

# Marketing and the Law

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## Just Say It, If You Dare

*Nike, Inc., et al. v. Kasky*, 539 U.S. 654 (2003); *Kasky v. Nike Inc., et al.*, 45 P.3d 243 (Calif. 2002).

The Supreme Court has denominated noncommercial speech (e.g., political and religious) as high-value speech, whereas commercial speech is low-value. Consequently, commercial speech is regulated in the consumer interest. What about speech that has both commercial and noncommercial elements? Marketers should take note of the recent United States Supreme Court case of *Nike v. Kasky*, which formulates a different interpretation of the manner in which companies should relate to the public and the media.

Nike, Inc., a multinational sports shoe giant, has 600,000 foreign manufacturing workers. Most of them are in China, Vietnam, Indonesia, and Thailand. Nike generates \$10.6 billion in annual sales, of which \$474 million is profit. The company monitors compliance with local labor and environmental protection laws through agreements with its subcontractors. In 1996, media reports alleged that these overseas subcontractors were underpaying and abusing workers. Nike responded with a public relations campaign that included press releases, letters to newspapers, university presidents, and athletic directors, and a report from a former U.S. ambassador.

Under California law, ordinary citizens may sue as “private attorneys general” on behalf of the public. Courts in such cases may award attorney fees to the plaintiff to facilitate this private enforcement of important legislation. California resident and anticorporate activist Mark Kasky took advantage of this procedure. He sued Nike for violating provisions of the Business and Professions Code prohibiting false and misleading advertising. He argued that Nike’s statements were made “for the purpose of maintaining and increasing its sales and profits” and asked the

court to order Nike to “disgorge all monies . . . acquired by any means found . . . to be unlawful and/or unfair business practice” and to correct any false or misleading statements through “a court-approved public information campaign.”

In the California trial court, Nike said its statements were protected under the federal and state constitutions, each of which guarantees free speech. The court considered whether Nike’s statements constituted commercial or noncommercial speech, which would determine the proper level of constitutional protection. It found Nike’s statements to be noncommercial speech having the highest level of free speech protection and dismissed the complaint. An appeal to the California Court of Appeals was dismissed on similar grounds. Kasky appealed to the Supreme Court of California.

The California Supreme Court fashioned a test that analyzed “the speaker, the intended audience, and the content of the message” to determine whether Nike’s statements were commercial in nature. In terms of the speaker and the intended audience, the court ruled in favor of commerciality because “Nike and its officers and directors are engaged in commerce,” and its letters and press releases “were intended to reach actual and potential purchasers of Nike’s products.” The court further concluded that the content of the statements was commercial in nature because it “consisted of factual representations about its own business operations.” The court, by a 4-3 majority, ruled that Nike’s statements were commercial speech and, accordingly, they were subject to California’s false advertising laws.

Justices Chin and Brown were two of the dissenters. Justice Chin placed Nike’s statements in the context of the international debate about its labor practices. He said that “while Nike’s critics have taken full advantage of their right to ‘uninhibited, robust, and wide-open’ debate, the same cannot be said about Nike, the object of their ire.” According to Justice Chin, the majority decision would create an uneven playing field with “full speech protection for one side and strict liability for the other.” Both sides of

the public debate should be afforded full First Amendment protection. The effect of the majority opinion would be to deny Nike that right.

Justice Brown dissented on the ground that “Nike’s speech is more like noncommercial speech than commercial speech because its commercial elements are inextricably intertwined with its noncommercial element.” Nike’s statements warrant full First Amendment protection. Justice Brown also disagreed with the majority’s limited-purpose test for commercial speech, which distinguished between commercial and noncommercial speech on identity of the speaker and audience. These grounds contravene U.S. Supreme Court precedents holding that “if commercial speech is to be distinguished, it ‘must be distinguished by its content.’” Justice Brown was concerned that the test violated the First Amendment “by making the level of protection given speech dependent on identity of the speaker—and not just the speech’s content—and by stifling the ability of certain speakers to participate in the public debate.” The dissenting judge pointedly added that “the majority unconstitutionally favors some speakers over others and conflicts with the decisions of other courts.” With these vigorous dissents in hand, Nike sought, and was granted, certiorari in the United States Supreme Court.

The principal issue before the United States Supreme Court—as it was in the lower courts—was the classification of Nike’s statements. Were they commercial or noncommercial? Since 1942 in *Valentine v. Chrestensen*, the Supreme Court has distinguished between commercial and noncommercial speech in determining the constitutionality of speech regulation. The Court had ruled in *Valentine* that commercial speech was not protected under the Constitution. More than 30 years later, in *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council Inc.*, the Supreme Court extended First Amendment protection to commercial speech, albeit less protection than noncommercial speech.

