

Plaintiff hereby provides its Settlement Conference Statement for the May 4, 1990 Settlement conference before Magistrate Trumbull, at the United States District Courthouse at 280 South First Street, Room 4200, San Jose, Ca.

1. This is not a typical trademark and copyright infringement case. While there are trademark and copyright infringement rights at issue, the Plaintiff is less concerned with the financial aspect of such infringement than about the violation of the principles of the Plaintiff that are at stake. The Plaintiff, WORLD SERVICE OFFICE, INC., (hereinafter "WSO") is the service office of the Fellowship of Narcotics Anonymous. The Fellowship is an unincorporated association of "members" that have banded together to support mutual recovery from drug addiction. The Fellowship has existed since 1953 and now contains approximately 20,000 regularly scheduled meetings around the world.

Lodged herewith is a copy of the NARCOTICS ANONYMOUS Basic Text (5th Ed.) which includes, at pages 57-58, a listing of the Twelve Traditions of Narcotics Anonymous. WSO is the world-wide service office established pursuant to the Ninth Tradition. As a further introduction to and explanation of WSO, attached hereto as Exhibit A is a photocopy of Page 1 of the TEMPORARY WORKING GUIDE TO OUR SERVICE STRUCTURE, which explains the different units of the Fellowship.

WSO legally holds title to the copyrights and trademarks of the Fellowship, which includes the marks NARCONTICS ANONYMOUS, and the NA & DESIGN LOGO in issue. The 1989 WSO Catalog is lodged herewith for the Court's information. The name and logos and other properties are used to identify the Fellowship to addicts and others world wide. They represent the Fellowship and the Traditions which are part of the foundation of the Fellowships integrity and purpose. The infringement by the Defendant violates the principles that the Fellowship believes in and abides by.

Defendant has been discovered to be selling unauthorized counterfeits of the trademarks on items such as belt buckles and tie tacks. WSO feels that this unauthorized use denigrates the plaintiff's principles and trademarks and could be misinterepreted as having an affiliation between the Defendant and the Fellowship. Such affiliation is clearly prohibited in the Fellowship's Tradition number Six, "An N.A. group ought never endorse, finance or lend the N.A. name to any related facility or outside enterprise, lest problems of money, property or prestige divert us from our primary purpose." Defendant has also been known to have infringed the copyright to the Basic Text by producing and selling unauthorized audio tape recordings of the Text.

2. Defendant admits use and thereby infringement which creates a violation of the Plaintiff's Sixth Tradition. Defendant then seeks to authorize this violation of the Plaintiff's principles by seeking a license agreement so he can continue to imply an affiliation with NARCOTICS ANONYMOUS. It is this affiliation that provides the Defendant with opportunity to derive an economic benefit by selling products containing the N.A. logo. It is the prohibition in the Plaintiff's principles that distinguish

this from a routine trademark and copyright infringement case. To engage in a license agreement with Defendant would force the Plaintiff to agree to violate the principles upon which the success of the recovery concept is based on,

3. At the Courts's instruction the Plaintiff has seriously investigated the possibility of working out a license arrangement with the Defendant. This consideration involved a thorough evaluation of such an arrangement and its impact in light of the principles of the organization. Further study shows additional conflict with Plaintiff's principles, Seven and Ten. In Tradition Seven, "Every N.A. group ought to be fully self-supporting, declinng outside contributions" the Fellowship is admonished to avoid financial support from others lest such financial support deminish the Fellowship's reputation or integrity. An agreement that includes payment of money to NARCOTICS ANONYMOUS by Defendant violates this principle. Accordingly payment of royalty would not be acceptable. Additionally payment by Defendant of damages in excess of Plaintiff's legal expenses would also be a violation of this Tradition. The Fellowship does not accept outside contributions. In Tradition Ten "N.A. has not opinion on outside issues; hence the N.A. name ought never be drawn into public controversy." The use by others of the Fellowships logos may create circumstances that compromise the integrity of the spiritual nature and reputation of the Fellowship. Even this suit endangers the Fellowships principles. Before the suit was authorized by the Fellowship, reasonable effort was made to obtain voluntary cessation of Defendantss use of the N.A. logos and trademarks.

