversely, will IoT technology have any impact on patent law? Answers to these questions are of interest to all stakeholders in the patent system including inventors, policy makers, practitioners, and academics.

Concretely describing and claiming the inventive concepts of IoT technology will be key in overcoming patentability challenges.<sup>22</sup> Similarly, strategic claim drafting will be one way for practitioners to avoid joint infringement issues.<sup>23</sup> In addition, the newly minted USPTO procedures to improve patent quality, such as the post grant review, may impose a higher standard of quality on IoT inventions.<sup>24</sup>

Further, IoT technology will likely provide excellent test cases for the Federal Circuit's most recently formulated test for joint infringement.<sup>25</sup> It is possible that, depending upon the outcome of future joint infringement cases, we may yet again see this issue before the Supreme Court.<sup>26</sup> Accordingly, while the IoT presents an opportunity to change the lives of consumers, it also may present opportunities to change patent law.

This essay proceeds as follows. Part II describes the IoT in more detail. Then, Part III briefly discusses what challenges patent law may

---

Act, Overhauling the Patent System to Stimulate Economic Growth, and Announces New Steps to Help Entrepreneurs Create Jobs (Sept. 16, 2011), *available at* <https://www.whitehouse.gov/the-press-office/2011/09/16/president-obama-signs-america-invents-act-overhauling-patent-system-stim>.

<sup>20</sup> Edward J. Pardon & Shane A. Brunner, *Boosting Creative Competition: America Invents Act*, 85 WIS. LAW. 6 (Oct. 2012).

<sup>21</sup> See 37 C.F.R. §§ 42.100–42.304 (2012).

<sup>22</sup> See *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012).

<sup>23</sup> See *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1381 (Fed. Cir. 2007), *overruled by Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301, 1321 (Fed. Cir. 2012).

<sup>24</sup> See, e.g., *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1315 (Fed. Cir. 2014) (granting stay in favor of competitor in lieu of post-grant review).

<sup>25</sup> See *Akamai Techs. Inc.*, 2015 WL 2216261, at \*8.

<sup>26</sup> See Tony Dutra & John T. Aquino, *Federal Circuit Affirms 'Single Entity' Infringement Rule, Will Affect Biopharmas*, BLOOMBERG LAW PHARMACEUTICAL LAW & INDUSTRY REPORT, 13 PLIR 732 (May 22, 2015) (reporting that Akamai plans to file a petition for an *en banc* rehearing).

pose for the IoT industry. Part III first briefly summarizes the current patentability doctrine as it applies to the IoT. Part III then discusses the implications of the joint infringement doctrine and the IoT. Finally, Part III posits what impact the USPTO procedures will have on the IoT.

In sum, the IoT is poised to usher in a new era of convenience and collaboration. But for the IoT to succeed, several patent issues need to be understood.

## II. BACKGROUND

### A. The Internet of Things

Bruce Sterling, a science fiction writer, popularized the idea of an IoT.<sup>27</sup> His vision predicted that physical objects connected to the Internet would be traceable in space and time.<sup>28</sup> Today, technologies such as Wi-Fi connect various devices and allow them to share information.<sup>29</sup> In 2010, for the first time in history, the number of connected devices outnumbered the number of humans.<sup>30</sup> By the end of 2015, it is estimated that there will be 25 billion connected devices on the planet compared to only 7.2 billion people.<sup>31</sup> Accordingly, Sterling's vision is becoming a reality.

Generally, the IoT is defined as an "infrastructure of networked physical objects."<sup>32</sup> This is a paradigm shift from Internet Age technology.<sup>33</sup> The Internet allowed people and things to become interconnected.<sup>34</sup> The true power of the IoT is allowing smart objects to interact and collaborate with each other.<sup>35</sup> In other words, "devices are the users of the IoT network."<sup>36</sup>

---

<sup>27</sup> See Cory Doctorow, *Bruce Sterling's "The Epic Struggle of the Internet of Things,"* BOINGBOING.NET (Sept. 13, 2014, 6:00 PM), <http://boingboing.net/2014/09/13/bruce-sterlings-the-epic-s.html>.

<sup>28</sup> See Kortuem et al., *supra* note 4, at 49.

<sup>29</sup> See *id.*

<sup>30</sup> See Oladayo Bello & Sherali Zeadally, *Intelligent Device-to-Device Communication in the Internet of Things*, IEEE SYSTEMS JOURNAL 1, 1 (2014), available at <http://syslog.co.in/files/eciot/Intelligent%20Device-to-Device%20Communication.pdf> (stating that "[b]y 2010, the number of devices connected to the Internet rose to 12.5 billion while the world's population increased to 6.8 billion . . .").