Until the *Nike* case, corporate speech was presumed to fall on one side or the other of a bright line distinguishing commercial and noncommercial speech. The California Supreme Court acknowledged problems with this all-or-nothing characterization. It said that “the commercial speech doctrine, in its current form, fails to account for the realities of a modern world—a world in which personal, political, and commercial arenas no longer have sharply defined boundaries.” *Nike v. Kasky* presented the United States Supreme Court the opportunity to clarify its commercial speech doctrine to account for mixed speech. However, after hearing oral arguments, reviewing 34 briefs, and stating that the “case presents novel First Amendment questions,” the United States Supreme Court dismissed the case for lack of jurisdiction and sent the case back to California for trial.

Instead of risking a costly and protracted trial, Nike settled with Kasky for \$1.5 million. Thus, the California Supreme Court’s decision in *Kasky v. Nike* still stands as legally authoritative. Companies doing business in California risk attracting a “Nike lawsuit” if their public relations campaigns touch upon their products or operations. Under the *Kasky* precedent, such comments may be seen as traditional commercial advertising and subject to state regulation, which could prompt enforcement by a “private attorney general.” Companies find themselves in a dilemma: remain silent in the face of adverse publicity and risk damage to their corporate reputation or respond and defend at the risk of costly, public, and protracted litigation.

After the Supreme Court declined jurisdiction, to limit further liability exposure, Nike adopted a more cautious approach. The company no longer distributes its corporate responsibility report to the public, and it has scaled back participation in the media and public events in California. Yet one might question whether such self-censorship alone can protect companies from private prosecutions. None of the Nike documents alleged as false or misleading actually originated in California, including the letters to *The New York Times*, university presidents, and athletic directors. Although Nike’s headquarters is located in Oregon, postings on its corporate Web site are read in California. In *Nike v. Kasky*, the United States Supreme Court received briefs from California and 16 other states that argued Nike’s responses constituted commercial speech. In the future, the attorneys general in these states may challenge other corporate public relations campaigns that relate to products and practices. Companies contemplating or engaged in public relations campaigns should be wary—the public relations they get may not be the public relations they seek.

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### **This Is Not Your Mommy’s “Barbie” or Is She? A Cultural Icon Struggles to Maintain Her Reputation**

*Mattel Inc. v. Walking Mountain Productions and Tom Forsythe*, 353 F.3d 792 (9th Cir. 2003)

In the early 1950s, Mattel discovered a doll that had become an adult collector’s item in Germany. Mattel transformed her from a figure that more closely resembled Marlene Dietrich in the “Blue Angel” than the glamorous, wholesome blonde cultural icon that today is both worshipped by young girls and vilified by feminists worldwide

as “Barbie.” Unfortunately, fame brings undesired attention. In a recent case before the Ninth Circuit, *Mattel Inc. v. Walking Mountain Productions and Tom Forsythe*, the court was faced with the dilemma of balancing Barbie’s well-burnished commercial reputation and an artist’s right to freely examine and parody the public figures and beliefs of their culture.

Thomas Forsythe is a photographer who specializes in photographs with social and political themes. In 1997, Forsythe created a series of 78 photographs that he titled “Food Chain Barbie.” The photographs generally depict one or more nude Barbie dolls arranged with vintage kitchen appliances. From “Malted Barbie”—a nude Barbie placed in a vintage malt machine—to “Barbie Enchiladas”—four Barbies wrapped in tortillas and covered with salsa in a casserole dish—Forsythe attempted to critique the “conventional beauty myth and societal acceptance of women as objects” that Barbie allegedly represents. Forsythe’s success in the marketplace with the pictorial series was limited, grossing a total of approximately \$3,700 in sales, of which half was composed of sales to Mattel investigators.

Unsurprisingly, Mattel was not amused by the photographs. Nor was it in accord with Forsythe’s feminist views regarding its symbol of American girlhood and sued Forsythe alleging that the “Food Chain Barbie” photograph series infringed on its copyrights. The trial court ruled in favor of Forsythe on his motion for summary judgment, and Mattel appealed.

The Ninth Circuit Court of Appeals quickly reaffirmed the statutory prescription that the Copyright Act protects the owner of a copyright by granting him or her exclusive rights to “reproduce, distribute, and publicly display copies of the work.” The court further enunciated the general rule that “a prima facie case of copyright infringement by reproduction is established by showing ownership by the plaintiff and copying by the defendant.” It ruled that Mattel owned the copyright to the “unadorned Superstar Barbie head and parts of the figure including revisions to the hands, feet, neck, shoulder and buttocks.” Since Forsythe photographed the Barbie figure and reproduced those photographs, the court determined that Mattel had established a prima facie case of copyright infringement. Mattel sensed vindication of Barbie’s honor and reputation.