The principles of the organization provide an insurmountable barrier to entering into a license agreement with an outside enterprise to reproduce



the N.A. trademarks and service mark on items that are for their own profit. The N.A. trademarks and service mark is used on a number of items produced by WSO and by service boards or committees within the Fellowship. Suppliers are selected to produce such items, but are sold exclusively to WSO or the other service boards of committees. In this manner the public is not mislead into believing an affiliation exists between the Fellowship and outside enterprises. In this manner the Fellowship is able to abide within its Traditions.

4. As of this time, Plaintiff would like defendant to stop using its marks, a permanent injunction and its attorneys fees and costs to date (approximately \$10,000 in attorneys fees and \$1,400 in costs). Plaintiff is willing to permit defendant to sell off his existing stock.

The trademark aspects of this case are complex. The defendant admits using the mark, but claims that this is not "infringement" based upon International Order of Job's Daughters V. Lindeburg & Co., 633 F. 2d 912 (9th Cir. 1980). Defendant claims that his use of plaintiff's registered marks is in a "functional"

The Seventh Tradition requires that the Fellowship be "fully self-supporting." "We accept no funding, endowments, loans or gifts." Basic Text, at 67-8

Defendant has claimed that he did not make the tapes; he bought them from a third party; and in any event defendant claims that there were only a few tapes made. Attached hereto as Exhibit B is a photocopy of the cover of the tape, which shows that defendant certainly must have been generating force behind the infringement. (manner and therefore does not constitute infringement.)



Job's Daughters ruled that the fraternal organization could not stop a jeweler from continuing to reproduce its mark on jewelry based upon the particular facts in that case. The factual basis resulting in the Job's Daughters ruling was widespread use by unauthorized jewelers and a lack of control over its mark. 633 F. 2d, at 920. In accord on this analysis: International Order of Job's Daughters v. Lindeburg & Co., 727 F.2d 1087, 1091 (Fed. Cir. 1984). No such similar factual situation exists in this case. In this case, it seems that defendant's use of plaintiff's trademark is not in any "functional" manner, but a simple unauthorized duplication of a well-known trademark, therefore infringement.

Also, Job's Daughters decision has drawn a great deal of attention from legal commentators, the majority being extremely critical. In addition, the common consensus of most trademark treatise authors appears to be that the 9th Circuit analysis in the Job's Daughters case is subject to criticism, either because it reached the right conclusion using the wrong analysis, or used verbiage and expressed rules in such a vague and ambiguous manner that they can be misapplied. For this reason, plaintiff does not agree with CREATIVE ARTS that Job's Daughters is controlling or dispositive.

There is always the risk that the court will not agree with plaintiff, and that Job's Daughters will continue to be controlling, albeit criticizes, law. Plaintiff recognizes that risk and therefore is amenable to reasonable settlement. On the other hand, if the court finds that Job's Daughters inapplicable on the facts, defendant risks damages, a permanent injunction, attorneys fees, and possible increased damages for willful infringement. Both sides have substantial risks.

3. To date, there have been no motions filed. Defendant has indicated that he will file a motion for summary judgement with respect to the Job's Daughters issue. In the one reported case within California where that was tried by a defendant, the defendant was unseccessful, because the issue of "functionality" depends upon certain factual considerations. Plasticolor Molded Prods v. Ford Motor Co. 713 F. Supp. 1329, 1340 (C.D. Ca. 1989).

Unless the defendant receives a license, he has taken the position (and his filings th date bear that out) that the defendant intends to litigate in the hope that he will obtain a final determination that his use is "functional" and therefore does not constitute infringement. Any such full-scale litigation will place a severe financial strain on WSO. Even if WSO prevails, the defendant may either be, or render himself, jedgement-proof. Any input of the court that might lead to an acceptable resolution of this case is solicited.

but seeks to, but as to the copyright, he claims "deminimus" and "no damage".

**WAGNER & MIDDLEBROOK**

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**FACSIMILE COVER SHEET**To: WSODate: April 26, 1990Attn: Bob StoneFax: AutoFrom: Terry Middlebrook# of Pages 9 Includes cover sheet.Re: WSO v ANDERSONDocket No. : 03-9545-15.1

Bob, please review ASAP.

Also, my travel agent has make reservations for three persons traveling to San Jose on the 4th, leaving at 7:00 a.m. from Burbank. The tickets cost \$284 each. Is this OK? Can your agent obtain them at a lower price? Is Anthony going with us. So far, I have you and Stu accompanying me to the Settlement Conference.

