NYSBA

FALL 2010 | VOL. 19 | NO. 2

Bright Ideas

A publication of the Intellectual Property Law Section of the New York State Bar Association

Message from the Chair

Sir Isaac Newton (a source worthy of citation by any intellectual property law practitioner) famously wrote: "If I have seen a little further it is by standing on the shoulders of Giants." It should be noted with some irony that in using this phrase Newton was actually cribbing an expression already at the time hundreds of years old. Indeed, the first written reference to this now-famous metaphor dates back at least to the twelfth century, attributed to Bernard of Chartres, who allegedly was fond of saying "we are like dwarfs on the shoulders of giants, so that we can see more than they, and things at a greater distance, not by virtue of any sharpness of our sight on our part, or any physical distinction, but because we are carried high and raised up by their giant size."

Paul M. Fakler

As the incoming Chair of the Intellectual Property Law Section, the metaphor of a dwarf standing on the shoulders of giants seems particularly fitting to describe my position. I have been entrusted with the temporary stewardship of a Section that is no longer new, no longer small, no longer up-and-coming. Our Section is one of the largest, most productive, and most fun (I dare say) of any of the Sections of the New York State Bar Association. This did not happen accidentally. The greatness of the Section we know today was forged of the hard work and commitment of several Past-Chairs (and many Executive Committee members supporting them) who, over time, turned the Section into what it is.

One of the most remarkable things about these giants is how many of them continue to be active in the Section. In my opinion, this is one of our Section's greatest strengths, and it speaks not only to the commitment of these Past-Chairs but also to how much enjoyment

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we Executive Committee members get out of working together and organizing programs for the Section. For example, Rory Radding is the Founding Chair of the Section. If anyone deserves a break, it is he. But he remains a driving force in the Section. Indeed, not content with founding the Section itself, he recently helped form (and Co-Chairs) the Section's new Greentech Committee. Similarly, Joyce Creidy, Deborah Resnick, Rick Ravin, and Marc Lieberstein are all Past-Chairs who continue to serve as Committee Co-Chairs. Past-Chairs Michael Chakansky and Victoria Cundiff also remain active in the Section and in the Executive Committee.

No discussion of the Section's giants would be complete without mentioning Mimi Netter. She has been continuously active in the Section since its founding and served on the Executive Committee for many years. Mimi stands out in my mind as one of the most dynamic forces in the Section. Not only is she always full of good ideas and opinions, but she epitomizes the characteristics we hope to promote in the Section: professionalism, kindness, love of intellectual property law, camaraderie, and fun. And she is a hell of a lawyer. In recognition of Mimi's exceptional contributions to the Section, it is my privilege to announce that we are naming the Section's annual fellowship, administered by the New York Bar Foundation, "The Miriam Maccoby Netter Fellowship, created and funded by the Intellectual Property Law Section." Our fellowship could have no better namesake than Mimi, and I am honored that this naming is my first official act as Chair of the Section.

Although we are blessed with an abundance of "seasoned hands" on the Executive Committee, we could not possibly hope to continue improving the Section without a continuous influx of new talent. It takes a lot of work by many people to organize a successful meeting or CLE program. For this reason, I would like to encourage all of you to become more active in the Section. Come to meetings. Our upcoming Fall Meeting, to be held this year from October 7 through October 10 in Cooperstown, will provide a great opportunity to not only get loads of CLE credits and catch up on the latest developments in intellectual property law but also get to know fellow Section members in a fun, family-friendly setting.

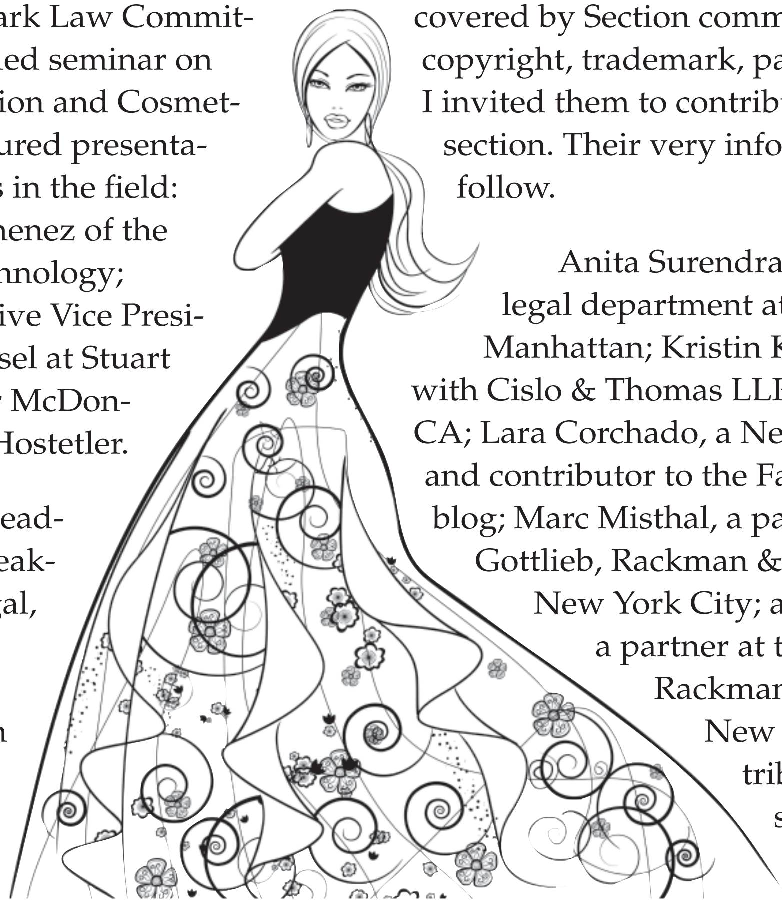
Join a Committee in an area of interest. We have Committees covering every possible facet of intellectual property law. E-mail or call one of the Committee Co-Chairs and offer to help organize a Committee meeting or CLE program. If you have ever enjoyed attending one of our Section's meetings or programs (and we put on some of the finest programming of any bar association out there), you will enjoy helping to create one even more. When several pitch in (as always do), it takes far less effort than you may think. That is how we all got started with the Section, even the giants.

It remains to be seen, of course, what new feats the Section will accomplish during my tenure as Chair. But if my term is successful, it will only be so because I had the good luck to stand on the shoulders of the mightiest giants in the intellectual property law community. We are all in their debt.

Paul M. Fakler

Introduction

In April the Trademark Law Committee hosted a well-attended seminar on "Hot Topics in the Fashion and Cosmetics Industries" that featured presentations by leading experts in the field: Professor Guillermo Jimenez of the Fashion Institute of Technology; Barbara Kolsun, Executive Vice President and General Counsel at Stuart Weitzman; and Heather McDonald, a partner at Baker Hostetler.



To give *Bright Ideas* readers the benefit of the speakers' insights into the legal, practical, and ethical issues confronting the $200 billion U.S. fashion industry—issues that implicate a number of the subject areas covered by Section committees, including copyright, trademark, patent, and licensing—I invited them to contribute to this special section. Their very informative articles follow.

Anita Surendran, an attorney in the legal department at Stuart Weitzman in Manhattan; Kristin Kosinski, an attorney with Cislo & Thomas LLP in Santa Monica, CA; Lara Corchado, a New York City attorney and contributor to the Fashion Law Center blog; Marc Misthal, a partner at the law firm Gottlieb, Rackman & Reisman, P.C. in New York City; and George Gottlieb, a partner at the law firm Gottlieb, Rackman & Reisman, P.C. in New York City, also contributed to this special section.

—ed.

Fashion Law: Key Issues in a New Legal Discipline

By Guillermo Jimenez, Barbara Kolsun, George Gottlieb, and Marc Misthal

I. Introduction to Fashion Law

A. Fashion Law Comes of Age

Fashion Law is an emerging legal discipline that addresses the recurrent legal issues common to the fashion industries (e.g., fashion and basic apparel, footwear, jewelry and accessories, and beauty and fragrance products). Although lawyers have helped counsel the fashion industry for decades, it is only recently that the emerging discipline of Fashion Law has been recognized as a distinct legal specialty.

