

International and Corporate Intellectual Property Planning
Firms Should Protect, Defend and Globalize

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Introduction

Intellectual property is the United States' second largest export (second only to agriculture). We have come a long way since the manufacturing glory days of Henry Ford. In the twenty-first century we still make tangible products but it is the intangible trademarks, copyrights, patents, and trade secrets that help make the bottom line count. The following introduction to intellectual property provides a brief overview of the intangible property protections that can help businesses and non-profit organizations.

Web Site Issues

A variety of legal issues can arise in developing and operating a web site.

As the development of e-commerce unfolds, an organization's web site presents valuable potential benefits to the organization. A web site, however, also exposes an organization to potential liabilities and violations of state and federal legislation and international laws. This is one of the fastest growing areas of the law. It is impossible to address every conceivable legal issue that might arise in the operation of the successful business. Organizations must, at least, consider a basic range of legal issues when developing and operating a web site.

Trade Secret Infringement

Trademark infringement is another common area of dispute.

Trademark infringement actions can cover everything from domain name disputes and improper use of a company's name, mark or symbol to infringement of the distinctive elements Used to distinguish one's web site on the Internet. Some trademarks are registered with the

federal government. Some trademarks are registered on a state-by-state basis. Still other trademarks are protected without any registration at all under state common law. In comparative advertising it is usually acceptable to use another's trademark so long as the advertisement does not cause consumer confusion as to the source or sponsorship of goods.

Copyright Infringement

Copyright protects creativity. The efforts of writers, artists, designers, software programmers and other talents need to be protected so that hard work can be rewarded. Copyrights, like patents and trademarks, are an effective tool against unauthorized manufacture, use, sales, or imports of one's creative expression, including package design and in some cases product configuration.

Copyright registrations can be enforced at the United States border, creating a cost-effective way of stopping unlawful competing products from entering your key markets.

Trade Secret Infringement

A trade secret is any valuable or technical information used in business to gain competitive advantage that is also kept secret. Examples include the formula for Coca Cola and your customer or client lists. In order to qualify for trade secret protection, reasonable efforts must be made to maintain the secrecy of the business information. Trade secrets are protected under both state and federal law.

Licensing Intellectual Property

Licensing intellectual property to third parties allows a company or a non-profit corporation to exploit and capitalize on its assets. A company should appreciate that licensing empowers businesses to overcome constraints (e.g., capital, manufacturing capacity, research and development capacity, market knowledge, distribution, or

trademark and patent protection, or limited employees) sooner and faster than they could otherwise, making them more competitive. Before licensing intellectual property, a company should fully understand its intellectual property rights and applicable laws.

Patent Infringement

Patent protection is helpful in stopping unauthorized manufacturing, use, sales, or imports of one's invention in the countries where the patent has issued. Patents can be very expensive but are sometimes worth the cost. It is important to think about what can be patented and if the cost of procuring the patent is worth the benefit.

Patents provide their owners with a monopoly of a particular invention/idea for a limited period of time. Patented inventions can range from the "turtle" bumps that separate our roadways to business methods and software for managing multi-tiered hub and spoke mutual funds. In many cases, patented inventions will be marked as "patented." In some cases, however, patented inventions may not be properly marked. Interpreting what a patent covers or does not cover requires expert legal knowledge and sometimes expert technical knowledge. If patent infringement becomes an issue, the best advice is to seek expert advice.

The Right of Privacy and the Right of Publicity

The common law of many states protects individuals against intrusions into their personal privacy. There are four basic types of common law privacy intrusions.

The four basic common law privacy intrusions are: (1) unauthorized appropriation of a person's name or likeness;^[1] (2) placing another person in a false light;^[2] (3) disclosure of private facts which are highly offensive and not newsworthy;^[3] and (4) unreasonable intrusion into an individual's seclusion.^[4] The right of publicity is similarly defined as

the appropriation of the commercial value of a person's identity, name or likeness without the person's consent.[5]

As one can imagine, the posting of pictures or other information to one's web site or bulletin board by customers can raise issues of: (1) copyright infringement; (2) violations of the right of privacy; and (3) violations of the right of publicity.