<sup>31</sup> *Id.*

<sup>32</sup> Kortuem et al., *supra* note 4, at 44.

<sup>33</sup> Bello & Zeadally, *supra* note 30, at 2 ("Akin to how humans are the users of the Internet, devices [things] are the users of the IoT.")

<sup>34</sup> *Id.* at 1.

<sup>35</sup> Kortuem et al., *supra* note 4, at 50.

<sup>36</sup> Bello & Zeadally, *supra* note 30, at 2.

Particularly, instead of simply facilitating human interaction, the IoT allows devices to interact with the physical environment, gather information from that environment, and share that information with other devices, people, or environments.<sup>37</sup> Technologies and equipment, in addition to the Internet, that provide the platform for the IoT, include smart devices, information processing equipment, and device sensing equipment.<sup>38</sup>

Smart objects—devices with sensing, processing, and communication abilities—are the backbone of the IoT.<sup>39</sup> Smart objects can be used in nanotechnology, electromechanical systems, or digital electronics.<sup>40</sup> These smart objects are connected via network systems that have both short and long-range capabilities.<sup>41</sup> Data captured by smart objects can be transmitted via the network and may also be stored using cloud computing applications.<sup>42</sup>

A typical application of IoT technology will require smart objects to collect data and transmit that data either to other devices or to a central analysis object.<sup>43</sup> The smart objects can be governed by policies with respect to their performance or the environmental data they collect.<sup>44</sup> Based on these policies, smart objects can collaborate with other smart objects or humans.<sup>45</sup> The fields in which IoT technology can be deployed are almost limitless—transportation, finance, and health care are just a few examples.<sup>46</sup>

Because of its possible application to many daily activities, the IoT is a tremendous growth area for innovation. New and innovative routing protocols are needed to allow smart objects to communicate in real-time.<sup>47</sup> Improvements need to be made in device-to-device communication.<sup>48</sup> Further, there is an opportunity to create business models and business methods that will make use of the IoT platform in new and innovative ways.<sup>49</sup> In sum, with the proliferation of connected devices, IoT will affect every person in all walks of life.<sup>50</sup> To

---

<sup>37</sup> *Id.* at 1.

<sup>38</sup> Fan & Zhou, *supra* note 5, at 532.

<sup>39</sup> Kortuem et al., *supra* note 4, at 44.

<sup>40</sup> Bello & Zeadally, *supra* note 30, at 2.

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

<sup>43</sup> *Id.* at 6.

<sup>44</sup> Kortuem et al., *supra* note 4, at 48.

<sup>45</sup> *Id.*

<sup>46</sup> Fan & Zhou, *supra* note 5, at 533.

<sup>47</sup> Bello & Zeadally, *supra* note 30, at 2.

<sup>48</sup> *Id.* at 3.

<sup>49</sup> Fan & Zhou, *supra* note 5, at 536–37 (explaining that business models are needed to maximize the potential of the IoT in China).

<sup>50</sup> *Id.* at 532.

demonstrate the possibilities of this technology, the following section describes a few current examples of IoT technology.

## B. Current Examples of the Internet of Things

Apple has developed an IoT platform called “iBeacon.”<sup>51</sup> iBeacon consists of stationary sensors that interact with a smart phone such as an iPhone.<sup>52</sup> For example, an iBeacon sensor placed in front of a store can transmit information such as customized coupons or the location of a desired item to customers as they walk by.<sup>53</sup> The iBeacon platform can also prompt repeat customers with special promotions or personalized messages and recommendations based on their current location or past history with the store.<sup>54</sup> Accordingly, IoT technology will have tremendous value in consumer retail.

In addition to retail, IoT is also being used for industrial applications. In the past few years, General Electric (“GE”) has featured smart machines in its advertising.<sup>55</sup> For example, one commercial features KITT—the talking car from the nineteen eighties’ television show, *Knight Rider*.<sup>56</sup>

In the KITT commercial, GE touts its ability to make shipping via rail more efficient with IoT technologies.<sup>57</sup> GE added sensing equipment and onboard computers to a method of transportation that had existed for more than a century to make locomotives and railways “smart.”<sup>58</sup> However, the real innovation here is the software that processes the real-time data acquired by the rail system that then instructs the train how fast or slow it can travel.<sup>59</sup> For example, Norfolk Southern estimates that an increase in speed of 1 mph saves the company \$200 million annually.<sup>60</sup>

---

<sup>51</sup> See Hari Gottipati, *With iBeacon, Apple is going to dump NFC and embrace the Internet of Things*, GIGAOM (Sep. 20, 2013, 7:30 PM), available at <https://gigaom.com/2013/09/10/with-ibeacon-apple-is-going-to-dump-on-nfc-and-embrace-the-internet-of-things> (describing Apple Computer’s iBeacon feature).