Unfortunately, Mattel’s hopes were short-lived because the Copyright Act recognizes a statutory exception to the protection granted to the owners of copyrights known as the “fair use” exception. Used in a series of different fact patterns, including academic instruction, the fair use doctrine permits the use of copyrighted material if the user can prove that the alleged infringement complies with or does not interfere with any of the following four factors: (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 on the potential market for, or value of, the copyrighted work. Particularly, the statute and the interpretive case law excludes from copyright restrictions certain works, such as those that criticize and comment on another work. Citing the Supreme Court, the Ninth Circuit recognized that “parodic works, like other works that comment and criticize, are by their nature often sufficiently transformative to fit clearly under the fair use exception.”

The question then was whether Forsythe’s photograph exhibit constituted a parody of Mattel’s Barbie doll. The court determined that Mattel, through its long-standing and pervasive marketing programs, had established Barbie as “the ideal American woman” and a “symbol of American girlhood” for many. It further commented that “Mattel’s advertisements showed these plastic dolls dressed in various outfits, leading glamorous lifestyles and engaged in exciting activities. To sell its product, Mattel used associations of beauty, wealth, and glamour.” This type of universal iconic presentation is a parodist’s bread and butter. Clearly, Forsythe saw an artistic opportunity.

The court found that the Forsythe’s photographic technique and composition “all served to create a context for Mattel’s copyrighted work that transform Barbie’s meaning.” Some of the photographs showed a vulnerable nude Barbie vapidly smiling while endangered by fearsome kitchen appliances. In other photographs, Forsythe posed the nude doll in sexually suggestive contexts. The court determined that “it is not difficult to see the commentary that Forsythe intended or the harm that he perceived in Barbie’s influence on gender roles and the position of women in society.” Forsythe’s intention was to parody Barbie and everything the doll had come to signify in our culture and conveyed these ideas in a context of social commentary.

The court also reviewed in detail another factor employed to determine the appropriate application of the fair use doctrine—whether actual market harm resulted from Forsythe’s use of Mattel’s Barbie doll and whether unrestricted conduct of the sort engaged in by Forsythe would adversely affect the potential market for the original Barbie. This inquiry by the court attempted to balance the benefit the public would derive if the use was permitted and the personal gain the copyright owner would receive if the use was denied. Logically, the less the adverse effect on the copyright owner’s expectation of gain, the less public benefit need be shown to justify the use. The court reaffirmed the general proposition that when dealing with parody, it is more likely that the new work will not affect the market for the original in a way that will be recognized under this analysis. In this case, Forsythe’s photographs depicted nude and often sexualized figures, a category of artistic photography that Mattel was unlikely to license. Because the public benefit in allowing artistic creativity

and social criticism to flourish is great, the court stated that “the fair use exception should be used as an important limitation on the rights of the owners of copyrights in cases involving artistic work or parody.”

After the careful review of the fair use doctrine and an equally close examination of similar issues raised by Mattel regarding violations of trademark and trade dress, the court held that Forsythe’s work constituted fair use and was not violative of either the Copyright Act or the Lanham Act. The court found the work was a parody of the Barbie doll and transformative in its presentation. Furthermore, the court ruled that Forsythe’s infringement “had no discernable impact on Mattel’s market for derivative uses . . . [and] the benefits to the public in allowing such use—allowing artistic freedom and expression and criticism of a cultural icon—are great.”

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## **Sixth Circuit Decision Protects Secondary Market for Printer Cartridges**

*Lexmark International, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004)

The Sixth Circuit Court of Appeals recently reversed a lower court decision that could have prevented secondary market remanufacturers of printer cartridges from producing their products without the licensing of specific technology from printer manufacturers. The court vacated a preliminary injunction issued by the district court and remanded the case for further proceedings.

Printer manufacturers usually make more money selling ink and toner refill cartridges than they do from selling the printers themselves. Lexmark attempted to protect that secondary market by designing a printer that does not accept a toner cartridge without a built-in microchip made by Lexmark. The microchip contains code that must be recognized by the printer for the cartridge to work. Static Control Components (SCC) designed and sold to toner cartridge remanufacturers a microchip containing the necessary code.

Lexmark sued SCC for copyright infringement, alleging that SCC had copied its Toner Loading Program, and for two violations of the Digital Millennium Copyright Act (DMCA), alleging that SCC had circumvented technological measures designed to control access to its Toner Loading Program and to its Printer Engine Program. Both of these programs are contained on the microchip made by Lexmark. The district court found for Lexmark and enjoined SCC from selling its microchip.

