



ideas on intellectual property law

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The source of the Nile(s)

Trademark law's personal name rule shows flexibility

Broadly speaking, trademark law protects inherently distinctive marks as soon as they go into bona-fide commercial use. But nondistinctive marks aren't protected unless, and until, their use in commerce creates an association between the mark and the source of the goods in prospective purchasers' minds. This is called "secondary meaning." Descriptive marks, surnames and personal names normally fall into the nondistinctive category. So when Peaceable Planet named its toy camel "Niles," it might have expected that protecting the personal name would be an uphill battle.

A NILES IS BORN

Peaceable Planet makes animal plush toys. It sold only a few thousand of its Niles camels

in the first year. In the following year, Ty Inc. began selling its own stuffed camel — also named "Niles." Ty is a much bigger company — it manufactures the famous "Beanie Babies" — and it sold almost 2 million of its "Niles" camels in one year, leading to a trademark infringement suit by Peaceable Planet.

The trial court ruled that "Niles," being a personal name, couldn't be protected without secondary meaning. Peaceable Planet couldn't prove that consumers associated the name "Niles" with its camel, so it lost in the trial court. But Peaceable Planet appealed.

DESCRIPTIVE MARKS

The appellate court agreed that a descriptive mark isn't legally protected unless it acquires secondary meaning. For example, "All Bran" describes the product. If the first firm to produce an all-bran cereal could obtain immediate trademark protection, and thus prevent all other producers of all-bran cereal from describing their product in those terms, it would be difficult for competitors to gain a foothold in the market. The court noted that, had Peaceable Planet named its camel "Camel," it would be a descriptive mark in a relevant sense, making it very difficult for Ty to market its own camel.

But, said the court, the rationale for denying trademark protection to personal names without proof of secondary meaning can't be the same as the rationale for descriptive marks. "Niles" doesn't describe a camel any more than "Pluto" describes a dog, "Bambi" a fawn, "Garfield" a cat or "Charlotte" a spider. So anyone wanting to market a toy camel, dog,

Survey says . . .

On the question of whether "Niles" was likely to be understood by the plush-toy consuming public as a personal name rather than as a play on the Nile River, Ty conducted a survey in which about half the respondents indicated that they consider "Niles" a personal name. The court didn't find this impressive. The survey was also limited to adults — even though Ty's primary market is children — so the court concluded the survey was irrelevant. If people were asked what came to mind when they saw the word "Niles" and they said a camel, there would be an argument that "Niles" was a descriptive mark, and Peaceable Planet would be sunk. According to Ty's own statistics, only about one resident of Illinois in 50,000 is named Niles, and the fact that Niles can be a person's name doesn't bear on whether Niles is a descriptive mark as applied to a plush toy camel.



fawn, cat or spider wouldn't be impeded by having to choose another name.

PERSONAL NAMES

So why the reluctance to protect personal names as trademarks? In addition to the underlying rule that descriptive marks aren't protected until they acquire secondary meaning, there are three valid concerns:

1. Courts are reluctant to forbid a person from using his or her own name in a business. If a man named Brooks opened a clothing store under his own name, should this prevent a second Brooks from opening a clothing store under the same name, even though consumers didn't yet associate the name with the first Brooks' store?
2. Some names are so common — such as Smith and Jones — that consumers won't assume that two products having the same name have the same source, and so their bearing the same name won't confuse them. For example, if there are two restaurants named “Steve's” in the same city, people may not infer that the same Steve owns them.
3. Preventing someone from using his or her name to denote a business may deprive consumers of useful information. Maybe “Steve” is a well-known neighborhood figure. If he can't call his restaurant “Steve's” because another restaurant already has that name, he is prevented from communicating useful information to prospective patrons.