Defamation

The law of defamation, i.e., libel and/or slander, varies slightly from state to state, although the same basic principles apply everywhere. Defamation occurs when something false is spoken or written about a particular person and when that person is damaged by the defamation.[6] Ordinarily, one who repeats or republishes defamatory material is liable as if he or she had originally published it.[7] Entities such as news vendors and/or other distributors of defamatory material are sometimes not liable for defamation if they did not know of or have reason to know of the defamatory material.[8]

The Communications Decency Act, 47 U.S.C. § 230, provides some liability limitations to on-line service providers for defamation actions even when they know their services are being used to disseminate defamatory materials.[9]

Specifically, the law says, "[n]o provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider." Both "interactive computer service" and "information content provider" are defined broadly and would appear to encompass most on-line service providers, including entities operating entirely on the World Wide Web. [10]

The plain language of the statute and some case law dicta suggest that the Communications Decency Act might provide on-line service providers with a liability limitation that reaches far beyond simple

defamation cases, reaching into other areas such as violations of privacy and publicity rights.

First Amendment Issues

In an age of "information" the First Amendment of the United States Constitution takes on new importance. Among other unique applications of the First Amendment, one court actually held that a United States export restriction on computer source code violated the First Amendment.

There are two legal tracts that are usually followed by courts when determining First Amendment protections in the United States. An analysis proceeding from the first tract offers greater protection and judicial scrutiny of regulations limiting the content of speech. The underlying idea is that any regulation limiting the content or "goods" found within the marketplace of ideas is unconstitutional, under any pretext (with a few notable exceptions).

The second tract allows the government, within the context of, "least restrictive means," to put time, place, and manner restrictions on speech. The idea is that so long as the government is not regulating the content of the speech flowing into the market place it can say how and when the ideas may flow--if it has a legitimate reason.

The O'Brian case is a good example of a case from the second tract. The O'Brian court held that because the act of burning a draft card was not-itself—pure expression (but a combination of speech and non-speech acts), the government could regulate the time, place and manner of such expression because a "legitimate reason" was articulated. Because the Court found that the act of burning a draft card in public was not pure expression the stricter scrutiny of a first tract analysis was escaped.

The primary tension that runs through the "second tract" cases dealing with information dissemination is whether a given piece of information

(book or aeronautical chart) is a product or expression. When courts find that information is a product, as opposed to pure expression, then product liability is imposed.

The legal trend in these cases seems to reason that useful products like the navigational charts are products and books and magazine articles are not products, even if the information in the books is useful. One exception to the First Amendment's protection of expression is found in *Brandenburg v. Ohio*. *Brandenburg* holds that speech inciting imminent lawless activity is unprotected.

Brocklesby v. United States [11] holds that a graphical instrument approach chart is a product; subject to strict liability law even though the charts are based on governmental data.[12] As a general proposition the *Brocklesby* case represents the idea that under product liability law information can be considered a product if the information is manifested in a tangible medium like aeronautical charts.

The court in *Winter v. G.P. Putnam's Sons* held that an encyclopedia containing misleading information about harvesting the most deadly kind of mushrooms was not a product for the purpose of product liability under the Restatement of Torts s 402(A).[13] The court reasoned that product liability is "geared to the tangible world." [14] But, the court recognized that books have a material part and an expressive part and held that a "How to Use" book is "pure thought and expression." [15] The legal distinction between the ideas in a book and the book itself can be found in a variety of cases. These cases generally hold that the information contained in books should not be considered a product for products liability purposes, whether the information is useful or dangerous.

In *McKown v. Illinois Publishing and Printing* the court refused to hold a newspaper liable for injuries to one of its readers resulting from the use of a dandruff remedy contained in one of the paper's articles. [16] The court agreed with the statement that, "negligent words are not actionable unless they are uttered directly, with knowledge or notice

that they will be acted on, to one to whom the speaker is bound by some relation of duty." [17] This case was later held to stand for the proposition that ideas hold a privileged position in our society and are therefore not equivalent to commercial products. [18]

