STANFORD UNIVERSITY

School of Law

Prof. Thorne McCarty

May 26, 1988

Time: 4 hours

Three Questions

FINAL EXAMINATION

COPYRIGHT, PATENT, TRADEMARK

INSTRUCTIONS

This is a FOUR HOUR examination, consisting of THREE questions. You should allocate 75 MINUTES to each question, and reserve 15 MINUTES for additions and corrections. The examination is OPEN BOOK, but you are to take it IN CLASS.

Please organize your analysis carefully before you begin to write, and strive for conciseness as well as completeness. If you think additional facts are necessary, you should state briefly what facts you would like to know and why you think they would be relevant. Whenever you discover an arguable issue in these cases, you should state carefully the best arguments that can be made on either side, and then continue your analysis in the alternative. Finally, you should be careful to consider all aspects of intellectual property law which might be applicable to the present problems, e.g., Copyright, Patent, Trademark, and Related State Doctrines.
QUESTION ONE

Assume that you are an associate in the law firm representing Torino Industries, Ltd., the American subsidiary of an Italian distributor of deluxe automobile accessories. Torino Industries has been selling its "designer" rear view mirror in the United States for several years, and it has recently discovered that a company called National Automobile Supplies (NAS), Inc., has invaded its market with a cheap imitation imported from Taiwan. Your initial investigation of the matter has turned up the following facts:

Torino's rear view mirror was designed by Enrico Antonioni in Italy in 1981, and it first appeared on a new 1983 Ferrari automobile that was introduced in September, 1982. By an agreement with Ferrari in 1982, Torino was granted the exclusive right to market Antonioni's mirror in the auto parts market in the United States, although it was not given permission to associate the mirror in any way with the name "Ferrari." On June 15, 1983, with Torino Industries as assignee, Enrico Antonioni filed an application for a design patent on his rear view mirror in the United States Patent and Trademark Office, and on September 10, 1985, the patent (Des. No. 263,130) was issued. Also, on July 1, 1983, Torino Industries submitted an application to the United States Copyright Office for the registration of Antonioni's mirror as a "sculptural work," but this application was rejected. Torino has been selling the rear view mirror through selective automobile supply stores in the United States since August, 1983, identifying it by the name "Enrico Antonioni" written out in a distinctive script. Since the mirror has an aerodynamic shape and a sporty style, it has become a very popular item as a replacement part for those who drive sports cars, or for those who wish they did. Suggested retail price: $129.50.

In 1987, Torino discovered that National Automobile Supplies (NAS), Inc., was manufacturing an identical copy of the Enrico Antonioni mirror and selling it for $39.95 at K-Mart and several other discount department stores. The NAS mirror was identified as a "Mirrrari 250," a trademark that NAS successfully registered in the United States Patent and Trademark Office on March 4, 1987. Although there is no evidence that consumers have mistaken the "Mirrrari 250" in its NAS package for the original Enrico Antonioni mirror, several purchasers of Torino's mirror have complained that they felt cheated when they saw the identical item on sale at K-Mart. Torino Industries has recently
subjected one of the NAS mirrors to an expert metallurgical examination, and has discovered that it is, indeed, an exact copy of the Enrico Antonioni mirror. Sixteen different measurements were taken by the expert, and the "Mirrari 250" turned out to be between 1/1000 and 3/1000 of an inch smaller than the Enrico Antonioni mirror on all measurable dimensions. This evidence strongly suggests that the Enrico Antonioni mirror was itself used as a "plug" for the construction of a "mold" from which the NAS mirror was cast. Direct evidence of the NAS manufacturing process has not yet been obtained, however. Although National Automobile Supplies, Inc., has its headquarters in Los Angeles, it imports the "Mirrari 250" from a factory in Taiwan, and then distributes it nationwide from its Los Angeles warehouse.

On January 15, 1988, Torino Industries served notice that NAS was infringing its design patent, and demanded that the sale of the "Mirrari 250" be halted immediately. NAS's attorneys responded that the design patent was invalid, in their opinion, since the aerodynamic design of Enrico Antonioni's mirror was substantially similar to the aerodynamic design of the rear view mirror on the 1964-68 Maserati, the 1970-74 Lamborghini, and several prior models of the Ferrari itself. In addition, NAS's attorneys claimed that thousands of advertising brochures for the 1983 Ferrari had been distributed to automobile dealers throughout Italy in April and May of 1982, and these brochures clearly depicted the Enrico Antonioni rear view mirror mounted on the chassis of the new Ferrari.