In 2006, the first American college course on Fashion Law was taught at the Fashion Institute of Technology in New York. In 2008, Professor Susan Scafidi introduced the first American law school course on Fashion Law (at Fordham Law School), and in 2010 Professor Scafidi established a Fashion Law Institute at Fordham. More recently, Brooklyn Law School and Cardozo Law School have scheduled or planned courses in Fashion Law. In 2010, the authors of this article co-wrote the first American legal handbook in the field, *Fashion Law: A Legal Guide for Fashion Designers, Executives and Attorneys*.[1] Today, law firms and bar associations around the country are sponsoring continuing legal education courses in Fashion Law. In this article, and in the three articles that follow in this special section, we will summarize Fashion Law's key concepts and discuss critical developments in the case law.

B. The Need for Fashion Law

The fashion industry and its legal counselors need a firm grasp of Fashion Law for a number of reasons:

1. Industry size. The industry has grown large enough to be economically crucial, accounting for nearly four percent of total global GDP, a sum now in excess of $1 trillion per year.[2] Fashion companies have grown enormously in social and economic importance. It was through fashion that Bernard Arnault, the CEO of the French fashion-luxury house LVMH, became one of France's wealthiest citizens, while Luis Amancio Ortega, the founder of the Zara retail chain, became Spain's wealthiest. In 1998, fashion designer Donna Karan sold the company she had founded a mere thirteen years earlier to LVMH for $643 million.[3] In 2008, America's largest company, Wal-Mart, earned a substantial portion of its more than $400 billion in annual revenues from the sale of apparel.[4]

With annual apparel sales on the order of $200 billion per year, the U.S. fashion industry is estimated to be about twice as large as the so-called entertainment industries combined (books, movies, and music),[5] but it has been heretofore somewhat neglected by the legal profession. Thus, an Amazon search in April 2010 for books referencing legal specialties revealed the following comparison: IP Law: 1912 entries; Sports Law: 316 entries; Entertainment Law: 173 entries; Hotel Law: 51 entries; Music Law: 26 entries; and Fashion Law: 4 entries.

2. The rise of fashion conglomerates. Since the 1990s the global fashion industry has been marked by increasing concentration. The world's leading fashion company, LVMH, continually prowls the globe looking for acquisitions in areas related to fashion and luxury. Thus, in 2008 LVMH added the British firm Princess Yachts to its prestigious stable of brands, which already included Louis Vuitton, Givenchy, Christian Dior, Marc Jacobs, Celine, Sephora, Chaumet, TAG Heuer, and Hublot. While many observers have questioned LVMH's omnivorous appetite, the company has been able to exploit its size. LVMH reportedly obtains advertising discounts from leading fashion magazines of up to 30 percent over those granted to other fashion companies. LVMH's multi-brand strategy has been followed by French rival PPR, a holding company that owns Gucci, Yves Saint-Laurent, and Bottega Veneta, among other brands.[6]

Liz Claiborne is one of the leading American firms to follow a multi-brand strategy, having acquired Mexx, Lucky Brands, Juicy Couture, and Kate Spade. Similarly, Phillips Van Heusen (PVH) owns the Calvin Klein brand as well as IZOD and several other mid-price brands, while Jones Apparel Group owns Anne Klein, Jones New York, and Nine West. Concentration also has occurred on the retail side. In 2005, Federated Department Stores, which already owned the Macy's and Bloomingdale's department stores, purchased the May Company for $17 billion.[7] Federated officially changed its name to Macy's in June of 2007 and has become a $27 billion retailer with 850 department stores.[8] Companies of this size require sophisticated legal staffs (most large fashion companies have in-house legal teams). Fashion conglomerates also generate legal work that requires them to employ outside lawyers and experts. Increasingly, such experts must prove that they understand the particularities of the fashion industry.

3. Fashion designers misperceive the law. As fashion law advisors, we are often confronted by false rules of thumb that circulate widely in the design community. Young designers are sometimes told, for example, "Change a design three times and it is legal." Or: "Change it 60 percent, and it is legal." Such rules of thumb are inaccurate and dangerous. Young designers should learn that clothing designs as a whole may be freely copied under U.S. law, but fabric prints, accessories, and jewelry are subject to strong protection (copyright or design patent), and in some cases shoes and handbags also may be protected (design patent or trade dress). There is a germ of truth, nonetheless, in the designers' misunderstanding: even in cases where a particular item is protected as intellectual property, a copycat generally may escape infringement charges by changing the design "enough" (though what is enough cannot be so easily summarized as "three times" or "60 percent").

4. Disruptive transformation: Internet and digital technologies. As with all other consumer industries, the fashion industry has been transformed by the arrival of the Internet and digital technologies. On the negative side, Internet sales facilitate the marketing of counterfeit fashion items, particularly luxury items such as handbags and jewelry. Thus, eBay has been sued by a number of luxury fashion houses for failing to adequately police transactions on its website for sales of counterfeit items. This litigation, which has been resolved to date in eBay's favor, is discussed further in the accompanying article on counterfeiting in fashion.

The phenomenal success of the Spanish specialty retailer Zara is due in part to its mastery of information technology (IT), which has allowed it to achieve a competitive advantage in speed to market. Zara allows other fashion firms to be the fashion leaders, then focuses on imitating each season's top hits and trends. This model is known as "fast fashion," and it also has been followed by such successful firms as H&M, Mango, and Forever 21. Since "fast fashion" companies rely on imitation, they sometimes are accused of going too far and stealing fashion designs outright. Thus, Forever 21 has been sued dozens of times. In one widely publicized case, designer Diane Von Furstenberg sued when Forever 21 began to sell a $32 "Sabrina" dress that was remarkably similar to Von Furstenberg's $325 "Cerisier" dress.

At this point, let us simply note that the arrival of digital technologies has made this type of issue more prominent because it is now quite easy for fashion copycats to take digital photographs of new fashion items which are then transmitted to overseas factories for reproduction. In fact, an imitator can be even faster to market than the company that originated a design or style.

C. The Scope of Fashion Law

While Fashion Law is sometimes conceived of as an extension of intellectual property (IP) law, we have taken a more expansive, practice-oriented approach, adopting the perspective of the General Counsel of the mid- to large-sized fashion company. Although IP-related issues are indeed central, there are a number of other legal issues that a fashion GC routinely must address:

1. Licensing. Licensing is so prevalent in the fashion industry that the operations of some major designers can be reduced to the management of bundles of licenses. For virtually all famous designers, licenses eventually become a central business concern. Successful licenses can be immensely profitable for both parties. When super-designer Karl Lagerfeld agreed to a limited-edition line for H&M in 2006, stores were mobbed, and many sold out in a single day.[9]

The contracts upon which these licenses are based are consequently of vital importance. Consider the widely publicized $200 million lawsuit filed in 2000 by Calvin Klein against his most important licensee, Warnaco.[10] Klein argued that Warnaco's decision to market Calvin Klein jeans through warehouse clubs such as Costco and Sam's Club had cheapened and diluted the prestige of the Calvin Klein brand. Whether Klein's case was legally valid would turn on a careful reading of the contract (which did not explicitly rule out sales to stores such as Costco) as a well as on a sophisticated understanding of the fashion market (would Costco customers really lose respect for Calvin Klein products if they saw them for sale at Costco?). In the end, the dispute was settled on terms reportedly favorable to Klein (and career-ending for Warnaco's top management). The case illustrates the importance of carefully drafted license agreements, a topic discussed in greater detail in the accompanying article "Licensing in Fashion."

2. Anti-counterfeiting. Not all fashion companies need be concerned with counterfeiting, only the most successful ones. Thus it is sometimes jocularly observed that the greatest compliment a fashion designer can receive is to appear on Canal Street (a shopping district in New York City long associated with the sale of counterfeits). For fashion leaders such as Louis Vuitton, Calvin Klein, Gucci, Cartier, etc., anti-counterfeiting has become a major concern, with some firms devoting up to $10 million per year to their anti-counterfeiting efforts. Anti-counterfeiting strategies are further discussed in the accompanying article "Anti-Counterfeiting in Fashion."

3. Commercial sales. As tangible products sold at wholesale between merchants, fashion products are covered by U.S. sales law, the Uniform Commercial Code (UCC).[11] The fashion industry today is dominated by large buyers that are able to dictate terms in their supply contracts with fashion vendors. One of the buyers' preferred methods for exercising maximum control is to subject their purchase orders to a highly detailed set of rules that may be known as a "Vendor's Compliance Manual" or a similar appellation. Typically, the provisions in the manual are so one-sided that, in the event of a dispute, the vendor may have no recourse even in cases where the equities seem to be in its favor. We recommend that, whenever possible, the vendor seek to reply to the buyer's purchase orders with written confirmations that append or incorporate more balanced provisions. Ideally, one would obtain the buyer's written acceptance of the seller's terms, but even where this is unlikely it may be of some value, should a dispute arise, to have challenged the buyer's one-sided terms.

