ideas on intellectual property law

year end 2003

in this issue

Changes to the rules
How NAFTA affects geographic trademarks

The ghost of Napster lives
Peer-to-peer file sharing not necessarily illegal under copyright law

One plus one doesn't always equal two
Contributory patent infringement

CARR
Intellectual Property Law

Protecting Your Share of the Marketplace.

CARR LLP
670 Founders Square
900 Jackson Street
Dallas, Texas 75202
www.CarrIP.com
214.760.3000

Changes to the rules

How NAFTA affects geographic trademarks

Sometimes a term is used as a trademark even though it has geographic significance in the public's mind. But the Lanham Act will deny the trademark's registration if it is deceptive. If the mark is merely misdescriptive, however, it could still be a valid trademark if it acquired "secondary meaning." Now add in the North American Free Trade Agreement (NAFTA) and the rules change. A recent case determined whether secondary meaning could save a misdescriptive mark after Congress amended the act in light of NAFTA.

THE LANHAM ACT ON GEOGRAPHIC TRADEMARKS

The Lanham Act — the federal trademark statute — addresses geographic marks in three categories. The first category comprises deceptive (including geographically deceptive) marks. These marks materially deceive the public (tantamount to consumer fraud) and cannot be protected under the act even if they acquire a "secondary meaning." In other words, even if the relevant public recognizes the mark as a trademark rather than as an indication of geographic origin, the mark is still refused registration because it is deceptive.

NAFTA shifted the emphasis for geographically misdescriptive marks toward public deception, requiring Congress to amend the Lanham Act.

The other two categories of geographic marks are:

1. Primarily geographic descriptive marks, and
2. Primarily geographic and deceptive misdescriptive marks.

Before the United States entered into NAFTA, you couldn't register these marks on the act's principal register unless the mark became distinctive of the applicant's goods, meaning it acquired a "secondary meaning" in the public's mind as a trademark rather than a geographic indicator.

GEOGRAPHIC TRADEMARKS BEFORE NAFTA

Originally, the law treated these two categories, descriptive and misdescriptive geographic marks, identically. The only difference between them was that a mark such as "California Innovations" would be descriptive if the goods actually came from California, and misdescriptive if they didn't. Before NAFTA, the result was the same: principal registration denied, but only in the absence of secondary meaning.

Thus, before NAFTA it was relatively easy for the Patent and Trademark Office (PTO) to deny registration on the ground of geographic

Trademark's goods-place association

At one time the Trademark Trial and Appeal Board (TTAB) could reject a mark as geographically descriptive or misdescriptive by merely showing that it had a primarily geographic connotation. But subsequently, the requirements became stricter. The famous *Nantucket* case established the additional requirement of a goods-place association to reject a geographic trademark application. After the *Nantucket* case, it was no longer enough for the trademark to have a geographic connotation — it was also necessary for the goods to be associated in the public mind with the particular geographic location indicated by the mark.

But it was not necessary for the place to be well-known or noted for the goods in question. Thus, Paris is noted for perfume, but Nantucket isn't noted for men's shirts. A goods-place association can, however, be demonstrated even if the geographic location isn't well-known or noted for the goods in question, as Paris is for perfume. Being well-known or noted for such goods is a sufficient condition for establishing a goods-place connection, but not a necessary condition.

But the *Nantucket* rule didn't include the much stricter consumer fraud standard of the Lanham Act for rejecting a geographic mark. Thus, even after the *Nantucket* decision, it was still much easier for the Patent and Trademark Office (PTO) to reject a geographic mark on the ground of geographic misdescriptiveness than to bar it irrevocably on the ground of geographic deceptiveness (consumer fraud).

misdescriptiveness, because the mark might still qualify for registration on the basis of secondary meaning. In contrast, a rejection because of deceptiveness had more severe consequences to the trademark applicant, so the PTO had to meet a higher standard for rejection on that ground. It had to show a tendency for consumer deception.