PURPOSE OF RULE

Next the court observed that its decision should focus on the rule's purpose. The “rule” that personal names aren't protected as trademarks until they acquire secondary meaning is a generalization, and the rule's purpose guides its application. When none of the purposes that animate the rule is present, and applying the “rule” would impede rather than promote competition and consumer welfare, the court should make an exception. So the court said that the “rule” about personal names doesn't apply if the public is unlikely to understand the trademark as a personal name.



Applying this reasoning to the present case, the court observed that camels — whether real or toy — don't go into business. Peaceable Planet's appropriation of the name “Niles” for its camel isn't preventing some hapless camel in the Sahara Desert who happens to be named “Niles” from going into business under its own name. In short, said the court, the rationale of the personal-name rule is wholly inapplicable to this case.

In a flurry of rhetoric, Ty argued that “one competitor should not be allowed to impoverish the language of commerce by monopolizing descriptive names,” and a limited number of personal names are recognized as such by the public. But the court found the suggestion that Niles belongs to the limited class of recognized names or that Niles is the only way to name a camel “ridiculous.”

THE NILES FLOWS FREE

The court concluded that Peaceable Planet has valid trademark rights in the name “Niles” as applied to its camel. It returned the case to the trial court where Peaceable Planet will have a chance to prove infringement. 💡

Roundup® all around

When liquidated damages take the place of proof

Plaintiffs must prove all the elements of their case, including the amount of damages. When negotiating a contract, parties sometimes employ a “liquidated damages” clause to avoid the need to prove the amount of damages if the other party breaches the contract. A liquidated damages clause specifies the exact amount owed to the aggrieved party. In a recent case involving a patent license, the patent owner put a liquidated damages clause in the license agreement, but it didn’t achieve its objectives.

THE PATENT . . .

Monsanto manufactures Roundup® herbicide, which contains glyphosate, a chemical that kills vegetation by stopping the metabolic activity of a particular enzyme — EPSPS — that is necessary for cell growth in many plants and weeds.

Monsanto also markets Roundup Ready® patented genetic-modification technology. In soybean seeds, the Roundup Ready technology operates by inserting the gene sequence for a variant of EPSPS that isn’t affected by the presence of glyphosate but still performs the function required for cell growth. Thus, Roundup Ready soybean seeds produce a genetically modified version of EPSPS that permits the soybean seeds to grow in the presence of Roundup herbicide. Roundup herbicide can then be sprayed over the top of an entire field, killing the weeds without harming the soybeans.

THE LICENSE . . .

Monsanto licenses the patented gene to seed companies that manufacture the glyphosate-

tolerant seeds sold to farmers. Under this license, seed companies gain the right to insert the genetic trait into the germplasm of their seeds, and Monsanto receives a royalty for every bag of seed containing the Roundup Ready technology sold by the seed company.

Monsanto requires that licensed seed companies execute “technology agreements” with their farmer customers. The technology agreement between Monsanto and the soybean farmers using Roundup Ready soybeans places several conditions on the soybean farmers’ use of the licensed soybeans. The farmer must agree to:

- ① Use the seed containing Monsanto gene technologies for planting a commercial crop only in a single season,
- ① Not supply any of the seed to any other person or entity for planting, save any crop produced from the seed for replanting or supply saved seed to anyone for replanting, and
- ① Not use the seed or provide it to anyone for crop breeding, research, generation of herbicide registration data or seed production.

The technology agreement also contains the following clause specifying damages in the event of breach by a farmer: “In the event that the Grower saves, supplies, sells or acquires seed for replant in violation of this Agreement and license restriction, . . . the Grower agrees that damages will include a claim for liquidated damages, which will be based on 120 times the applicable Technology Fee.”

THE FARMER . . .

In 1998, a farmer named McFarling executed the technology agreement as part of a purchase of 1,000 bags of Roundup Ready soybean seed. He conceded that he saved 1,500 bushels of seed from his 1998 crop, enough to plant approximately 1,500 acres, and that he replanted them in 1999. Then he saved 3,075 bags of soybeans from his 1999 crop, replanting them in 2000.