In *Walter v. Bauer* the court denied a strict tort liability claim that information contained in a chemistry book was unreasonably dangerous. [19] The court held that the chemistry book was not a product. [20] Further, the court noted that the plaintiffs proposed theory would put a chilling effect on the First Amendment Freedoms of Speech and Press because authors might become liable for writing on any topic that is potentially dangerous, such as beekeeping or timbering. [21]

In *Cardozo v. True* the plaintiff was poisoned while cooking when she tasted a bit of the ingredients mentioned in a recipe book. The ingredient she tasted was poisonous until cooked. [22] Her claim was premised on a theory of breach of warranty because the cook book contained inadequate instructions. In denying the claim the court drew a distinction between the physical book and the ideas contained within the book. [23] The court also recognized that it is unthinkable to require a merchant bookseller to evaluate the thought processes of the many authors and publishers who supply books for sale. [24] Another similar case is *Birmingham v. Fodor's Travel Publications* where the court held that a travel book was not a product under products liability law. [25] The case involved a person who bought the travel guide and subsequently was injured on a dangerous beach.

In *Herceg v. Hustler Magazine, Inc.* the court holds, as a matter of law, an article explaining how to engage in the practice of autoerotic asphyxia cannot be considered incitement under the First Amendment and is thus protected speech. [26] Further the court found that imposition of civil liability damages on *Hustler Magazine* for publishing the article "Orgasm of Death" violated the First Amendment. [27] The court also identified four elements that must be established for a court to find that the *Hustler* publication was insightful under *Brandenburg*:

1) Autoerotic asphyxiation is a lawless act; 2) Hustler advocated this act; 3) Hustler's publication went even beyond "mere advocacy" and amounted to incitement; and 4) the incitement was directed to imminent action. [28]

The *Rice v. Paladin Enterprises, Inc.* case involved a hit man who followed instructions on how to become an assassin for hire found in a book about the practices and procedures of killers for hire. [29] The court reasoned that, "the only category of unprotected speech which the book "Hit Man" could conceivably be placed in is incitement to imminent, lawless activity under *Brandenburg*." [30] The court, however, did not find that the book would incite, even if it did advocate lawless activity.

Liability Issues

Fundamentally, one of three basic theories of liability must be shown in order for a business or non-profit business to be liable for damages in most typical intellectual property cases. Understanding these theories of liability can help to avoid getting slammed with a needless and costly lawsuit. Also, understandably, these liability theories help one to understand how the different intellectual property laws will apply to various factual situations. The three basic theories of liability are: (1) direct infringement; (2) contributory infringement; and (3) vicarious liability. [31]

Direct Infringement

A direct infringement theory of liability is used when the person who infringed the copyright or violated the right of privacy, etc. is asked to pay for the alleged damage (e.g, "you damaged me and therefore you should pay for my damages").

By way of example, individual on-line users typically engage in direct infringements, such as posting copyrighted or private works on a bulletin board system or unlawfully copying material from a web site.

Contributory Infringement / Liability

Equally typical, the direct infringers noted above may have few financial resources or are difficult to track down, making a claim for contributory or vicarious liability against an on-line service provider more attractive. The Supreme Court has recognized that vicarious liability is a broad third-party liability theory, of which contributory infringement is a species. [32]

As a general rule, "one who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing activity of another, may be held liable as a "contributory" infringer." [33] The "knowledge" element of contributory copyright infringement is objective; that is, the alleged contributory infringer must know or have reason to know of the work in question that constitutes an infringement. [34]

Ordinarily, one who repeats or republishes defamatory material is liable as if he or she had originally published it. [35] Entities such as newspaper vendors or other information distributors are generally not liable for defamation if they did not know of or have reason to know of the defamatory material being distributed by them. [36]

There are two categories of actions that typically give rise to contributory liability. The first is when the defendant acts in concert with the direct infringer by contributing labor to the infringing activity. Newspaper vendors and/or other distributors of defamatory material, for example, are sometimes liable for contributory infringement when they know or have reason to know they are distributing defamatory material. The second kind of action that typically gives rise to contributory liability is when the defendant acts in concert with the direct infringer by contributing materials or equipment necessary for the infringement to occur. [37]

Vicarious Liability

Under a more general theory of vicarious liability, two elements must be established. First, the (vicariously liable) third party has the right and ability to supervise infringing activities by the direct infringer (but not necessarily knowledge of the same). [38] Second, the (vicariously liable) third party must have a direct financial interest in the direct infringement. [39]

Considering the different theories of liability is also helpful when considering strategies for reducing Internet related liability issues. The three basic theories of liability that should be considered are: (1) direct infringement; (2) contributory infringement; and (3) vicarious liability.