CASE IN POINT

A company called California Innovations did apply to register its trademark "California Innovations" in the PTO for thermal insulated tote bags and wraps that didn't come from California. The PTO rejected the application, and the Trademark Trial and Appeal Board (TTAB) affirmed the rejection, based on the geographically misdescriptive nature of the mark — specifically the "California" component. But on appeal to the Federal Circuit, that decision was vacated for reasons having to do with NAFTA.

The court found that even though California isn't noted for thermal insulated tote bags and wraps, it was still possible for the PTO to make a finding that there is a goods-place association between California and the trademark applicant's goods. (See "Trademark's goods-place association" above.) The PTO did so, resulting in a rejection of the application for registration.

But here's what the NAFTA treaty did to U.S. trademark law: It shifted the emphasis for geographically misdescriptive marks toward public deception, requiring Congress to amend the Lanham Act. The amended version makes a rejection on the ground of geographic misdescriptiveness permanent — the acquisition of secondary meaning can no longer overcome geographic misdescriptiveness. A rejection for geographic misdescriptiveness is now treated as irrevocable — exactly the same as a rejection

for deceptiveness (consumer fraud). Thus, the only geographic marks that secondary meaning can now rescue are descriptive marks, not misdescriptive marks.

Consequently, the rejection on the ground of geographic misdescriptiveness seemed to be fatal to California Innovations' trademark application. But on appeal to the Federal Circuit, the court announced a new doctrine: Because geographic misdescriptiveness now has the same severe consequences as deceptiveness, to establish a rejection for misdescriptiveness, the PTO must now meet the same requirements that apply to a rejection for deceptiveness — that is, it must show an element of consumer fraud. The court then sent the case back to the TTAB to determine whether the trademark application was allowable under this new standard of geographic misdescriptiveness.

NEW GEOGRAPHIC RULE

Now that the trademark laws have been changed to comply with NAFTA, the PTO will have to make a finding of consumer fraud to deny a trademark based on geographic misdescription. Only geographically descriptive marks have the luxury of falling back on secondary meaning.

The ghost of Napster lives

Peer-to-peer file sharing not necessarily illegal under copyright law

Remember Sony? Remember Napster? Well, here come Grokster, StreamCast and Kazaa — and they resemble Sony more than they resemble Napster.

Back when video recorders were first used to record television broadcasts of copyrighted movies and TV programs, movie and TV producers sued Sony and other manufacturers of video recording machinery. They believed that the users of such machines — you and I — were copyright infringers, and that the machine manufacturers contributed to the infringement by providing us with the tools. That theory went all the way to the U.S. Supreme Court, but ultimately failed when the Court held that home video recording of broadcasts for personal use was not infringement. And without a direct infringement to contribute to, no contributory infringement can exist.

WHO'S NAPSTER?

In more recent years, Napster appeared on the scene with a network enabling computer users to swap copyrighted songs and other digitized materials with each other over the Internet. Once again a group of copyright owners sued for contributory infringement, and this time they won. Napster was enjoined from making copyrighted materials available on its network without paying royalties. Napster was held to be a contributory infringer because it knew that users were making a large number of unauthorized copies of the plaintiffs' copyrighted materials, and it facilitated the infringing behavior by providing the computer network to do so.

Now a new generation of song-swapping networks has arisen, but they operate in a different way. Grokster, StreamCast and Kazaa distribute

software that enables home computer users to exchange digital media using a peer-to-peer transfer network. They, too, were sued recently for contributory infringement by organizations in the motion picture and music recording industries, as well as by a group of professional songwriters and music publishers. But before the cases could come to trial, the defendants moved for summary judgment — and won.

HOW DOES PEER-TO-PEER WORK?

The systems used by the three defendants in this case all operate in basically the same manner. File-sharing software is downloaded to the users' computers from the defendants' servers. Once the software is installed, each user may elect to share files located on his or her computer, such as digital music files, video files, software applications, e-books and text files. The software automatically connects to the network and makes any shared files available for transfer to any other user who is currently connected to the same network.