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*

<sup>54</sup> *Id.*

<sup>55</sup> See Jim Edwards, *We’ve Identified by Name All the Robots in the New GE Ad*, BUSINESS INSIDER (Nov. 30, 2012, 9:56 AM), available at <http://www.businessinsider.com/the-robots-in-the-new-ge-ad-2012-11>.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

<sup>58</sup> See Jon Gertner, *Behind GE’s Vision for the Industrial Internet of Things*, FAST COMPANY (June 18, 2014), <http://www.fastcompany.com/3031272/can-jeff-immelt-really-make-the-world-1-better>.

<sup>59</sup> *Id.*

<sup>60</sup> *Id.*

Acquiring these types of savings due to efficient logistical operations also appeals to the military. IoT technology is unique in its potential to facilitate human interaction with smart devices.<sup>61</sup> In an example of military application of IoT technology, unmanned drones possess functionality that enables them to become powerful sensors that can capture, optimize, and transmit information such as high-definition video for processing.<sup>62</sup> This technology will allow unmanned military units to identify targets of interest in the field and to locate and coordinate efforts with friendly military units nearby.<sup>63</sup>

As demonstrated above, various IoT technology stakeholders exist. They include, but are not limited to, integrated circuit manufacturers, sensing equipment manufacturers, network providers, system integrators, service providers, and users of IoT services.<sup>64</sup> Due to the nature of the technology and the potential commercial rewards, stakeholders in IoT technology will most likely seek patents for their inventions. Part III begins by providing a brief framework for thinking about some patenting challenges with respect to IoT technology.

### III. THE PATENT SYSTEM AND THE INTERNET OF THINGS

#### A. A Patent Framework for IoT

As described previously, the applications of IoT technology are endless. This section prescribes how one might frame IoT technology from a patent perspective. That is, the types of technology that inventors are likely to patent.

The first category consists of methods and protocols for facilitating communication between smart objects in IoT.<sup>65</sup> The Internet was originally designed to allow communication between large and powerful computers.<sup>66</sup> For the IoT, new protocols must be developed for smaller, more mobile devices. For example, 6LoWPAN is an Internet protocol that optimizes the Internet for low power, low bandwidth devices.<sup>67</sup> Another protocol, known as Bluetooth Low

---

<sup>61</sup> Kortuem et al., *supra* note 4, at 51.

<sup>62</sup> See Christopher Lever, *The Military Internet of Things*, EECATALOG (May 9, 2014), <http://eecatalog.com/military/2014/05/09/the-military-internet-of-things>.

<sup>63</sup> *Id.*

<sup>64</sup> Fan & Zhou, *supra* note 5, at 532.

<sup>65</sup> Bello & Zeadally, *supra* note 30, at 2–3.

<sup>66</sup> *A Brief History of the Internet & Related Networks*, INTERNET SOC'Y, <http://www.internetsociety.org/internet/what-internet/history-internet/brief-history-internet-related-networks> (last visited June 1, 2015).

<sup>67</sup> See Ingrid Lunden, *ARM Acquires Internet of Things Startup Sensinode to Move Beyond Tablets and Phones*, TECHCRUNCH (Aug. 27, 2013),

Energy (“BLE”), is designed to allow devices to consume small amounts of energy, thus extending the battery life of mobile devices.<sup>68</sup>

The second category of potential inventions includes consumer devices. The devices or “smart objects” of the IoT will include common household appliances and novel devices that did not exist five years ago. For example, consider a smart toaster and alarm clock that can coordinate a person’s wake up time with when their toast is ready.<sup>69</sup> A recent example of a newer device category that will benefit from IoT is wearable devices or “wearables.”<sup>70</sup> Wearables are devices that contain basic sensors or complex computing power that can be worn on your person.<sup>71</sup> Examples of wearables include Google glass, various fitness monitors, and the recently released iWatch.<sup>72</sup> These devices not only have the capability to communicate with other devices, but also to track and store an incredible amount of data.<sup>73</sup>

Creators of wearable technology recognize the value of the data their devices can collect. The data is varied—it can be a simple on/off signal from a sensor or complex interactive logs from a wearable device.<sup>74</sup> Accordingly, the third category of patentable technology will most likely be software that will help facilitate the analysis of that data.<sup>75</sup> Further, software will need to be developed to process this information and translate it into useful and actionable intelligence.