One of the most common areas of dispute concerns so-called "chargeback" provisions that allow the buyer to unilaterally impose a discount on the seller in the event the seller is late or delivers deficient goods. Problems arise because chargeback provisions are sometimes quite complicated, and buyers have been accused of self-interested accounting in the reckoning of chargeback amounts. In extreme circumstances, it has been alleged that chargebacks were imposed in bad faith.

4. Customs and international trade. Today, most basic American apparel is manufactured overseas—much of it in China. Imported goods incur different duty rates depending on the customs classification of the goods. Customs and the importer sometimes disagree on the most appropriate classification. Once the importer has exhausted administrative appeals within customs, the importer may appeal the ruling to the Court of International Trade. Fashion counsel should be familiar with specialized customs attorneys who can handle these kinds of appeals.

In one illustrative case, a small American fashion company, Tally Ho, had imported "boiled-wool jackets" from China.[12] U.S. Customs classified these under the category for "coats," which carried a 20 percent duty. The importer argued that the garments should be reclassified as "sweaters" and pay a 17.5 percent duty. The crucial question became "What is a 'coat'?" The court heard expert witnesses from both sides and concluded that the *use* of the garment should be granted greatest weight in determining its classification. The judge ruled that a "coat" is a garment worn over other garments when the person goes outside to face the elements. Consequently, it was held that the boiled wool garment was *not* a coat, and the importer prevailed.

5. Ethical compliance/sweatshop issues. In 1991 a young American expatriate in Indonesia reported on worker mistreatment in factories that produced Nike athletic shoes. After initial resistance, Nike succumbed to public pressure and strengthened its sourcing protocols in 1998. A similar incident arose when a labor rights group known as the National Labor Committee charged that television personality Kathie Lee Gifford's line of clothing at Wal-Mart was manufactured in Central American sweatshops with ample use of child labor. Gifford and Wal-Mart denied the accusations but agreed to police their suppliers more strictly.

Fashion consumers have been sensitized to the issue of sweatshops. In order to protect their brand image, most large fashion companies have adopted codes of conduct that they impose on suppliers and that they verify by regular inspection of factories. Devising such sourcing policies and codes may require the input of fashion company's legal counsel.

II. IP Protection in Fashion

A. Key Concepts

1. No protection for design. Fashion design is not currently protected under U.S. law. By "fashion design" we refer to the way a specific garment is cut and assembled, not merely to the drawings and patterns from which the garment may have been derived. A garment has a "design" even if it was constructed without an original drawing. As a general rule, it is not illegal to copy the precise construction of a garment, even when it possesses an innovative and unusual design, and even if in the end the copy is virtually indistinguishable from the original. In contrast, the countries of the European Union provide strong legal protection for fashion designs.[13] Similar legislation has recently been proposed in the United States and may one day become law.[14]

Even in France, though, which has the strongest possible protection for fashion designs, there is protection only for *original* designs, and the vast majority of clothing designs do not qualify. Most clothing is made from a standard repertoire of sleeves, panels, hems, button, pockets, pleats, etc., and is therefore lacking in originality. Consequently, most fashion designs can be freely imitated even in those countries that have relatively strong protection for original designs. A substantial amount of knocking off is a standard aspect of the fashion business in all countries and will remain so.

2. Multiple/overlapping IP coverage. A single garment or product may be covered by several different forms of legal protection at the same time. Consider a dress with a screen print as well as the company logo on the front and a brand name on its label. The logo and brand name are protected as trademarks, but the screen print is protected by copyright. If the dress was fabricated from an innovative microfiber that the company developed, this textile could be protected by a utility patent.

3. "Knocking off" as standard practice. The fashion industry is extraordinarily imitative, almost by definition. When we say a particular garment is "in fashion," we mean that many people are wearing a similar garment at the same time. Fashion designers are frequently influenced by the same sources and by each other. When one firm deliberately copies another label's products, this is referred to as "knocking off." Knockoffs are not necessarily illegal. Depending on the specific circumstances, knocking off may be legal, while in other cases it may constitute an infringement of IP, and in extreme cases it may constitute counterfeiting.

B. Copyright

1. Conceptual separability. Copyright protection does not extend to most fashion designs on the ground that apparel and footwear are useful articles. The creativity of a fashion design is considered to be so intertwined with its utilitarian function that it is not eligible for copyright protection. Conversely, jewelry receives protection precisely because the law considers jewelry decorative rather than useful—a legal distinction that may be disconcerting to jewelry designers, though decidedly in their favor. In certain circumstances, components of useful articles may be entitled to copyright protection if the artistic element is "conceptually separable" from the utilitarian aspect of the article.

In a seminal case, Barry Kieselstein-Cord had designed belt buckles incorporating sculptural designs and sought copyright protection for them.[15] The federal district court held that Kieselstein-Cord's buckles were not copyrightable because, in the court's view, the sculptural element was not separable from the buckles themselves. The court relied on the basic principle of U.S. copyright law that an item cannot be copyrighted if it forms an inseparable part of a utilitarian object, the justification being that one had to draw a clear line between copyright law and patent law. Originality in creative works was to be protected by copyright, while innovation in utilitarian objects was the realm of patent law. When a creative work was somehow attached or mingled with a utilitarian work, as in the Kieselstein-Cord belt buckle, one had to ask whether the creative part could be "separated" from the utilitarian part. If such a separation were not physically possible, the district court held, then the object could not be protected by copyright.

On appeal, however, the Second Circuit took a different view: "This case is on a razor's edge of copyright law. It involves belt buckles, utilitarian objects which as such are not copyrightable. But these are not ordinary buckles; they are sculptured designs cast in precious metals—decorative in nature and used as jewelry is, principally for ornamentation. We say 'on a razor's edge' because the case requires us to draw a fine line under applicable copyright law and regulations. Drawing the line in favor of the appellant designer, we uphold the copyrights granted to him by the Copyright Office and reverse the district court's grant of summary judgment…in favor of the appellee, the copier of appellant's designs."[16]

The Court ruled that "separable" meant conceptually separable, not physically separable. The creative elements of a product can be protected by copyright so long as those creative elements are conceptually separable from the whole product. In other words, if it is possible to imagine an image or sculptural element existing independently of the fashion product, (e.g., a belt buckle, an earring, or a bangle), the image or sculptural element is protectable by copyright.

The decorative elements of many fashion products meet the criterion of separability. Copyright is thus a useful tool for fashion firms, protecting fabric prints and images, jewelry, textiles, and the surface design of shoes, handbags, and other accessories. In one illustrative case, Knitwaves, a domestic manufacturer of children's knitwear, marketed a line of sweaters with a "fall motif" (featuring appliqués of leaves and squirrels). Deliberately using Knitwaves' designs as a reference, another manufacturer, Lollytogs, created a highly similar line. Knitwaves filed suit against Lollytogs alleging copyright infringement of its sweater design.[17] The Second Circuit held that Knitwaves' original leaf and squirrel designs qualified as artwork and thus were protected by copyright. The court rejected Lollytog's argument that all of the elements in the Knitwaves' sweaters (i.e., squirrels, leaves and stripes) were already independently in the public domain. The court concluded that Lollytogs imitative designs met the threshold for copyright infringement because they were "substantially similar" to those used by Knitwaves. In the court's view, an ordinary purchaser would think they came from the same source.

C. Trademarks

1. The prevalence of trademarks. Fashion companies rely heavily on trademarks to communicate brand positioning as well as to protect their goods from knockoffs. Famous examples include Gucci's interlocking Gs, Nike's swoosh sign, and Louis Vuitton's classic "Toile" print for luggage and handbags. While copyright and design patent protection are both limited in duration and will eventually expire, only trademark protection may be renewed perpetually.

Given the importance of a trademark, which may be a fashion company's most valuable asset, it should not be surprising that large firms are willing to engage in a vigorous defense of any perceived infringement. Sometimes, they go too far, as evidenced by a dispute between Louis Vuitton and Dooney & Bourke. Most savvy fashion consumers can easily spot a classic Louis Vuitton bag or trunk, even at a distance. Louis Vuitton has used its famous Toile Monogram trademark on trunks and accessories for many years. In 2002 Louis Vuitton decided to revamp its image by launching a "new signature series" handbag line, designed by Japanese artist Takashi Murakami, which updated the Toile mark by printing it in thirty-three bright colors and placing the colored mark on white or black backgrounds. Bags with the new designs were widely advertised and promoted. A few months after Louis Vuitton launched the new line, competitor Dooney & Bourke launched its own series of bags using a "DB" monogram, in an array of bright colors, set against a white background. The Dooney & Burke bags were visually very similar to the Louis Vuitton bags. Dooney & Burke's new design was clearly and obviously inspired by Louis Vuitton's. The crucial question was whether Dooney & Burke had crossed the line and committed trademark infringement.