Soybeans destined for replanting are cleaned after harvest. When McFarling sent his seeds saved from the 1998 season to a third party for cleaning, Monsanto took some samples, tested their genetic makeup and learned that McFarling was saving Roundup Ready seeds. Monsanto filed suit against McFarling, alleging patent infringement and breach of the technology agreement.

THE LAW . . .

The district court granted summary judgment in favor of Monsanto on all of McFarling's defenses, and on liability with respect to Monsanto's patent infringement claim and the technology agreement claim. On the issue of damages, it held the liquidated damages clause in the technology agreement was valid and enforceable — provided the 120 multiplier was applied to the number of bags of seed purchased rather than the number replanted.

But on appeal, the appellate court ruled the liquidated damages clause in the technology agreement was invalid and unenforceable because applicable state contract law required that the amount set as damages must be a reasonable forecast of the harm caused by the breach. Liquidated damages must be a reasonable estimate of the actual damages or they're considered an impermissible deterrent or penalty rather than a valid substitute for calculated damages.

Monsanto's principal argument to the contrary was that soybeans can self-replicate at an exponential rate. For example, a farmer planting one bag of soybeans in the first year would reap 36 bags to replant in year two, 1,296 bags to replant in year three, 46,656 bags to replant in year four and so on. But the court regarded this calculation as unrealistic because it depended on assumptions of infinite acreage on which to plant and no commercial sale of any soybeans.

Liquidated damages must be a reasonable estimate of the actual damages or they're considered an impermissible deterrent.

The court also pointed out that the same liquidated damages clause was used with all of Monsanto's Roundup Ready crops — not just soybeans — even though they grow at different rates. And it applied regardless of the nature of the breach, even though different amounts of damage might result from different types of breach.

. . . AND THE DAMAGES

In the end, the court refused to validate any liquidated damages clause that wasn't tailored to the individual circumstances of the case. It sent the case back to the trial court for a determination of actual damages. 💡

Patent infringer denied parental rights

UNOVA, Inc. owns several patents relating to the “smart battery” management technology used in notebook computers. UNOVA and Compaq Computer Corp. entered into a settlement agreement releasing Compaq and its parents from liability for infringement of the smart battery patents. When the agreement was signed, Compaq had no parents — no other corporation owned a majority of its shares.

About a year later Hewlett-Packard Corp. acquired 100% of Compaq’s capital stock, thus becoming Compaq’s corporate parent — but the UNOVA-Compaq settlement agreement didn’t release Hewlett-Packard from infringement liability on the smart battery patents. The agreement provided that UNOVA wouldn’t sue Compaq or its parents for infringement of the smart battery patents by any “Compaq Products.”

Five days after the acquisition, UNOVA filed suit against Hewlett-Packard for infringement of its smart battery patents. So why didn’t the UNOVA-Compaq settlement agreement release Hewlett-Packard from liability for infringing UNOVA’s smart battery patents? The court said that was not what the contracting parties intended.

WAS THERE INTENT?

Under state contract law, a third party’s rights under a release agreement are based on the contracting parties’ intent to benefit the third party. This intent must appear in the contract terms. The third party bears the burden of showing the contracting parties’ intent, and Hewlett-Packard failed to meet this burden.

Reading the settlement agreement as a whole, the court concluded that UNOVA and Compaq didn’t intend to release Hewlett-Packard from liability for any infringement that occurred before



it became Compaq’s parent. The release provision stated that UNOVA “hereby releases Compaq, its parents, and its Subsidiaries” from all claims that relate to infringement allegations on any of the smart battery patents taking place on or before the agreement’s date. Since Hewlett-Packard wasn’t Compaq’s parent before that date, it wasn’t entitled to the release’s benefit.