Limiting Direct Infringement Actions

Direct copyright infringement occurs when a particular business or one of its employees, agents, etc. violates someone else's copyright while acting on behalf or for the profit of the particular business. Third party liability, on the other hand, as explained above, is when a particular business is liable for the infringing activities of unrelated third parties. Limiting claims of direct infringement can sometimes be as easy as avoiding activities that infringe other people's legal rights. The following is a list of activities to avoid or approach with caution.

Avoid using other people's trademarks

Avoid use of other people's trademarks, package configurations, distinctive elements of a competitor's web site, etc., without their permission. Use of a competitor's trademark is often acceptable in comparative advertising or when discussing a competitor.

Avoid using other people's patented inventions

Avoid using or emulating any invention that is marked as "patented" or "patent pending" without the advice of counsel. Patent infringement can be very expensive; approach with caution.

Avoid using or copying material that is presumably copyrighted

Avoiding the use of material that is presumably copyrighted will reduce the likelihood of a copyright infringement action. Material that is presumably copyrighted includes: (1) email, (2) Usenet and news group posting, (3) bulletin board system (BBS) posting, (4) mailing list posting, (5) postings to Internet Service Providers (such as America Online and Microsoft Network), (6) interactive chat communications (IRC), (7) recordings of communications via Internet telephone and Internet video conferencing, (8) web page contents, (9) computer graphics, (10) sound, and (11) video.

Avoid violating other people's privacy and publicity rights

As mentioned above, liability for posting someone else's picture can violate the copyrights and also the privacy or publicity rights of the person appearing in the picture. Do not assume that insulation from copyright liability will protect you from liability for other actions based on privacy and publicity rights. When in doubt, get permission from the people whose image appears in a particular photograph, etc.

Avoid saying things that can be construed as false or untrue

Defamation of a person's character and/or casting someone's reputation in a false light can cause litigation woes if the person being defamed decides to take legal action. Imprudent e-mail or postings to a computer bulletin board can give rise to these types of actions. While truth is always an absolute defense, it is best to consider what proof you have before saying things about other people and companies that might not be true.

Direct infringement defamation actions against businesses are relatively rare. Actions based on an employee's false statements, however, can give rise to a defamation suit based on vicarious liability with greater frequency.

Limiting Contributory Infringement Actions

Contributory infringement is when one acts with knowledge of an infringing activity or induces, causes, or materially contributes to an infringing activity of another.

If a business becomes aware that it, or its employees, agents, etc., are engaged in an infringing activity, then the business must take corrective steps.

So long as corrective steps are taken, the "knowledge" element of the contributory infringement cannot be met.

In addition to having knowledge of an infringing activity, a business must also be involved, e.g., contribute to the alleged infringement in some way, for a contributory infringement action to stand.

In some cases a business might unwittingly contribute labor or equipment or provide a forum that contributes to an infringing activity. To help avoid unwitting contributory infringement computer bulletin boards and/or web sites, that accept material from third parties, one should follow the "passive conduit" model. That is to say, on-line forums should be self-regulated and contain disclaimers to the same effect. An example disclaimer might read:

Company XYZ exercises no control over the content of the information passing through our on-line service or posted to our web site. The forum provided is self-regulated. Any unlawful acts are the sole responsibility of the individuals committing such acts.

Please be sensitive to the rights of ownership and assure compliance with the law. To the extent that an unlawful activity occurs, our registered copyright agent is available to receive reports of such. Even though the forum is self-regulated, we will cooperate with the parties involved in helping to prevent and correct unlawful activity occurring through the use of our on-line services.

Active control or management of a computer-related forum, on the other hand, can give rise to contributory infringement because both knowledge infringing activities and participation/facilitation of the infringing activities is potentially present.