Louis Vuitton sought a preliminary injunction directing Dooney & Burke to stop selling the allegedly infringing bags, but the district court denied the motion, observing that Louis Vuitton used the initials "LV," while Dooney & Bourke used the initials "DB." The Second Circuit disagreed, suggesting that the district court should have entered the requested injunction.[18] On the issue of likelihood of confusion, the court of appeals criticized the district court for comparing the parties' bags on a side-by-side basis because that is not how consumers see them in the marketplace. It stated that "market conditions must be examined closely to see whether the differences between the marks are likely to be memorable enough to dispel confusion on serial viewing." The case was sent back to the district court for further evaluation of all relevant factors.

When the case returned to the district court, however, it was thrown out entirely, without a trial. The court found insufficient evidence to establish a likelihood of confusion between the D&B bags and the LV bags. The court ruled that a defendant's product may "remind" the public of a plaintiff's product and still not constitute illegal "confusion":

> [W]here the marks at issue are not identical, the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution.… [S]uch mental association will not necessarily reduce the capacity of the famous mark to identify the goods of its owner.…[19]

2. Style names as trademarks. The rapidity of the fashion cycle may constrain the resources that can reasonably be invested in adopting and registering certain less important trademarks. Thus, for example, fashion companies may or may not wish to register "style names," which are created for specific items or narrow fashion lines that may last only a season or two. From a pragmatic, cost-effective perspective, style marks may warrant a less comprehensive search than would a house mark that represents the entire brand. Regardless of the mark's perceived importance, some form of search should be conducted for every mark adopted. Changing even a style name can be very expensive, potentially requiring the return of shipped goods and the reprinting of tags and labels, and the damage done to relationships with retailers can have long-term implications. In certain circumstances, nonetheless, common-law trademark rights may be sufficient for marks that will be used only briefly, and a designer may elect to forgo registration altogether.

3. Personal names as trademarks. Frequently fashion designers want to use their personal names to identify their products (e.g., Calvin Klein, Yves Saint-Laurent, Vera Wang, Marc Jacobs, etc.). Legally, however, a personal name may be protected as a trademark only once it has acquired secondary meaning. The public must recognize the designer's name as identifying the source of particular products. It can take years for a designer to cultivate the necessary public recognition. Once a designer does, however, a personal name trademark can become one of the designer's most valuable assets. When designers decide to "cash in" and sell their personal name trademarks to investors, they are wise to consider that such a transaction may not be easily reversible.

Thus, Paul Frank Industries, Inc. (PFI) brought a trademark infringement action against its former namesake designer, Paul Frank Sunich, alleging that Mr. Sunich's use of his name in the sale of T-shirts after he had left PFI violated PFI's trademark rights.[20] Finding that PFI had spent significant resources marketing and advertising the now famous Paul Frank mark, the court enjoined Mr. Sunich from using his name in areas (such as clothing) where the public had come to associate the use of Paul Frank with PFI. The court also ruled that if Mr. Sunich identified himself as the designer of products in areas that the public did not associate with PFI, those products would have to bear a disclaimer stating that Mr. Sunich is no longer affiliated with PFI.

In a similar case, menswear designer Joseph Abboud sold all of the rights to his "Joseph Abboud" trademark to a corporation named JA Apparel. He also entered into a non-compete agreement that ran from 2000 until 2007. When the non-compete agreement expired, JA Apparel learned that Abboud planned to launch a new menswear line named "jaz" which would use the tagline "a new composition by designer Joseph Abboud." JA Apparel sued Abboud alleging breach of the non-compete contract and that Abboud's use of his name in the tagline amounted to trademark infringement.

The district court initially found that Abboud had conveyed all rights to use his name for commercial purposes in the 2000 agreement.[21] The court rejected Abboud's fair use defense and issued an injunction enjoining him from using his personal name in connection with any commercial goods, products, or services. On appeal, the Second Circuit lifted the injunction, ruling that the contract between JA Apparel and Abboud was not clear on the issue of fair use and remanded the case for further consideration. On remand and upon consideration of extrinsic evidence, the district court found that Abboud had not transferred away all rights to use his name for commercial purposes but nonetheless issued an injunction barring Abboud from using his name as a trademark.

4. Trade dress. Trade dress is a form of intellectual property that specifically protects the characteristic appearance of a product, provided it is inherently distinctive or the public has learned to associate the appearance of the product with its specific source. Trade dress may protect the overall "look" of a fashion line, provided it is non-functional and has acquired secondary meaning.[22]

Trade dress protection is very challenging to obtain for smaller fashion companies, since it exists solely by virtue of the public's recognition of the source of the product. Protection usually requires at least several years of active sales, marketing, and promotion to establish a connection in the public consciousness between the "look" and its origin. The cost of registering trade dress with the PTO can range from $5,000 to $10,000. This is substantially more than the cost of filing an ordinary trademark application because sufficient evidence must be submitted to satisfy the PTO that consumers actually associate the trade dress with the source of the product. A legal assessment of trade dress rights can run a company from $2,500 to $5,000.

A crucial 2000 U.S. Supreme Court decision made it even more difficult for small fashion companies to succeed on a claim of trade dress infringement.[23] In *Wal-Mart v. Samara Brothers*, the Court held that clothing designs are rarely inherently distinctive and that the fashion design in question (seersucker childrenswear with distinctive appliqués) was therefore protectable only upon a showing of secondary meaning.[24] In other words, a designer would have to demonstrate that consumers considered the design features a source indicator. Although few designers have been successful with this approach, in *Coach Inc. v. We Care Trading Co.*, Coach was able to establish that its handbag designs had acquired secondary meaning (established through expert testimony, consumer surveys, and evidence of advertising).[25]

D. Patent

1. Design patents. Design patents are used to protect ornamental features and designs and have been aptly called "picture patents." While they can be used to protect a wide variety of fashion products, a design patent only protects against quite similar imitations. In order to qualify for a design patent, the design must be novel, non-obvious, and non-functional.[26] The non-obviousness requirement can be difficult to meet, as many decorative elements of clothing are recreations of previous designs already on the market.

From the date of filing with the U.S. Patent and Trademark Office (PTO), it may take twenty months or longer for a design patent to be issued. Protection lasts fourteen years from the date of issuance and is non-renewable. The length of time it takes to receive a design patent is a particular disadvantage for the fashion industry, which is driven by multiple fashion seasons per year. As a result, design patents are not practical for most fashion items but can nonetheless be of great value for products likely to remain stable for several years. For example, large athletic shoe companies routinely obtain design patents for their shoe models, which may remain on the market for several years.

In one design patent dispute involving shoe models, the Federal Circuit was called upon to decide whether L.A. Gear's design patent on its "Hot Shots" line of shoes was infringed by Melville Corporation's competing line of shoes.[27] Melville argued that L.A. Gear's patent was invalid because all of the shoes' components were functional (i.e., the mesh on the side of the shoe provided foot support) and were not used for ornamental purposes. The court rejected this argument, stating that since the overall appearance of the patented shoe was ornamental, it made no difference if individual components were functional. Melville also urged that the L.A. Gear design patent was invalid because it was "obvious" to an ordinary shoe designer, pointing to some twenty-two prior references where the components were shown. The court disagreed, stating that while the individual components might be known, there was no "teaching" in the prior art to combine them in the way shown in the design patent. The court held that Melville had infringed L.A. Gear's valid design patent and that the infringement was willful.

2. Utility patents. Utility patents protect novel, non-obvious products, components, or processes. In fashion, a utility patent might be granted, for example, for a unique strap attachment on a sundress or an innovative fabric panel orientation on a running pant or the chemical composition a novel synthetic fabric.[28] Utility patent protection extends for twenty years from the filing date of the application and is usually more expensive to obtain than design patent protection.[29]

In an illustrative utility patent case, a federal court in New York reviewed the validity of a patent that had been granted for a method for stonewashing jeans to achieve an unusual "washed" effect; the court was called to intervene when a company using a similar product sought a declaratory judgment of infringement.[30] Italian inventor Francesco Ricci had been issued a patent by the PTO for a method for producing a random fading effect on fabrics. Ricci assigned the patent to Golden Trade, S.r.L. of Bologna, Italy. Golden Trade attempted to license the patented invention to major jeans manufacturers, including Lee Jeans and Levi Strauss & Co., but only Greater Texas Finishing Corp. took a license. Soon after, Golden Trade filed a patent infringement action against Lee and Blue Bell (maker of Wrangler jeans) as well as other jeans companies.