The Sixth Circuit first examined Lexmark’s claim that SCC copied its Toner Loading Program in violation of the

general copyright statute. The program is extremely short, only 55 bytes, requiring less space to store than this sentence. It provides two important functions, however. First, it calculates the level of toner in the cartridge. Second, it “authenticates” the cartridge by yielding a “checksum” total that must match that of a “genuine” Lexmark cartridge.

Under relevant copyright law, original works of authorship are entitled to copyright protection. However, this protection cannot extend to any “idea, procedure, process, system, method of operation, concept, principle, or discovery.” This so-called idea-expression dichotomy generally distinguishes the realms of copyright and patent law. Copyright can only extend to the expression of an idea, whereas patent can protect the underlying idea itself. If an idea can only be expressed in a limited number of ways, copyright cannot extend to this expression because it would be tantamount to protecting the idea itself. Furthermore, copyright protection may be precluded when external functionality factors limit the choice of expression to few alternatives.

The Sixth Circuit held that the district court had erred in concluding that because the Toner Loading Program could be written in a number of different ways, it was entitled to copyright protection. The appellate court remanded the case to determine whether there was any original expression in the program sufficient to warrant copyright protection.

The court of appeals also overturned the district court’s determination that the Toner Loading Program was not a “lock-out” code. Instead, the court found that the program was primarily functional in nature, was not protected by copyright, and could be reverse engineered.

And, the Sixth Circuit held that the district court had erroneously interpreted the “control access” requirement of the DMCA. The Printer Engine Program is a collection of printer utility programs that is loaded into the printer’s memory whenever the printer is turned on. Both parties agreed that the collection of programs was subject to copyright protection and that SCC had not violated Lexmark’s copyright because it had written its own suite of programs. Lexmark did contend, however, that SCC had violated the DMCA by circumventing Lexmark’s authentication sequence and thereby permitting consumers to make use of the utility programs.

The appellate court held that the “control access” provision of the DMCA applies when a technological measure is intended to restrict access to a work protected by copyright that is not otherwise accessible. The court held that it is not Lexmark’s authentication sequence that “controls access” to the Printer Engine Program but rather the purchase of the printer. Anyone who buys a Lexmark printer can read, copy, or access the literal code of the programs without the need of the authentication sequence. The court analogized the situation to locks on a house. No

one would claim that a lock on the back door of a house would control access to the house if the front door did not contain a lock. Nor would anyone claim that a lock on any door of the house would control access to the house after the purchaser receives a key to the lock. Similarly, if one obtains access to a program by purchasing a printer, then an authentication sequence applied each time the printer is turned on should not be deemed to be a technological measure designed to control access.

The Sixth Circuit emphasized the importance of the reverse engineering and interoperability exception to the DMCA. Under this statutory provision, a person may circumvent an access control measure for the "purpose of identifying and analyzing those elements of the program that are necessary to achieve interoperability of an independently created computer program with other programs." The court held that SCC had reverse engineered the interoperability features of the Printer Engine Program and written its own noninfringing program.

This case is significant because the court refused to permit the DMCA to be used to extend copyright protection to content that would otherwise not be protected merely by using a "technological measure" to "control access" to it. As stated in one of the concurring opinions, the "DMCA was not intended by Congress to be used to create a monopoly in the secondary market for parts or components of products that consumers had already purchased."

Furthermore, as stated in a very strongly worded opinion concurring with the majority's decision, the holding of this case should not be limited to printer cartridges. It should be made clear "that in the future companies like Lexmark cannot use the DMCA in conjunction with copyright law to create monopolies of manufactured goods for

themselves just by tweaking the facts of [the] case." Also, "Congress did not intend to allow the DMCA to be used offensively in this manner, but rather only sought to reach those who circumvented protective measures 'for the purpose' of pirating works protected by the copyright statute."

The scope of this decision extends to many different industries. In fact, amicus briefs were submitted on behalf of SCC by trade groups representing automobile part manufacturers, computer and communications groups, and graphic imaging companies, as well as by a coalition of law professors who believe that the DMCA is being applied far too broadly and thwarts legitimate competition.

This is the second appellate court decision in the past few months to steadfastly prevent the DMCA to be used to stifle competition in secondary or after markets. The Court of Appeals for the Federal Circuit recently refused to permit the manufacturer of a remote garage door opener to use the DMCA to prevent its primary competitor from selling a compatible device by including a "rollover code" that purportedly controlled access to protectable content. Both courts relied heavily on the reverse engineering and interoperability exceptions in the DMCA as well as on evidence of Congress's intent in passing the legislation to reject this type of expansion of copyright protection. Although it is possible that the United States Supreme Court will hear an appeal in one of these cases, it appears unlikely because this trend seems to be consistent with the intent of Congress when it passed the DMCA.

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