The court took a hard look at the issue of whether the defendants knew about the direct infringement. Evidence suggested that:

- The defendants marketed themselves as "the next Napster,"
- Various searches were performed by the defendants' executives for copyrighted song titles,
- Internal documents revealed that the defendants were aware that their users were infringing copyrights, and
- The plaintiffs sent the defendants thousands of notices regarding infringements.

Thus the court concluded the defendants clearly knew that many — if not most — users who download their software use it to infringe copyrights.

WHAT'S THE DIFFERENCE?

And yet the court perceived a crucial difference between Napster and the present case. It said that to be liable under a theory of contributory infringement, the defendants' knowledge of the infringement must exist at a time when they can use that knowledge to stop the infringement. Thus, the plaintiffs' notices of infringing conduct would be irrelevant if they arrived at a time when the defendants could do nothing to facilitate, or to stop, the infringement.

In Napster's case, said the court, without the support services Napster provided, the end users could not easily find the music they wanted. In addition to distributing its file-sharing software, Napster hosted a central list of the files available on each user's computer, and thus served as a hub for the file-sharing network. When Napster closed down in response to the court's injunction, its file-sharing network disappeared.

In contrast, the defendants in the present case didn't operate any sort of central facility to aid the file sharing. Once their software was released into the world, the file-sharing network operated on a pure peer-to-peer (decentralized) basis — completely independent of the defendants. In contrast, all of Napster's search traffic went through Napster itself. The present defendants

had no control over who used the system or what material was shared, and therefore couldn't block the copyrighted files. Accordingly, the court found that they didn't contribute to the end users' infringement of copyrighted files.

In addition, said the court, the defendants weren't liable for "vicarious infringement" even though they derived millions of dollars in revenue from advertising to the end users of the file-sharing software installed on the end users' computers. Here again, the court found no liability for the same reason: Once the defendants released their file-sharing software to the end users, they had no ability to supervise or control what files were shared by the end users — they could only direct advertising to the users.

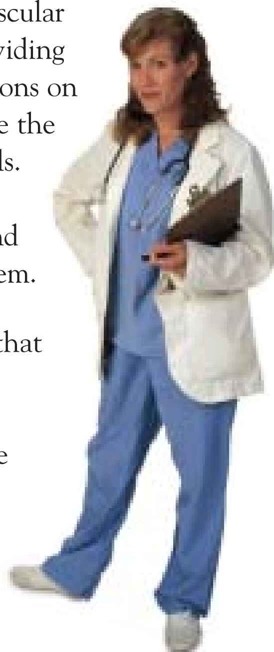
IS THERE ANOTHER ANSWER?

Does peer-to-peer file sharing then trump the copyright laws? Or is there another answer? The court noted it wasn't blind to the possibility that the defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement while benefiting financially from their ware's illicit draw. But the plaintiffs were in effect asking the court to expand existing copyright law beyond its present boundaries. This, the court said, wasn't possible without additional legislative guidance.

One plus one doesn't always equal two

Contributory patent infringement

Last year, in the case of *Cordis Corp. v. Medtronic AVE, Inc.*, a manufacturer of vascular stents claimed that a rival manufacturer violated the Patent Act by selling unpatented, unassembled vascular stents to physicians and providing the physicians with instructions on how to implant and assemble the stents in human blood vessels. The plaintiff had patents on both the assembled stents and the process of assembling them.



Cordis argued that the fact that the defendant manufacturer hadn't personally infringed the patent by assembling the stent was irrelevant. The defendant manufacturer's input, in tandem with the physician's actions in implanting and assembling the stent, were collectively responsible for infringing the patent. Thus the defendant manufacturer had aided and abetted the direct infringers (the physicians) in violating Cordis's patent rights. The court agreed, and held the defendant manufacturer liable as a contributory infringer. This year, a somewhat similar case, *Olin Corp. v. Furukawa Electric Co.*, revisited this issue.

A NEW CASE TESTS THE THEORY

Olin Corp. wanted to sue Furukawa Electric Co. for infringing two of its patents. Furukawa made an alloy called EFTEC-97. The alloy itself and the process of making the alloy were both covered by Olin patents. However, Furukawa does business outside the court's geographic jurisdiction — apparently in Japan — so Olin couldn't sue Furukawa for direct infringement of its U.S. patents. Instead, Olin relied on the doctrine of

contributory infringement by arguing that, as in the *Cordis* case, Furukawa aided and abetted Waterbury Rolling Mills (WRM), a U.S. company located within the court's geographic jurisdiction.