Levi Strauss filed a declaratory judgment action in anticipation of Golden Trade coming after it next, claiming that the Ricci patent was invalid and therefore had not been infringed. The court agreed, finding that Ricci's patent claims for the products with the random faded effects did not meet the requirements for a utility patent. The court held that Ricci's patent was invalid for claiming non-patentable subject matter.

Endnotes

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9. Socha Miles, New Licensing Deal for Lagerfeld (2006).
10. For a discussion of the business context and outcome of this litigation, *see* Harvard Business School Case 9-503-011, *Calvin Klein, Inc. v. Warnaco Group, Inc.* (2002).
11. For a thorough review of commercial sales law as it applies to fashion, see Donald Kreindler, *Selling and Buyer: Commercial Agreements in the Fashion Sector*, in Jimenez and Kolsun, ed., *supra* note 1, at 160-74.
12. *Pollak Import Export Corp. v. United States,* 16 C.I.T. 58 (1992).
13. The European Community Design Regulation ("Regulation") affords designers an exclusive right against copying for new designs that possess individual character. The Regulation creates a two-tier system of protection: registered community designs are protected for five years and are renewable up to a maximum of twenty-five years and unregistered community designs are protected for three years. Design protection extends across the European Union. Council Regulation (EC) No. 6/2002 of 12 December 2001 O.J. (L 3, 1.2002, at 1), *amended by* Council Regulation (EC) No. 1891/2006 of 18 December 2006 O.J. (L 386, 29.12.2006, at 14), *available at* http://oami.europa.eu/en/design/pdf/6-02-CV-en.pdf.
14. The Design Piracy Prohibition Act ("DPPA") is currently pending in the House of Representatives. If passed, the DPPA would expand the scope of copyright law by amending Chapter 13 of the Copyright Act of 1976 so as to encompass fashion designs. Under the proposed bill, fashion designs would be protected for three years. 17 U.S.C. 1301, et seq.
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16. *Id.* at 738.
17. *Knitwaves, Inc. v. Lollytogs, Ltd.*, 71 F.3d 996 (2d Cir. 1995).
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27. *L.A. Gear, Inc. v. Thom McAn Shoe Co.,* 988 F.2d 1117 (Fed. Cir. 1993).
28. 35 U.S.C. 101.
29. 35 U.S.C. 154. The preparation and filing of a utility patent application including U.S. Patent Office, attorney, and draftsmen fees can be more than $7000, and the whole process from filing to issuance can cost much more. The cost to prepare and file a design patent application, including U.S. Patent Office, attorney, and draftsmen fees, can be more than $2500.
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The authors wish to thank Lara Corchado, Susan Kent, and Anita Surendran for their assistance in researching and analyzing the content of this article.

Should the United States Protect Fashion Design? The Proposed Design Piracy Prohibition Act

By Guillermo Jimenez, Lara Corchado, and Kristin Kosinski

I. Fashion Design Protection in the United States

Currently, the first principle of fashion law in the United States is that there is no legal protection for fashion designs per se. While fabric prints, new textiles, sculptural or ornamental elements and accessories, and novel garment constructions may in some cases be protectable under trademark, copyright, or patent law, in most instances the design of a garment (i.e., the cut and construction of a garment) is not protectable.

In Europe, by contrast, there is strong protection for fashion designs. A decision to follow the European example would fundamentally transform the U.S. fashion industry. In fact, the Congress is currently re-considering (as it has several times before) a bill to adopt European-style protection for fashion designs into U.S. law via the Design Piracy Prohibition Act (DPPA). Should the United States adopt this legislation? Let us first consider the European example.

II. Fashion Design Protection in the European Union

A. European Community Design Protection Regulation

In stark contrast to American law, the European Union (EU) affords fashion designers an exclusive and independent right against design copying. On March 6, 2002, the European Community Design Protection Regulation (the "Regulation") came into force and was made applicable to all twenty-seven EU Member States.[1] The Regulation provides designers with exclusive rights to use their designs in commerce, to enforce those rights against infringers, and to claim damages. Recognizing that the duration of protection may be less important for some designs than for others, the Regulation creates short-term protection for Unregistered Community Designs (UCD) and long-term protection for Registered Community Designs (RCD).[2] The Regulation was created to harmonize design laws within the EU community and does not override any national laws governing fashion design in individual EU countries.[3]

Regardless of registration, a design must be new and possess individual character in order to qualify for protection under the Regulation.[4] "Design" is defined as "the appearance of the whole or part of the product resulting from its features and, in particular, the lines, contours, colors, shape, texture and/or materials of the product itself and/or its ornamentation."[5] A design is considered new if no identical design has been made available to the public.[6] Individual character is assessed by whether the overall impression the design produces on the informed user differs from the overall impression produced by any publicly available design.[7] If a design is found to have infringed an RCD or UCD, the court[8] will issue an injunction prohibiting infringing acts, a seizure order for the infringing products or any materials used to manufacture such products, and any other sanctions deemed appropriate.

1. Registered Community Designs. Applications to register a design must be made to the Office for Harmonization in the Internal Market (OHIM). A designer need only file one application and make one fee payment in order to obtain protection across the EU. In addition, a single application can contain multiple designs.[9] Registered designs are protected for five years, renewable up to a maximum of twenty-five years (or an additional four times).[10] The RCD not only protects its owner against copying but also against the independent creation of an identical or similar design.[11]

The RCD permits designers to test their design in the marketplace by allowing a twelve-month grace period between placing the design on the market and applying for registration. The public disclosure of the design during the twelve-month period will not be considered in determining the novelty or individual character of a design.[12] Moreover, the RCD provides some insulation against competitors by permitting publication in the Community Design Bulletin to be deferred upon request so that the design may be kept secret until it is made publicly available.[13]

2. Unregistered Community Designs. UCD protection is automatic once a design is made available to the public and lasts for three years.[14] Public disclosure, however, is not the only means of making a design available. Disclosure may occur through designs going on sale, prior marketing, publicity, or exhibiting the design at a trade show.[15] Unlike an RCD, a UCD only protects its owner against deliberate copying of the owner's design.[16] The owner of a UCD is not protected against the independent creation of an identical or similar design. If there is proof that the alleged infringing design was created independently by a designer with no reason to know of the UCD, the UCD owner has no legal recourse.

The impact of the European scheme is difficult to measure due to the small number of cases disputing design protection. In one reported case, Jimmy Choo utilized the protection offered in suing a retailer for infringing its registered and unregistered design rights in a handbag.[17] The court ruled in favor of Jimmy Choo, finding that the handbags at issue were copies, which suggests that the European law can be very effective and beneficial to a high-end fashion designer. Despite the dearth of case law, it is possible that designers do indeed utilize the protection offered by the law to reach out-of-court resolutions that are not reported.

III. The Design Piracy Prohibition Act: Legal Protection for Fashion Designs Under U.S. Copyright Law

Since 1914 Congress has considered approximately seventy bills promoting legal protection for fashion designs.[18] The DPPA is the most recent attempt. On March 30, 2006, the DPPA was introduced in the House of Representatives, and a slightly modified version was introduced in the Senate on August 2, 2007. The bill failed to pass and then was reintroduced in the House of Representatives two years later.

The DPPA would expand the scope of copyright law by amending chapter 13 of the Copyright Act of 1976 so as to encompass fashion designs.[19] Currently, chapter 13 protects vessel hull or deck designs.[20] Fashion designs would receive protection for "the appearance as a whole of an article of apparel, including its ornamentation."[21] Apparel is defined to include "men's, women's, or children's clothing, including undergarments, outerwear, gloves, footwear, and headgear…handbags, purses, and tote bags…belts and…eyeglass frames."[22] Applications for registration would be made to the Copyright Office, and the Register of Copyrights would determine whether a design qualifies for protection. If so, the design would be registered and protected for three years from the date of publication of the registration or the date the design is first made public, whichever is earlier.[23] The bill would also create a searchable database of designs to be maintained by the Copyright Office.