You have now been asked to analyze Torino Industries' prospects for an injunction against the sale of the "Mirrari 250" under both state and federal law. You have also been asked to analyze any preemption problems that might arise. Your initial legal research has uncovered the following provisions of the California Business and Professions Code:

§17300. Unlawful acts; duplication for sale; sale,

(a) It shall be unlawful for any person to duplicate for the purpose of sale any manufactured item made by another without the permission of that other person using the direct molding process described in subdivision (c).

(b) It shall be unlawful for any person to sell an item duplicated in violation of subdivision (a).

(c) The direct molding process subject to this section is any direct molding process in which the original
manufactured item is itself used as a plug for the making of the model which is then used to manufacture the duplicate item.

These provisions, known as the California "plug molding" statute, became effective on January 1, 1979. Draft the requested memo.

END OF QUESTION ONE

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QUESTION TWO

Assume that you are an associate in the law firm representing PassWord, Inc., a small software company that specializes in cryptography and related applications. One of PassWord's most popular products is CopyWrite, a program that enables a user to bypass the copy protection schemes on most commercial software packages. In particular, CopyWrite is very effective against the copy protection scheme used by MicroWare, Inc., a distributor of software systems for small businesses (accounting systems, data base management systems, etc.) running on Macintosh computers. Recently MicroWare has threatened PassWord with a lawsuit for infringement of its copyrights and its trade secrets, demanding that PassWord immediately cease and desist from the further sale of the CopyWrite program. Your initial investigation of the matter has turned up the following facts:

MicroWare's software products are equipped with a "key disk" protection system. The purchaser of the software is given a "master disk," and is instructed to make at least one backup copy immediately. Although the master disk may be copied any number of times, these copies are not functional unless the master disk has been inserted into the disk drive of the computer. Thus the recommended procedure is as follows: Start the program from the backup copy, insert the master disk when the program requests it, and then continue running the program from the backup copy. If the master disk is used only as a "key" in this fashion, of course, it will be protected from accidental erasure, and if the backup copy is accidentally damaged, it can be duplicated again from the master disk.

The technology behind this "key disk" protection system was
developed by MicroWare itself, and maintained by MicroWare as a proprietary trade secret, although similar protection systems were used by other companies in the software industry. The system has two components: A special "read only memory" track on the master disk (known in the industry as a "hard fingerprint"), and a program stored on the master disk which decodes the "fingerprint" and grants authorization to run the backup copy on the computer. MicroWare had applied for a patent on its key disk protection system when it was originally developed in 1978, but the application was rejected by the Patent and Trademark Office as unpatentable subject matter, citing Gottschalk v. Benson, in 1980. MicroWare has always maintained a high level of secrecy for its key disk protection system: The programmers working on various aspects of the system are separated from each other, the program on the master disk is encrypted in four layers of code, the one single copy of the complete program is locked in a safe, and all papers containing any portions of the program are shredded at the close of each business day. MicroWare has also attempted to protect its rights when it offers its software to the public by characterizing the transaction as a "license," rather than a "sale," and by printing the following notice on the back of its packages:

"IMPORTANT! MICROWARE, INC., IS PROVIDING THE ENCLOSED MATERIALS TO YOU ON THE EXPRESS CONDITION THAT YOU ASSENT TO THIS SOFTWARE LICENSE. BY USING ANY OF THE ENCLOSED DISKETTE(S), YOU AGREE TO THE FOLLOWING PROVISIONS: IF YOU DO NOT AGREE WITH THESE LICENSE PROVISIONS, RETURN THESE MATERIALS TO YOUR DEALER, IN ORIGINAL PACKAGING, WITHIN 3 DAYS OF RECEIPT, FOR A FULL REFUND."

Several provisions then follow, including this one: "USE RESTRICTIONS: . . . You may not modify, adapt, translate, reverse engineer, decompile, disassemble, or create derivative works based upon the enclosed software." In addition, MicroWare has printed a copyright notice on all of its software packages, and it has always registered its computer programs with the Copyright Office before offering them to the public.

Your client, PassWord, Inc., developed its CopyWrite program by "reverse engineering" the copy protection systems of MicroWare and other manufacturers. In the case of MicroWare, it purchased several different MicroWare software packages in the retail market and proceeded to analyze the key disk protection system embedded in each one. It was a laborious process: It was necessary to decode the "hard fingerprint," break the encryption scheme, and determine exactly how the MicroWare program grants authorization to run a backup copy on the computer. Once this
was done, however, PassWord was able to write a program that would neutralize the "fingerprint" and create a backup copy that could be run without the insertion of the master disk. It was this program that PassWord offered to the public as part of its CopyWrite package. (Note: CopyWrite also includes programs that copy the software of other manufacturers.) The documentation for CopyWrite contains the following warning:

"Commercial software may be protected under the copyright laws of the United States and other countries. This product should not be used to make copies of commercial software in violation of applicable laws. When in doubt about the legality of copying any software, you should consult your attorney for advice."