Given this framework, a number of patent-related challenges for IoT technology become immediately apparent. The next section of this essay highlights three areas: patentability, joint infringement, and patent quality.

---

<http://techcrunch.com/2013/08/27/arm-acquires-internet-of-things-startup-sensinode-to-move-beyond-tablets-and-phones/#>.

<sup>68</sup> See Gottipati, *supra* note 51.

<sup>69</sup> See Alexis Lloyd, *If This Toaster Could Talk*, THE ATLANTIC (Sep. 3, 2013), <http://www.theatlantic.com/technology/archive/2013/09/if-this-toaster-could-talk/279276/>.

<sup>70</sup> See Chris Hoffman, *Wearables 101: What They Are, and Why You’ll Be Seeing Them a Lot of Them*, HOW-TO GEEK (Jan. 15, 2015), <http://www.howtogeek.com/207108/wearables-101-what-they-are-and-why-youll-be-seeing-a-lot-of-them/>.

<sup>71</sup> See Amy M. Intille, *Video Surveillance and Privacy: Implications for Wearable Computing*, 32 SUFFOLK U. L. REV. 729, 751 (1999) (predicting the capabilities of a wearable computer in the year 2014).

<sup>72</sup> Hoffman, *supra* note 70.

<sup>73</sup> See Bello & Zeadally, *supra* note 30, at 2.

<sup>74</sup> *Id.*

<sup>75</sup> *Id.*

## B. Patenting IoT Technology

Potential patents on IoT technology will undoubtedly be challenged on patent eligibility grounds because of current controversies surrounding software patents.<sup>76</sup> While the courts have been very careful to say that software is patent-eligible, simply using software to implement abstract ideas is not patentable.<sup>77</sup> Examples of abstract ideas include basic algorithms, principal concepts, and fundamental practices.<sup>78</sup> One historical rationale for preventing the patenting of abstract ideas is that patents were intended to cover devices and things.<sup>79</sup> Another rationale is that allowing patent protection of abstract ideas would stifle innovation because inventors could prevent others from using essential concepts.<sup>80</sup>

Accordingly, patent claims that simply recite an abstract idea are not patent-eligible.<sup>81</sup> For example, the Supreme Court has held that a process claim embodying an algorithm for converting binary-coded decimal numbers into pure binary numbers was patent-ineligible.<sup>82</sup> Further, the Supreme Court recently held that a process claim on the basic concept of hedging against risk in a financial transaction was patent-ineligible because the claim was attempting to cover a fundamental economic practice.<sup>83</sup> On similar grounds, the Supreme Court held a process claim directed toward the concept of intermediated settlement was also ineligible for patenting.<sup>84</sup>

The current test for determining whether an invention is eligible for patenting is articulated in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*<sup>85</sup> There, the Supreme Court set forth a two-step analysis for determining whether a patent claim was directed to a patentable invention.<sup>86</sup>

First, the court must determine whether the claim is directed to a patent ineligible concept such as an abstract idea.<sup>87</sup> Then, if the claim

---

<sup>76</sup> See, e.g., Daniel E. Harmon, *Patents in the Balance?: IP Analysts Continue to Ponder Alice Ramifications*, 32 No. 12 LAW. PC 1 (2015).

<sup>77</sup> See *Alice Corp. Pty. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2357 (2014) (concluding that generic computer implementation of an abstract idea is not patentable).

<sup>78</sup> See *id.* at 2355.

<sup>79</sup> Miriam Bitton, *Patenting Abstractions*, 15 N.C. J. L. & TECH. 153, 162 (2014).

<sup>80</sup> See *Alice*, 134 S. Ct. at 2354.

<sup>81</sup> See *id.*

<sup>82</sup> See *Gottschalk v. Benson*, 409 U.S. 63, 71-72 (1972).

<sup>83</sup> See *Bilski v. Kappos*, 561 U.S. 593, 611 (2010).

<sup>84</sup> See *Alice*, 134 S. Ct. at 2360.