In contrast to the provisions of the EU Regulation, the draft DPPA provides that a design must be registered in order to be protected and must be registered within three months of the design being made public.[24] Registration gives copyright holders the exclusive right to "make, have made or import…any useful article embodying that design" and to "sell or distribute…any useful article embodying that design."[25] Under the current version of the DPPA, a design is not be considered an infringement if it is "original and not closely and substantially similar" to a registered design.[26] Moreover, infringement would not be found if an alleged infringer did not have "reasonable grounds to know that protection for the design is claimed."[27]

Liability would not be limited to copycat designers; copyright holders also would be able to enforce their rights against people who "import, sell or distribute any article embodying a design, which was created with knowledge or reasonable grounds to believe that the design was protected and copied."[28] The DPPA also prohibits sellers or distributors from inducing or acting in collusion to make or import an infringing article.[29] If a registered design is infringed the copyright holder can claim damages up to $250,000 or, in the alternative, the infringer's profits. The infringing goods also could be seized and destroyed.[30] The bill does not preclude claims available under other forms of intellectual property protection.

IV. Pros and Cons: The Potential Impact of the DPPA

So far, the DPPA has polarized the fashion community, although the likelihood of passage remains uncertain, if not remote. Proponents of the DPPA (notably, the Council of Fashion Designers of America) argue that designers today need to protect themselves against ever-faster and more aggressive forms of design piracy; that U.S. copyright law is inconsistent in refusing to accord artistic status to clothing designs; and that the lack of protection under U.S. law places it in violation of international treaty obligations. By contrast, opponents (notably, the American Association of Footwear and Apparel) claim that the bill creates too many opportunities for frivolous lawsuits and will stifle innovation in the fashion sector by increasing transaction costs.

A. Opposition to the DPPA

Critics of the DDPA argue that passage of the DPPA is unnecessary.[31] From this perspective, the American fashion industry's penchant for knocking off actually benefits the industry and consumers because widespread copying accelerates the diffusion of designs and leads to "induced obsolescence."[32] Thus, the current, seemingly low level of intellectual property protection for fashion may actually promote innovation and creativity. Copying popularizes trends and then burns them out, creating an incentive for further innovation. Widespread copying also "anchors" seasonal trends by informing consumers what is in style, thereby encouraging consumption.[33]

Critics maintain that the DPPA could harm small independent designers or start-ups that do not have the funds to effectively challenge or bring copyright infringement suits. The DPPA might benefit only those large fashion firms that have the resources to apply for and enforce their intellectual property rights.

Fashion designs are created by reworking or reinventing past designs and trends. If the DPPA is passed, opponents fear that designers may become wary of creating new designs for fear of infringement suits. Moreover, designers would be forced to seek legal clearance for new designs to ensure that they are not infringing existing designs. In the exercise of caution, the process of making a design available to the public could be delayed. Because the DPPA creates secondary liability, third parties involved in the production and distribution of designs also might become wary of new designs unless the new designer had adequate funds to hire a skilled lawyer to clear the design.

Also, opponents claim that pattern companies may be hesitant to use prevailing trends, thereby limiting the number of patterns available and stifling home and personal garment construction. Inevitably, fabric and sewing companies also would suffer losses.

Moreover, critics fear that the DPPA's originality standard would make it difficult to determine what constitutes an infringement. Under the DPPA, a design is not a copy if it is "original and not closely and substantially similar in overall visual appearance to a protected design."[34] However, there is arguably nothing entirely new and original in fashion, since virtually all new designs are recreations of existing designs and trends. It would be difficult to distinguish between a copy and an inspiration, especially when different designers follow the same trends. This would lead to designers fighting over who started a trend. Perilously, the DPPA would make judges and juries, who may completely lack any understanding of the workings of the fashion industry, the arbiters of fashion innovation.

B. Support for the DPPA

Proponents of the DPPA disagree with the theory that copycats benefit the fashion community.[35] In fact, they contend that widespread copying merely reinforces the mistaken perception that fashion design is fleeting and not worthy of protection. Proponents believe that innovative fashions arise out of creative insights that are similar in nature to those found in literary and musical works. Consequently, creativity in fashion deserves the same extension of copyright protection previously made for vessel hulls, architectural elements, and software. From this perspective, beautiful new fashion designs are obviously at least as creative as new vessel hulls or software programs. Without protection, U.S. copyright law—which has the principal objective of protecting tangible expressions of creativity—is self-contradictory. Proponents emphasize nonetheless that the protection they are seeking for fashion designs would be much narrower and thinner than that already provided to vessel hulls, architectural elements, and software, as the DPPA only proscribes "close" copies—a higher threshold for unlawful copying than found in any other U.S. copyright legislation.

Proponents of the DPPA counter the doomsaying of critics by pointing to the vibrant and productive European design community. The strong registered and unregistered protection offered under European law has not killed the European fashion sector. Instead, European designers continue to offer up inspired innovations at a pace that matches that of their American colleagues. Even if they do not seek to register their designs, European designers reap the benefit of the three years of protection offered under the unregistered design scheme.

Moreover, there is little evidence that frivolous litigation in Europe has run rampant as a result of design protection. Thus, for example, European "fast-fashion" companies like H&M and Zara are virtually never sued, while American copycat Forever 21 has been subjected to dozens of lawsuits even under America's regime of minimal protection.[36] It may be that America's "Wild West" approach actually encourages litigation because there is so much copying going on that designers are forced to seek non-copyright legal recourse in trade dress, trademark infringement, or trademark dilution claims, for example.

Finally, proponents argue that without protection for fashion designs, U.S. law is in violation of international treaty obligations. For example, passage of the DPPA would help bring U.S. law in line with the Uruguay Round Agreement component called the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). TRIPS requires members such as the United States to "provide for the protection of independently created industrial designs that are new or original."[37] Extending copyright protection to original fashion designs would enable the United States to meet this requirement.

V. Conclusion

Fashion designs per se are not protectable under U.S. intellectual property law, while in Europe the opposite is the case. Under urging from the Council of Fashion Designers of America, Congress is once again considering passage of a bill, the DPPA, that would extend U.S. copyright law to fashion designs. Opponents fear the DPPA would encourage frivolous litigation, while proponents feel passage is necessary to recognize and protect creativity in fashion and to bring the United States in line with European practice as well as with international IP treaty obligations.

Endnotes

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4. Council Regulation (EC) No. 6/2002 of 12 December 2001 O.J. (L 3, 1.2002, at 1), *amended by* Council Regulation (EC) No. 1891/2006 of 18 December 2006 O.J. (L 386, 29.12.2006, at 14), art. 4(1).
5. *Id*. art. 3(a).
6. *Id.* art. 5(2).
7. *Id.* art. 6(1).
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9. *Id.* art. 37(1).
10. *Id.* art. 12.
11. *Id.* art. 19(1).
12. *Id.* art. 7(2)(b).
13. *Id.* art. 50(1).
14. *Id.* art. 11(1).
15. *Id.* art. 11(2).
16. *Id.* art. 19(2).
17. *J Choo (Jersey) Ltd. v. Towerstone Ltd.*, [2008] E.W.H.C. 346 (H.Ct., 16th January, 2008) (U.K.), *available at* http://www.bailii.org/ew/cases/EWHC/Ch/2008/346.html.
18. *See* Susan Scafidi, *Intellectual Property and Fashion Design*, 1 Intellectual Property And Information Wealth 119-121 (2006), for a discussion of the most important acts considered by Congress over the twentieth century.
19. 17 U.S.C. §1301, et seq.
20. *Id.*
21. Design Piracy Prohibition Act, H.R. 2033, 110th Cong. § 2(a)-(b) (2007). Images of designs are also protectable, as the DPPA prohibits the copying of a protected design or "an image thereof."
22. *Id.*
23. 7 U.S.C. §1313(a), §1310(b).
24. H.R. 2033 §2(e)(1); S. 1957 §2(e)(1); H.R. 2033 §2(e)(2); S. 1957 §2(e)(2). A design is made public when it is offered for sale, either publicly or individually or when it is exhibited publicly, such as at a trade show.
25. 17 U.S.C. §1308.
26. S. 1957 §2(d)(2)(C).
27. H.R. 2033 §2(d)(1); S. 1957 §2(d)(1).
28. H.R. 2033 §2(g); S. 1957 §2(g).
29. 17 U.S.C. §1309(b)(1).
30. 17 U.S.C. §1323(e).
31. *See, e.g.*, Kal Raustiala & Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 Va. L. Rev. 1687 (2006).
32. *Id*. at 1727, 1722.
33. *Id*. at 1729.
34. S. 1957 §2(d)(2)(C).
35. C. Scott Hemphill & Jeannie Suk, *The Law, Culture, and Economics of Fashion*, 61 Stan. L. Rev. 1147 (2009). Hemphill and Suk posit that unregulated copying threatens innovation and designers have always and continue to oppose copying. *Id*. at 1170-84.
36. *Id*. at 1175.
37. Agreement on Trade-Related Aspects of Intellectual Property Rights art. 25, Annex 1C, Apr. 15, 1994, 33 I.L.M. 1197, 1207 (1994).