As mentioned above, certain provisions of the Communications Decency Act provide on-line service providers with an extra layer of liability protection for defamation actions. Under the protective provisions of the Communications Decency Act, an on-line service provider can take a more active role asserting "editorial control"/self-regulation of their sponsored systems with less fear of being liable as a "publisher" of defamatory material. In some cases, the same provisions of the Communications Decency Act might provide liability insulation for other alleged wrongful acts such as violations of publicity and privacy rights. The same is also true of the Digital Millennium Copyright Act, discussed later in this book.

Limiting Vicarious Liability Actions

Vicarious liability has two elements: (1) the right and ability to supervise infringing activities (but not necessarily knowledge of the same); and (2) direct financial interest in the direct infringement. Minimizing claims of vicarious liability can be accomplished by reducing the likelihood that either of the two elements mentioned above will exist.

The right and ability to supervise infringing activities

Following a "passive conduit" model for web services, as mentioned above, should reduce the chances of being vicariously liable for infringing activities occurring on one's web site or Internet service. If one's web site or Internet service is simply a conduit for information, the "right and ability to supervise infringing activities" will not exist to any significant extent. As mentioned above, the Communications Decency Act and the Digital Millennium Copyright Act provide safe

harbors for on-line service providers wishing to exercise some editorial control of their on-line services.

Direct financial interest in the direct infringement

In order to be vicariously liable for a third party's infringing activity one must have a "direct financial interest in the direct infringement." The best line of defense against this element of a vicarious liability claim is that there is no direct financial benefit attributable to the direct infringement.

In situations where a fee is charged for an on-line service, the safest approach is to charge a flat fee. A flat fee, like the rent charged by a landlord, is constant, having no fluctuation in relation to any infringing activities. [40]

Thus, in most cases, a flat fee is not directly related to any particular infringing activity.

RECAP: Intellectual Property Liability Issues

Fundamentally, one of three basic theories of liability must be shown in order for a business or non-profit business to be liable for damages. The three basic theories of liability are: (1) direct infringement; (2) contributory infringement; and (3) vicarious liability. Limiting claims of direct infringement can sometimes be as easy as avoiding activities that infringe other's people's legal rights.

Avoid: (1) using or copying copyrighted material; (2) using other people's trademarks; (3) using other people's patented inventions; (4) violating other people's privacy and publicity rights; (5) saying things that can be construed as false or untrue.

Contributory infringement is when one acts with knowledge of an infringing activity or induces, causes, or materially contributes to an infringing activity of another. To help avoid unwitting contributory

infringement, computer bulletin boards and/or web sites, that accept material from third parties, should follow the "passive conduit" model. That is to say, on-line forums should be self-regulated and contain disclaimers to the same effect.

Information service providers should limit and diminish any "editorial" control over user provided content. Vicarious liability has two elements: (1) the right and ability to supervise infringing activities (but not necessarily knowledge of the same); and (2) direct financial interest in the direct infringement.

Minimizing claims of vicarious liability can be accomplished by reducing the likelihood that either of the two elements mentioned above will exist.

[1] George B. Delta, et al., *Law of the Internet* 6-4 (1998) (quoting Restatement (Second) of Torts § 652 C (1977)).

[2] *Id.* (quoting Restatement (Second) of Torts § 652 E).

[3] *Id.* (quoting Restatement (Second) of Torts § 652 D).

[4] *Id.* (quoting Restatement (Second) of Torts § 652 B).

[5] Restatement (Third) of Unfair Competition § 46 (1993).

[6] See, e.g., *Cubby, Inc. v. CompuServe, Inc.*, 776 F. Supp. 135 (S.D.N.Y. 1991).

[7] *Id.* at 139.

[8] *Id.*

[9] See *Zeran v. America Online, Inc.*, 958 F. Supp. 1124 (E.D. Va 1997) and *Blumenthal v. Drudge*, 992 F. Supp. 44 (D.D.C. 1998).

[10] An "interactive computer service" is defined as "any information service. . . that provides or enables computer access by multiple users to a computer server" 47 U.S. C. § 230 (f)(2). An "information content provider" is defined as "any person or entity that is responsible . . . for the creation or development of information provided through the Internet." 47 U.S. C. § 230 (f)(3).