The court wasn’t persuaded by Hewlett-Packard’s argument that interpreting the agreement to include only Compaq’s parents at the time of the settlement agreement would render the term “parents” null, because Compaq didn’t have any parents at that time. The court observed that elsewhere in the settlement agreement UNOVA and Compaq had referred to future status — in such phrases as “past, present, and future officers, directors, shareholders” — when they intended. The fact that they didn’t similarly modify the term “parents” in the release suggested that they didn’t seek to release Compaq’s future parents.

WHICH PRODUCTS ARE RELEASED?

Other sections of the settlement agreement didn’t help Hewlett-Packard either. One section provided that UNOVA wouldn’t file suit or assert a claim against Compaq, its parents, and its subsidiaries for infringement of any smart battery

patents by any Compaq products. Another section granted Compaq, its parents, and its subsidiaries a perpetual, royalty-free, nonexclusive, worldwide license for Compaq products under the smart battery patents.

Those provisions expressly applied only to Compaq-branded products. Therefore, even as Compaq's parent, Hewlett-Packard couldn't enjoy these provisions' benefits for its own products. In addition, certain sections of the agreement, which released liability even for non-Compaq-branded products, bolstered the court's interpretation of the release provisions relating to Compaq-branded products. Thus, it would have been rather unusual for UNOVA to release Hewlett-Packard from liability for acts of infringement that occurred *before* it became Compaq's parent, when it reserved the right to sue Hewlett-Packard for

identical acts of infringement that occurred *after* it became Compaq's parent.

In addition, the court looked outside the settlement agreement, observing that it was highly unlikely that Compaq would have released Hewlett-Packard from liability for its past infringement of UNOVA's smart battery patents because, at the time of the agreement, Hewlett-Packard and Compaq were competitors in the notebook computer industry.

CAN THE DEFENSE SURVIVE?

So the court held that Hewlett-Packard wasn't allowed to rely on the release found in the UNOVA-Compaq settlement agreement. It sent the case back to the trial court for Hewlett-Packard to face UNOVA's patent infringement claim. 💡

How the doctrine of famous trademarks extinguished a trademark

Generally, you can acquire U.S. trademark rights only through use in this country, not a foreign country. So whom would you expect to win: a company already selling cigars in the United States under the trademark Cohiba or a Cuban company selling Cuban cigars under the same Cohiba mark in the rest of the world, but that has never sold them here because of the Cuban embargo? Surprise: the Cuban company won.

Cubatabaco sells Cohiba brand cigars in Cuba and on the international market. But it's barred from selling in this country because of the Cuban embargo, and it has no U.S. registration for the trademark Cohiba. After Cubatabaco entered the international marketplace, an American company, General Cigar, began using the Cohiba mark for cigars in the United States. Cubatabaco was the first to use the Cohiba mark throughout the rest of the world, but foreign use of a trademark normally cannot form the basis for establishing priority in the United States.

What made this case different, however, was the doctrine of famous trademarks: A party whose mark is famous in the United States before another party starts to use the mark has priority even though the later use takes place in this country and the earlier use — on which the fame is based — took place abroad. The court decided that Cubatabaco had made the Cohiba mark famous in the United States by virtue of its sales on the international market. So General Cigar couldn't subsequently misappropriate the mark's goodwill even though it used the mark on the domestic market before Cubatabaco could legally do so.

Therefore, because Cubatabaco had a legally protectable right to the mark, the court canceled General Cigar's Cohiba registration, and General Cigar was enjoined from using the Cohiba mark. But the smoke hasn't cleared in this case — General Cigar has appealed the ruling.

what seemed impossible to many...



an idea

created new industries.

As an experienced, IP-focused firm, we:

- » Obtained broad patent for nanotechnology applied to RF switching and control, leading to licenses and development agreements with leading chip manufacturers.
- » Patented surge protection devices used in DSL lines, generating enough interest from GE that it bought the entire company.
- » Patented method of Internet user registration used by AOL, MSN, Verizon, SBC, Earthlink and Netzero. Patent infringement litigation is pending; see www.mymail.com for more information.
- » Chosen by IBM to patent the PlayStation 3.