Licensing in the Fashion Industry

By Barbara Kolsun, Guillermo Jimenez, and Anita Surendran

I. Introduction: The Growth of Fashion Licensing

Licensing agreements play a central, crucial role in the fashion industry.[1] Typically, a fashion license consists of an agreement between a licensor (the fashion brand owner) and a licensee (who is often an apparel manufacturer), whereby the brand owner grants the licensee the right to make use of the brand's intellectual property by producing and marketing a product line bearing the licensor's trademarks.

Licensing today is one of the preferred expansion routes for successful young designers and new fashion brands. Since capital for business expansion is always finite, new designers and small brands use licensing as a low-risk way to enter geographical or product markets that would otherwise be prohibitively costly. Licensing also allows apparel designers to expand into areas in which they lack design expertise, e.g., fragrances, eyewear, swimwear, shoes, handbags, jewelry, and home textiles.

Licensing-based expansion also may complement overall marketing strategy, as it increases the exposure of the brand and adds products at other price points. For example, a consumer may be able to afford a BURBERRY® perfume but not yet a BURBERRY® raincoat. The perfume entices the consumer with the alternative of an aspirational purchase, which may lead to a more expensive purchase in the future. It is not, therefore, surprising that young designers and brands are often eager to enter into licensing arrangements. The resulting royalties can provide a precious revenue stream for periodically cash-strapped businesses, and the licensees may prove vital partners in entering new markets. Despite these potential benefits, older and more experienced fashion firms have learned that licenses can also be quite constraining, as we discuss below.

When designer licensing took off in the 1970s, led in part by trailblazers like Pierre Cardin, it was grafted onto an existing, highly fragmented industry structure. Ever since its origins in the nineteenth century, apparel production and marketing has involved a high degree of collaboration between small, independent parties. Vertical integration in apparel has been virtually non-existent (even unusually integrated firms such as Zara do not produce their own textiles). Traditionally, even large and successful designers sub-contracted their manufacturing to small, independent factories and workshops and relied on a variety of jobbers, agents, distributors, and other intermediaries to merchandise and market the final products.[2]

Licensing activity grew rapidly throughout the 1980s and 1990s as the global media created superstars out of leading fashion designers, many of whom went on to found public companies. Pressured by their new stockholders and investors to generate increased profits and growth on an international scale, designers discovered that licensing allowed them to develop so-called diffusion lines that made their products accessible to the middle market. Eventually, however, many licensors began to discover that they had gone too far. Gucci at one point was branded in 22,000 products (including disposable lighters and dog food). Thus, a major element of Gucci's stunning corporate turnaround in the 1990s lay in CEO Domenico De Sole's decision to aggressively buy back and terminate licenses: "If you are really committed to resurrecting a brand for the long term, you do need to have control over distribution. So licensing doesn't work."[3] Conversely, licensing pioneer Pierre Cardin was felt by many to have fatally cheapened his brand by over-licensing (while nonetheless earning a fortune).

By the late 1990s, a licensing backlash had arrived. Christian Dior announced plans to reduce licenses from 300 to a "handful," while Valentino sought to reduce the percentage of licensing revenues from sixty percent to ten percent.[4] When the Bill Blass label sought a buyer in 1999, none were forthcoming, reportedly due to the perception that the company was over-licensed. Patrizio Bertelli, the president of Prada, noted at the time: "Companies based only on royalties cannot be floated because the financial markets know that they cannot control their assets."[5] When Tommy Hilfiger bought back his jeans license, Wall Street rewarded him by sending his stock price up eighteen percent in a single day.[6]

Although fashion companies gradually became aware of the dangers of over-licensing, by 2000 licensing had nonetheless become a cornerstone of the modern fashion industry. Large fashion conglomerates like Jones Apparel Group and Liz Claiborne derived more than half of their multi-billion dollar revenues from licensing. Firms with exceptional skill in acting as licensees began to emerge in specific product categories, notably Warnaco Group and VF Corp. for intimate apparel, Estee Lauder for beauty products, and Luxxotica for eyewear.

Over the past fifteen years, new entrants have continued to crowd the licensing field, while larger licensors have learned to balance their license portfolios, granting new licenses and buying back licenses whenever they can afford to. Thus, Gucci bought back its eyewear license at a cost of $170 million,[7] and in 2006 Polo Ralph Lauren spent $355 million to buy its jeans business back from Jones Apparel.[8] Meanwhile, Vera Wang, the noted bridal gown designer, expanded successfully beyond her core business by signing a number of licenses, including a fragrance license agreement with a new licensing division at Unilever. Wang's decision to license was reportedly based on her realization that she had built a leading name in weddings but had nothing to sell the average person who could not afford a $4000 wedding gown. Said Wang: "I know I am not able to fund everything in-house. I don't have that infrastructure nor the financial ability. Licensing is a way for my business to make money."[9]

One licensing trend to have emerged over the past decade involves creating a design relationship between a mass retailer and a popular designer, architect, or celebrity. Thus, high-end designer Zac Posen licensed his brand name to create an affordable line exclusively designed for Target,[10] Jimmy Choo created a line of shoes specifically for H&M,[11] and Vera Wang created a line for Kohl's.[12] Such strategic alliances require each party to consider the other party's reputation in the industry and how that reputation may impact their current business models. Thus, such agreements commonly restrict the licensee from manufacturing and/or selling products of competing designers.[13]

U.S. retail sales related to fashion licensing were estimated at $18.04 billion in 2009.[14] While this number was down thirteen percent from 2008,[15] a clear result of the global economic downturn, companies continued to realize strong benefits from licensing agreements with reliable licensees. Strategic licensing can be extremely profitable, provided the alliance between licensor and licensee is a strong one. Licensing executives have reported a resurgence in licensing activity for 2010.[16]

II. Mutual Expected Benefits from Licensing

Our principal premise in this article is that licensing agreements can prove beneficial to both parties involved, provided they fully understand the nature of the marriage to which they commit. Like joint ventures, licenses in fashion production require a high degree of cooperation between the parties. As with joint ventures, an unexpected termination can be complicated, painful, and expensive. It is therefore vital that both parties fully understand the implications of each of the key provisions in a licensing agreement.

Licensors benefit from licensing by exploiting the licensee's manufacturing, production, and marketing capabilities, thereby permitting licensors to expand into new product categories.[17] For example, noted apparel designer Bill Blass sought to attain industry status as a complete "lifestyle brand" in 2007 with the signing of Town & Country as its licensee to manufacture linens and bedding.[18]

Licensees also can benefit greatly from the symbiotic nature of the licensing relationship: they can exploit the strengths of the licensor. Thus, if the licensor has a strong market presence in a particular region, e.g., Italy, the licensee can access an invaluable customer base and thus gain immediate consumer recognition.[19] Many brands have entered into licenses for retail services with successful retailers in other countries that can open the licensor's stores and assume responsibility for supervision of leases, employees, etc. Further, the licensee can access recognized retailers that otherwise might not be available to them.[20] If the preliminary licensing agreement proves successful, the licensee can forge a long-lasting relationship with a well-funded licensor.[21]

Typically, both parties enter into the licensing agreements with entrepreneurial zeal and optimism. When TOMMY HILFIGER® licensed designer Karl Largerfeld's collection to Vaprio Stile, an Italian manufacturer that also holds licenses with a number of prestigious brands, Hilfiger's licensing executive emphasized the expected strategic benefits: "We intend to control the brand, the creative direction thereof, [and] the marketing and licensing activities, but we plan to license the commercial activities for the various product groups, in several tiers of the business, to various specialists."[22] The licensee's chairman, Robert Zanetto, on the other hand, expressed his enthusiasm by noting that design icon Lagerfeld's "brand awareness and reputation is very high in the market and can support an exciting development [for Vaprio]."[23]