However, it appears that PassWord, Inc., made no attempt to determine if its customers were using the CopyWrite program legally.

You have now been asked to draft a memo analyzing PassWord's legal position if the threatened lawsuit by MicroWare materializes. Draft the requested memo.

END OF QUESTION TWO

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QUESTION THREE

In 1926 Clarence E. Mulford published a western novel entitled *The Lone Ranger*. The novel told the story of a mysterious masked man on a white horse who saved a small town in Wyoming from the onslaught of a band of cattle thieves in the 1870's. Characteristically, the Lone Ranger fired silver bullets, and he would call out to his horse "Hi, Yo, Silver!" or "Hi, Yo, Silver! Away!" as he appeared and disappeared from the scene. His companion was an American Indian named Tonto, who rode a horse named Scout, and who referred to the Long Ranger as "Kemo Sabe". The novel was successful, and it was followed in 1928 by a sequel, *The Lone Ranger Rides Again*, and in 1929 by another sequel, *The Lone Ranger on the Texas Trail*, involving the same characters. All three novels were published with proper copyright notice, in Mulford's name, and all three were properly registered in the United States Copyright Office. In 1937, under a license from Mulford, Republic Pictures produced a film version of the original Lone Ranger story, starring Lee Powell in the title role. The film was moderately successful, and continued to
be shown to children at Saturday matinees throughout the 1940's. Republic Pictures copyrighted the film in 1937, but the copyright was not renewed when the first term expired in 1965.

In 1951, Clarence Mulford granted an exclusive license to the Fox Film Corporation to produce a television series based on the Lone Ranger stories. Included in the contract were the following clauses:

... 5. The Author hereby grants, sells and assigns to the Producer all television rights to the said Work(s) for the entire world, and all rights to produce, transmit, reproduce, distribute, exhibit and exploit in any manner, or by any method or device, a television program or any number of television programs based upon said Work(s).

... 8. The Author hereby agrees to renew or procure the renewal of the copyrights in said Work(s), prior to the expiration thereof, and thereupon to assign to the Producer all television rights for the renewal term of said Work(s), as specified in this Contract, such rights to vest in the Producer as of the date of said renewal.

Pursuant to this contract, between 1952 and 1956, Fox produced forty-four 25-minute film episodes of The Lone Ranger for broadcast on television, starring Clayton Moore as the Lone Ranger and Jay Silverheels as Tonto. Although the television series did not use any of the plot lines from the three Mulford novels, it replicated the two Mulford characters precisely, including their distinctive western dress, their mannerisms, and their verbal expressions, such as "Hi, Yo, Silver!" and "Kemo Sabe." The television series also copied the main theme of the Mulford novels: In each episode, the Lone Ranger would battle against tremendous odds on behalf of the oppressed, and when the wrongdoers were finally brought to justice, he would disappear without seeking any reward. These television programs became enormously popular with children in the 1950's, and they created a market for Lone Ranger products. Thus, for several years, Clarence Mulford and the Fox Film Corporation jointly licensed the use of the figures of the Lone Ranger and Tonto on lunch boxes, bathing suits, bicycles, and other merchandise.

Each episode of the 1952-56 Lone Ranger television series was properly copyrighted by the Fox Film Corporation, and between 1980 and 1984 these copyrights were all properly renewed under §304(a) of the 1976 Copyright Act. Clarence Mulford properly renewed his copyright on the three novels in 1954, 1956, and 1957, respectively, and these renewal terms were later extended
for an additional 19 years by the operation of §304(b) of the 1976 Copyright Act. However, Clarence Mulford died in 1968, leaving a daughter Nancy Mulford, as his sole heir. On December 31, 1983, Nancy Mulford served notice on the Fox Film Corporation that the grant of television rights to the Lone Ranger in 1951, and its subsequent extension into the renewal terms of Mulford's copyrights, would terminate on December 31, 1985, pursuant to §304(c) of the 1976 Copyright Act. This notice appears to comply with all procedural requirements of the statute.

Assume that you are an associate in the law firm representing the Fox Film Corporation. Your client has produced a video cassette entitled The Best of the Lone Ranger, which reproduces three episodes from the 1952-56 television series, along with a short narrative introduction by Clint Eastwood. Nancy Mulford has recently learned of the existence of the video cassette, and has threatened a lawsuit if it is ever marketed. You have been asked to draft a memo analyzing her possible claims against Fox, and analyzing Fox's possible defenses. In your initial legal research, you have identified §304(c)(6)(A) and §304(c)(6)(E) of the 1976 Copyright Act as relevant provisions. Draft the requested memo.

--- END OF EXAMINATION ---

Please sign your number and the honor code pledge in the usual manner.