If there are any reception problems please call \_\_\_\_\_ at (818) 957-3340

☐ Original copy and any enclosures will be sent by mail.



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Attorneys for Plaintiff  
WORLD SERVICE OFFICE, INC.,  
A California not for profit  
Corporation

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

WORLD SERVICE OFFICE, INC.,	)	Case No.. C 89 4401 RHS
A California not for profit	)	
corporation,	)	SETTLEMENT CONFERENCE
	)	STATEMENT OF PLAINTIFF
Plaintiff,	)	
	)	
vs.	)	
	)	Date: May 4, 1990
JOHN ANDERSON, an individual,	)	Time: 10:00 a.m.
and dba CREATIVE ARTS	)	Courtroom of
UNLIMITED, and CREATIVE ARTS	)	Magistrate Trumbull
UNLIMITED, a California	)	
corporation,	)	
	)	
Defendants.	)	
	)	
	)	

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herewith is a copy of the NARCOTICS ANONYMOUS Basic Text (5th Ed.) which includes, at pages 57-58, a listing of the Twelve Traditions of Narcotics Anonymous. WSO is the world-wide Service Office established pursuant to the Ninth Tradition. As a further introduction to and explanation of WSO, attached hereto as Exhibit A is a photocopy of Page 1 of the TEMPORARY WORKING GUIDE TO OUR SERVICE STRUCTURE, which explains the different units of the Fellowship.

Basically, WSO runs the business end of the Fellowship world-wide. It arranges for the printing and distribution of literature, and recovery Medallions and chips. It organizes and runs the World Conferences, which are held each year. It has opened a European Service Office to serve The Fellowship in Europe, and is opening a Canadian Service Office to serve The Fellowship in Canada. It causes The Fellowships trademarks and service marks and copyrights to be registered in various countries of the world. It provides organizational assistance to all the various levels within The Fellowship that ask for help, including providing some limited funding support to areas of The Fellowship in need.

WSO has approximately 30 full time employees at this time. It derives its income to pay for all of the foregoing from the sales of literature, medallions, key tags and "chips", which are plastic medallions, plus contributions from other levels of

The Fellowship.<sup>1</sup> WSO legally holds title to the copyrights and trademarks of the Fellowship, which include the marks NARCOTICS ANONYMOUS and the NA & DESIGN LOGO in issue. The 1989 WSO Catalog is lodged herewith for the court's information.

Defendant have been discovered to be selling unauthorized counterfeits of the trademarks on items such as belt buckles and tie tacks. WSO feels that this type of use basically denigrates the plaintiff's trademarks and implies a non-existent affiliation between defendant and The Fellowship. Defendant has also been discovered to have infringed the copyright to the basic text by creating unauthorized readings of the text.<sup>2</sup>

2. Defendant admits use, but as to the copyright, he claims "de minimus" and "no damage". As far as our research shows, neither is a defense to an award of statutory damages in a copyright case.

The trademark aspects of this case are more complex. The defendant admits using the mark, but claims that this is not "infringement" based upon International Order of Job's Daughters v Lindeburg & Co., 633 F.2d 912 (9th Cir. 1980). Defendant claims that his use of plaintiff's registered marks is in a "functional"

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Also, Job's Daughters decision has drawn a great deal of attention from legal commentators, the majority being extremely critical.<sup>3</sup> In addition, the common consensus of most trademark treatise authors appears to be that the 9th Circuit analysis in the Job's Daughters case is subject to criticism, either because it reached the right conclusion using the wrong analysis, or used

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<sup>3</sup> See, for example, Fletcher, "THE DEFENSE OF "FUNCTIONAL" TRADEMARK USE..." 75 Trademark Reporter 249 (1985) ("The thesis of this article is that the doctrine is unnecessary and unsound". 75 TMR, at 249); Palladino, "Job's Daughters and the Functionality of Words and Names" 74 Trademark Reporter 247 (1984) ("Moreover, by introducing the concept of functional words and names, the courts have created confusion which could lead to unfortunate results in future cases." 74 TMR at 249); Oddi, "The Functions of "Functionality" in Trademark Law", 76 Trademark Reporter 308 (1986) ("From the outset, "aesthetic functionality" has proved to be a most controversial and ill-defined concept." 76 TMR at 348)

verbiage and expressed rules in such a vague and ambiguous manner that they can be misapplied. For this reason, plaintiff does not agree with CREATIVE ARTS that Job's Daughters is controlling or dispositive.