<sup>85</sup> *Id.* at 2355.

<sup>86</sup> *Id.*

<sup>87</sup> See *id.*

is directed to an abstract idea, it is seen patentable only if the court can identify the claim's inventive concept.<sup>88</sup>

The Supreme Court applied this test in its *Alice* decision to conclude that the software related claims at issue were not patentable.<sup>89</sup> Specifically, the Court found that using a third party for intermediated settlement is a fundamental economic practice and therefore, an abstract idea.<sup>90</sup> Moreover, the Court concluded that simply requiring generic computer implementation of that abstract idea did not make the idea patent-eligible.<sup>91</sup>

Data analysis software was mentioned earlier as a technological innovation of IoT technology above. However, the holding in *Alice* could possibly limit what IoT related software is patent-eligible. Based on the *Mayo* framework, novel innovation in software will obtain patent protection only if it solves a technological problem or improves a technological process.<sup>92</sup>

Accordingly, prospective patentees of IoT software inventions will need to craft their patent applications to emphasize "elements" that contribute to their inventions being "significantly more" than an abstract idea.<sup>93</sup>

One consequence of this stricter patentability requirement will be that other non-patentable software and methods will become "open source" where the commercial benefit for developers is derived from ancillary services such as the Software as a Service ("SaaS") business model.<sup>94</sup> Further, because of the *Alice* decision, strong apparatus claims directed to the devices themselves will be increasingly important. In addition to patent eligibility, IoT methods may be susceptible to patent enforcement issues. One such issue that uniquely plagues collaborative and interactive inventions is briefly discussed in the next section.

---

<sup>88</sup> *Id.*

<sup>89</sup> *Id.*

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 2357.

<sup>92</sup> See e.g., *Diamond v. Diehr*, 450 U.S. 175, 185–93 (1981) (holding that a process for molding rubber that used a mathematical algorithm was patent-eligible).

<sup>93</sup> See *Alice*, 134 S. Ct. at 2355.

<sup>94</sup> Simon Phipps, *Federal Hearing Today Marks Turning Point in War on Software Patents*, INFOWORLD (Feb. 8, 2013), <http://www.infoworld.com/article/2613542/open-source-software/federal-hearing-today-marks-turning-point-in-war-on-software-patents.html?page=2>.

### C. Enforcing IoT Patents

The nature of IoT technology is interactive. Accordingly, a scenario may arise where the activities of more than one party are involved in possibly infringing a patent. Third party liability for patent infringement is generally addressed under the patent statute's inducement and contributory infringement provisions.<sup>95</sup> However, another highly controversial doctrine referred to as joint infringement may also apply.<sup>96</sup>

Joint infringement deals with the question of whether there can be infringement liability when performance of a method claim is split among multiple parties, actors or devices.<sup>97</sup> The current rule, recently articulated by the Federal Circuit, is that there may be infringement liability when the steps of a method are performed by multiple parties if a single defendant “[e]xercises ‘control or direction’ over the entire process such that every step is attributable to the controlling party.”<sup>98</sup>

Historically, the “control or direction” test has proven to be an incredibly high bar to meet.<sup>99</sup> Accordingly, patentees of IoT technology are better off if they do not have to rely on a joint infringement theory in enforcing their patents. Because confusion has surrounded the issue of joint infringement for several years, practitioners have adopted specific claim drafting techniques to avoid joint infringement problems.<sup>100</sup> Specifically, where possible, practitioners have attempted to draft claims that only require a single infringer.<sup>101</sup> However, careful claim drafting may only be a sub-optimal solution to the problem of joint infringement.

Another more preferable solution would be to clarify how to determine infringement liability when more than one party participates in the infringement of a method claim. Due to its interactive nature, it is likely that IoT technologies will be at the center of any further

---

<sup>95</sup> See 35 U.S.C. § 271(b)–(c) (2012).

<sup>96</sup> See *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301, 1325 (Fed. Cir. 2012), *rev'd* 134 S. Ct. 2111 (2014) (acknowledging the doctrinal difficulties that arise when the acts of more than one party allegedly combine to infringe a method claim).

<sup>97</sup> See *id.*

<sup>98</sup> *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1329 (Fed. Cir. 2008) (citing *BMC Res., Inc. v. Paymentech, LP*, 498 F.3d 1373, 1380–81 (Fed. Cir. 2007)).

<sup>99</sup> At the time of this writing the author is not aware of any district court cases where the direction or control test was satisfied.