Furukawa and WRM had discussed the possibility of Furukawa's selling unpatented "mother coil" — the material from which EFTEC-97 is manufactured — to WRM so that WRM could produce EFTEC-97 for sale and distribution in the United States. They also had discussed the possibility of Furukawa's providing WRM with technical guidance about the process of manufacturing EFTEC-97. Eventually, Furukawa reduced to writing an offer to sell mother coil to WRM for use in producing EFTEC-97. A letter from a Furukawa representative to WRM's president described the EFTEC-97 alloy and the estimated price per kilogram for the finished alloy. But Furukawa and WRM never completed the proposed agreement.

Thus, the issue in this case was whether Furukawa had infringed the patents by making an offer to WRM to sell mother coil — a noninfringing precursor — and then provide technical assistance in carrying out the infringing process for transforming mother coil into the infringing product. Olin relied on a patent statute amendment that made a mere *offer* to sell an infringing product an act of infringement. Infringement was no longer limited to a *consummated* sale.

Olin also relied on the contributory infringement theory of the *Cordis* case to get around the fact that none of Furukawa's alleged acts of infringement occurred within the court's geographic jurisdiction. It hoped this theory would tie Furukawa to the local company, WRM. In effect, Olin argued that an offer to sell plus contributory infringement equaled infringement liability. But the court said that in this case, one plus one did not quite equal two.

DOING THE MATH

The court agreed with Olin that Furukawa had offered to sell to WRM. And it also agreed that the *Cordis* case stands for the general proposition that contributory patent infringement may occur when one party acts in tandem with another to complete an act of infringement. But the court denied that the *Cordis* principle applied to the present case.

It first observed that Furukawa's offer to sell mother coil to WRM didn't in itself constitute an infringement, because mother coil was an unpatented product. But Furukawa had also offered technical guidance on an infringing method of transforming the intermediate material into the infringing EFTEC-97. Wouldn't the two offers together turn the whole transaction into contributory infringement as it did in *Cordis*?

No, said the court. In *Cordis*, the manufacturer actually sold the unassembled stents and actually provided guidance to the physicians in implanting and assembling the stents into the patented form. In the course of implanting and assembling the stents, the physicians had actually committed an act of direct infringement, for which the defendant manufacturer was contributorily liable.

But no contributory infringement exists in the absence of direct infringement. And in the present case, the negotiations between Furukawa and WRM never resulted in an act of direct infringement by WRM. Furukawa's offer to sell mother coil and advise WRM about the process of transforming the material into EFTEC-97 was entirely prospective. The parties never progressed past the offer to sell. An actual sale of mother coil for use in producing EFTEC-97 never came to fruition, and absent such a sale no act of direct infringement by WRM occurred, and thus Furukawa wasn't guilty of contributory infringement.

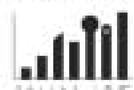
ACCEPTING THE RESULT

The combination of offering to sell a nonpatented intermediate product and provide technical guidance in performing a patented process and making a patented product could have resulted, but never did result, in WRM's using that patented process or making that patented product. Therefore, what worked in the *Cordis* case didn't work for Olin.

This publication is designed to familiarize the reader with matters of general interest relating to intellectual property law. It is distributed for informational purposes only, not for obtaining employment, and is not intended to constitute legal advice. Legal counsel should be consulted with regard to specific application of the information on a case-by-case basis. The author, publisher and distributor assume no liability whatsoever in connection with the use of the information contained in the publication.

Fabricate.
Formulate.
Generate.
Initiate.
Innovate.
Originate.
Propagate.
Update.

Go ahead: Create.
We'll protect you.



Carr LLP Dallas, Texas 214.760.3000 www.CarrIP.com

©2003 CARR LLP. ALL RIGHTS RESERVED