[11] See *Brocklesby v. United States*, 767 F.2d 1288, 1294-95 (9th Cir. 1985) (applying Restatement for the purpose of California law), cert. denied, 474 U.S. 1101, (1986); *Salomey v. Jeppesen & Co.*, 707 F.2d 671, 676 -77 (2d Cir. 1983) (applying Restatement for purpose of Colorado Law); *Aetna Casualty & Surety Co. v. Jeppesen & Co.*, 642 F.2d 339, 342 - 43 (9th Cir. 1981) (applying Nevada law); *Fluor Corp. v. Jeppesen & Co.*, 170 Cal. App. 3d 468, 475, 216 Cal rptr. 68, 71 (1985) (applying California law).

[12] *Brocklesby v. United States*, 767 F.2d 1288, 1294-95 (9th Cir. 1985) (applying Restatement for the purpose of California law), cert. denied, 474 U.S. 1101, (1986).

[13] *Winter v. G.P. Putnam's Sons*, 938 F.2d 1033, 1034 (9th Cir. 1991).

[14] *Id.*

[15] *Id.*

[16] *McKown v. Illinois Publishing and Printing*, 289 Ill. App. 59, 6 N.E. 2d 526 (1937) (O'Connor, J.).

[17] 6 N.E. 2d 526 at 530.

[18] *Sears Roebuck and Co. v. Employers Insurance of Wausau*, 585 F.Supp. 739 (N.D. Ill., 1983) (explaining the holding in *McKown v. Illinois Publishing and Printing*, 289 Ill. App. 59, 6 N.E. 2d 526 (1937) (dandruff case)).

[19] *Walter v. Bauer*, 439 N.Y.S2d 821, 451 N.Y.S2d 533 (App. Div. 1982), 88 A.D.2d 787 (chemistry book case).

[20] 439 N.Y.S2d at 822-823.

[21] *Id.*

[22] *Cardozo v. True*, 342 So.2d 1053 (Fla. App. 1977) (recipe case).

[23] *Id.* at 1056.

[24] *Id.*

[25] *Brimingham v. Fodor's Travel Publications*, 833 P.2d 70.

[26] *Herceg v. Hustler Magazine, Inc.*, 814 F.2d 1017, 1024 (5th Cir. 1987).

[27] *Id.* at 1030 (Edith Jones, J., concurring and dissenting that the majority is grating almost complete protection from tort liability under the First Amendment).

[28] 814 F.2d 1017, 1022.

[29] *Rice v. Paladin Enterprises, Inc.*, 1996 WL 515786 (D.Md. 1996).

[30] *Id.* at 5.

[31] see generally, *On-line Copyright Issues: Recent Case Law and Legislative Changes Affecting Internet and Other On-line Publishers*, J. Pat. And Trademark Off. Soc'y, January-February 1997)

[32] *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984).

[33] Gershwin Publishing Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159, 1162 (2d Cir. 1971).

[34] Cable/Home Communication Corp. v. Network Prod. Inc., 902 F.2d 829, 844 (11th Cir. 1990).

[35] Id. at 139.

[36] Id.

[37] 2 P. Goldstein, Copyright § 1.1 (2d ed. 1996); see also Boz Scaggs Music v. KND Corp., 491 F. Supp. 908, 913 (D. Conn. 1980); Universal Pictures Co. v. Harold Lloyd Corp., 162 F.2d 354, 366 (9th Cir. 1947); Cable/Home Communication Corp. v. Network Prods., Inc., 902 F.2d 829, 845-47 (11th Cir. 1990).

[38] See Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir. 1963).

[39] see generally, On-line Copyright Issues: Recent Case Law and Legislative Changes Affecting Internet and Other On-line Publishers, J. Pat. And Trademark Off. Soc'y, January-February 1997) (winner of the prestigious Rossman Award for Outstanding Publication of 1997).

[40] See generally, et al., On-line Copyright Issues: Recent Case Law and Legislative Changes Affecting Internet and Other On-line Publishers, J. Pat. And Trademark Off. Soc'y, January-February 1997) (winner of the prestigious Rossman Award for Outstanding Publication of 1997).