<sup>100</sup> See *BMC Res., Inc. v. Paymentech, LP*, 498 F.3d 1373, 1381 (Fed. Cir. 2007), *overruled by* *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012).

<sup>101</sup> *Id.*

development in the law. It is possible that IoT technology will become so prevalent and integrated into our daily lives that it will force the judiciary and lawmakers to rethink how to determine liability for multi-party infringement.

An area where policy-makers have caused further development relates to patent quality. The next section briefly describes the USPTO's patent quality initiatives.

#### D. Patent Quality

The issue of patent quality is closely related to concerns regarding patent eligibility and patent enforcement. Currently, the USPTO's Patent Trials and Appeals Board conducts hearings for reviewing and challenging granted patents on a number of grounds.<sup>102</sup> Inter partes review ("IPR") is a proceeding for reviewing the patentability of one or more claims on novelty or non-obviousness grounds.<sup>103</sup> The post grant review ("PGR") proceeding reviews the patentability of one or more claims of a granted patent on any ground of patentability, including eligibility under § 101 and whether the claims comply with the written description and enablement requirement.<sup>104</sup> Finally, the transitional program for covered business method patents ("CBM") is a proceeding for reviewing the patentability of one or more claims in a business method patent.<sup>105</sup>

In combination with the *Alice* decision,<sup>106</sup> the threat of PGR and CBM proceedings will likely cause the quality of IoT technology patents to rise. Recent statistics suggest that PGR and CBM petitions challenging patent claims on patent eligibility grounds have a high likelihood of being granted.<sup>107</sup> Further, to date, few, if any, claims

---

<sup>102</sup> See William Hannah, Comment, *Major Change, New Chapter: How Inter Partes Review and Post Grant Review Proceedings Created by the America Invents Act Will Shape Litigation Strategies*, 17 INTELL. PROP. L. BULL. 27 (2012), for an in-depth overview of IPR and PGR.

<sup>103</sup> See *Inter Partes Review*, U.S. PATENT AND TRADEMARK OFFICE (July 17, 2014, 6:57 PM), <http://www.uspto.gov/patents-application-process/appealing-patent-decisions/trials/inter-partes-review>.

<sup>104</sup> See *Post Grant Review*, U.S. PATENT AND TRADEMARK OFFICE (July 17, 2014, 6:59 PM), <http://www.uspto.gov/patents-application-process/appealing-patent-decisions/trials/post-grant-review>.

<sup>105</sup> See *Transitional Program for Covered Business Method Patents*, U.S. PATENT AND TRADEMARK OFFICE (July 17, 2014, 7:00 PM), <http://www.uspto.gov/patents-application-process/appealing-patent-decisions/trials/transitional-program-covered-business>.

<sup>106</sup> *Alice*, 134 S. Ct. at 2347.

<sup>107</sup> See H. Wayne Porter, *The Role of Post-Grant Reviews in Patent Challenges Before the PTAB*, 7 LANDSLIDE 25, 27 (2015) (stating that even before the *Alice*

challenged on patent eligibility grounds have survived CBM review.<sup>108</sup>

Innovators in the IoT technology area must respond to this new reality in two ways. First, they must draft stronger and more robust patents that will be able to withstand challenges under IPR, PGR, and CBM review. This primarily means drafting claims for IoT inventions that are patent-eligible. Second, innovators should choose trade secret protection as an alternative to patenting for important, but not necessarily patent-friendly innovations. As a result, patentees of IoT technology will likely be more selective in the types of inventions they seek to patent.

#### IV. CONCLUSION

IoT technology raises issues concerning patentability, joint infringement, and patent quality. Although patentability and joint infringement will be a major hurdle for the IoT, it is not an insurmountable problem. Further, the new USPTO quality initiatives, such as post grant procedures and the business method review, will likely lead to the existence of IoT patents of reasonable scope.

Due to future changes in the law regarding patentability and joint infringement, it is important for practitioners to understand current best practices for overcoming these challenges. In addition, as more patents are subject to the USPTO's post grant procedures, inventors will uncover additional best practices for drafting claims for IoT technology.

Moreover, if IoT technology will be as popular as it is estimated, there may also be opportunities for the IoT industry to influence patent law. Specifically, cases involving these technologies may bring about further developments in the law with respect to patentability and the enforcement of interactive claims.

---

decision, 90% of CBM petitions instituted on patent eligibility grounds were granted).

<sup>108</sup> *Id.*