There is always the risk that the court will not agree with plaintiff, and that Job's Daughters will continue to be controlling, albeit criticized, law. Plaintiff recognizes that risk and therefore is amenable to reasonable settlement. On the other hand, if court finds that Job's Daughters is inapplicable on the facts, defendant risks damages, a permanent injunction, attorneys fees, and possible increased damages for willful infringement. Both sides have substantial risks.

3. To date, there have been no motions filed. Defendant has indicated that he will file a motion for summary judgment with respect to the Job's Daughters issue. In the one reported case within California where that was tried by a defendant, the defendant was unsuccessful, because the issue of "functionality" depends upon certain factual considerations. Plasticolor Molded Prods v Ford Motor Co., 713 F.Supp. 1329, 1340 (C.D.Ca. 1989).

4. Full litigation is expected to take a substantial effort and monetary commitment by both sides. Based upon past experience and billings to date, attorneys fees are expected to reach the mid to upper five figure level. The survey alone that will be needed is expected to cost at least approximately \$20,000 in fees to an outside research company.

5. The parties basically agree that defendant has been using the marks; the disagreement is whether this use constitutes

"infringement" under the Lanham Act and related common law and statutory protections granted to trademarks and service marks.

6. Defendants have asserted 27 affirmative defenses. It appears to the undersigned that the only defense seriously asserted is the "functionality" issue. Resolution of that may well resolve the entire case. However, as noted above, resolution of "functionality" requires that certain factual issues be determined.

7. The relief sought is damages for trademark and copyright infringement, attorneys fees, and a permanent injunction.

8. As of this time, plaintiff would like defendant to stop using its marks, a permanent injunction, and its attorneys fees and costs to date (approximately \$10,000 in attorneys fees and \$1,400 in costs). It is willing to pay its own costs and attorneys fees to date, if that will settle the case with the defendant being permanently enjoined. Plaintiff is willing to permit defendant to sell off his existing stock.

Defendant basically wants a license from WSO to continue making and selling these items. WSO has seriously investigated the possibility of working out a license arrangement under which the defendant could offer certain items to the Fellowship that WSO does not have the interest or ability to offer. Even as this Report is being written, that issue is still under review. However, the Boards of Directors and Trustees are bound by the Twelve Traditions of Narcotics Anonymous. The Sixth Tradition states the following:



An N.A. Group ought never endorse, finance, or lend the N.A. name to any related facility or outside enterprise, lest problems of money, property, or prestige divert us from our primary purpose.

This appears to provide what the Boards feel is an insurmountable barrier to the type of license agreement that the defendant wants. In the past, WSO has permitted other companies to reproduce the N.A. trademarks and service mark on items that are either for sale a) to WSO exclusively or b) directly to the members of the Fellowship under highly controlled circumstances, such as at the NA Conferences. Representative items of both groups include audio cassette tapes, t-shirts, medallions and some literature items that WSO does not have the facilities to produce itself.

The Boards of Trustees and Directors have appointed a group of five persons to examine this issue. The group includes the Chairman of the Board of Directors of the Fellowship, Stu Tooredman, and the Executive Director of World Service Office, Inc., Robert Stone, both of which will be attending the Settlement Conference. WSO, the owner of the marks and copyrights basically as a trustee for The Fellowship, is in a difficult situation: it cannot violate the Sixth Tradition. However, unless the defendant receives a license, he has taken the position (and his filings to date bear that out) that the defendant intends to litigate in the hope that he will obtain a final determination that his use is "functional" and therefore does not constitute

infringement. Any such full-scale litigation will place a severe financial strain on WSO. Even if WSO prevails, the defendant may either be, or render himself, judgment-proof. Any input of the court that might lead to an acceptable resolution of this case is solicited.

April 26, 1990

Respectfully submitted,

WAGNER & MIDDLEBROOK

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By Theresa Wagner Middlebrook  
Counsel for Plaintiff  
WORLD SERVICE OFFICE, INC..