III. Preparing Negotiations: The Business Case

The first step in vetting a licensing agreement is to make sure the partnership makes business sense. Before the legal team begins to draft the contract, counsel should confirm that top management fully supports the business strategy and understands the risks and costs involved.[24] Management should begin by questioning whether the brand is sufficiently strong to support a licensed product. Liz Claiborne, for example, went public in 1981 and was doing over $100 million in business before the company decided the brand name was big enough to support expansion into belts and bags (in 1982), shoes (in 1983), and hosiery (in 1985).[25] A failure to adequately consider the strategic aspects of the partnership can be fatal. A classic example of such a licensing misstep is Halston's (Roy Halston Frowick) decision to license his name to a J.C. Penney line that flopped.[26] Halston's over-investment in questionable licensing avenues not only led to steep revenue declines but also to a tarnished fashion image that caused Bergdorf Goodman to pull the Halston brand from its stores.[27]

It is also important that the licensor have enough creative and management staff available to support the licensing initiative, such as by providing designers to oversee the licensee's design efforts. Since most fashion licensing contracts set forth a cooperative design and review process, management should delegate a creative person or team, in-house, to work with the licensee in forming a unified vision for the design of the licensed product.[28] A license is likely to fail unless both parties share a common understanding of the brand's overall strategic direction. As such, it is also important that the licensor maintain control over the creative and distribution aspects of the agreement in order to protect the integrity of the brand.[29]

Counsel also must conduct due diligence in verifying the financial and competitive position of the licensee. If the licensee works too closely with any of the company's competitors, it may be too risky to provide the licensee with access to the company's proprietary knowledge. If the licensee is overworked with other licenses, it may lack sufficient time and resources to devote to licensor's products.[30]

Given the crucial importance of selecting the right licensee, some licensors enlist the services of a licensing agent. As in all agency relationships, however, tension can arise from conflicts of interest. Ideally, the agent would be fully briefed on the licensor's needs and could be trusted to put those needs above its own short-term objectives, even if that resulted in a lower commission.[31] Given the complexity of working productively with an agent, many fashion companies prefer to rely on in-house attorneys or licensing experts, who have nothing to gain from the selection of a particular licensee.

IV. Drafting the Agreement

A. Scope of the Agreement: Licensed Products and Exclusivity

The IP rights granted to a licensee under a licensing agreement may be exclusive for a particular product or product line, so that only the licensee can manufacture that particular product or line for the licensor.[32] An exclusive license generally is advantageous to the licensee, since it confers a monopoly on making, using, selling, advertising, and promoting the company's intellectual property.[33] In exchange for exclusivity, the licensee may be willing to pay a higher fee or royalty to the licensor.

In a nonexclusive license agreement, the licensor is permitted to have multiple licensing relationships. This can be especially beneficial where multiple product lines and brand extensions require the use of multiple manufacturers; e.g., for different product categories.[34] For example, a licensor may have one licensee who manufactures high-quality T-shirts for adults but a separate license for children's T-shirts. Licensees involved in such an arrangement may choose to negotiate exclusive licenses within their particular product category.[35]

All licenses, whether exclusive or nonexclusive, should specifically define the rights granted, whether those rights relate to trademarks, patents, copyrights, trade secrets, or other types of information not protectable under intellectual property laws.[36] With any rights granted, the licensing agreement should further specify the scope of allowable use. For instance, if a patented zipper may be used only on handbags, the restriction should be spelled out in the contract.[37] Since it is possible for a licensor to narrowly carve out the scope of rights granted to a licensee, a licensee should be thorough in reviewing the agreement to ensure that it is not restricted in a way that prevents it from carrying out its own goals in the relationship.[38]

The license should identify precisely each geographic territory in which the licensee may operate and whether or not the licensee has exclusive rights in that territory. If the geographic scope is too narrow, the licensor may not be able to derive the full benefit of entering into the new market, while if too broad, the licensor may lose control. Consequently, many license agreements find a compromise by providing that the licensee may expand the initial territory if it meets minimum sales or royalties targets.

Whenever possible, the licensor should seek to include a provision in the licensing agreement prohibiting the licensee from challenging the licensor's ownership of the brand or the validity of the licensed intellectual property.[39] In certain countries, however, such provisions may run afoul of national anti-competition laws, so the licensor should always confirm their legal acceptability with local counsel.[40] Every agreement should include a provision stating whether the licensor or the licensee is responsible for enforcement against possible infringement by a third party. Brands like CALVIN KLEIN® and NIKE®, which are often counterfeited, may pass on the costs of anti-counterfeiting initiatives to the licensees of those products that are most copied. The licensor should nonetheless retain the authority to "police" its marks in order to maintain control over the strength of the mark.[41] The licensee also should seek to include an indemnification provision protecting it from any claims for trademark, copyright, or patent infringement.[42]

When licensing internationally it is necessary to take into consideration that some countries require that trademark licenses be recorded if the right to use a registered trademark has been licensed.[43] Usually the trademark must be registered in that particular country, and recordation of that trademark must be updated every time a new mark becomes subject to a license.[44] Again, local counsel should be consulted in order to determine whether a particular country requires that the licensee obtain written authorization from the licensor prior to registering the license with the local trademark office.[45] There is no legal requirement that trademark licenses be recorded with the U.S. Patent and Trademark Office.[46]

B. Term and Termination

A key element in any licensing agreement is the length of the term and what will occur upon termination. An important consideration involves what will happen to the licensed intellectual property after the termination of the relationship. When negotiating an initial licensing relationship, the licensor frequently opts for a shorter term in order to test the licensee's performance.[47] The licensee, on the other hand, usually will seek a longer commitment, since it probably will be making a substantial investment that may take years to amortize.[48] For example, Warnaco and CALVIN KLEIN® entered into a 40-year jeanswear license based upon preexisting licensing relationships in other product categories.[49]

The agreement also should specify if there will be automatic renewal or if it will be based upon notice or meeting of financial goals.[50] As with any contract, both parties should retain the option to terminate immediately if the other party materially breaches the agreement.

C. Compensation

The licensee generally pays the licensor a royalty. The more well known the brand, the higher the fee. Royalty fees can be structured in several ways, the most common of which is a percentage of a revenue stream, such as gross or net sales.[51] In fashion licensing, this percentage typically ranges from three to fifteen percent[52] of the revenue stream. A royalty based on wholesale sales usually will produce the highest value.[53]

The agreement may specify guaranteed minimum royalty payments (e.g., annually) or simply may be based upon earned royalties.[54] Guaranteed minimum royalties may provide stronger reassurance that the licensor will be paid, but earned royalties may bring in higher revenues if successful. If the licensor holds a strong bargaining position, it may be able to obtain a guaranteed minimum royalty plus earned royalties accruing for sales over the guaranteed minimum.[55] Moreover, the royalty structure may be set on an escalating basis, known as a "tiered royalty,"[56] so as to give the licensee an incentive to manufacture and distribute higher quantities.[57]

With respect to the timing of royalty payments, a provision is often included that sets forth penalties for late payment. The agreement also may require the licensee to pay for an audit if, when performed, it is found that licensee owes more than what has already been paid.[58] Finally, the agreement may indicate that the licensor may or may not challenge payments made after they have been accepted.[59]

D. Quality Control

A brand's image is a determining factor in measuring its success. Thus, it is crucial that a licensor maintain tight control over the quality of its products. In the United States, a licensor must include quality-control provisions, such as the right to inspect the manufacturing and production facilities, materials used, sample products, etc., so that the license is not labeled a "naked license," resulting in a loss of rights in the trademark.[60] A licensor should stipulate that it is entitled to review any customer service complaints the licensee may receive.[61] As the licensing relationship strengthens, the licensor may choose to relinquish some of the control to its trusted licensee.

Another aspect of quality control lies in the distribution of the products. It would be counterproductive, and possibly quite detrimental, for a high-end brand to have its products placed with mass merchandisers, outlets, or discount stores. This was the situation in the highly publicized litigation between Calvin Klein, Inc. and Warnaco Group in 2000. In that case the licensor, Calvin Klein, sought to terminate the agreement after discovering his jeans for sale in Costco. Klein's lawsuit alleged that Warnaco had "infringed and diluted the [trademarks of Calvin Klein] by producing large volumes of goods for sale to unauthorized and inappropriate distribution channels" thereby diluting the equity of the CALVIN KLEIN® brand.[62] Poor product placement choices can tarnish the brand's reputation and "cheapen" its image.[63] The licensor should specify which distribution channels may be utilized and which may not.

E. Advertising and Promotion

The licensing agreement also should outline where and when the licensee may advertise the licensed products, and the licensor should insist upon having final approval of any and all advertisements prior to publication. Again, the licensor will need to maintain control over the brand.

F. Sales and Product Guidelines

Another aspect of the agreement as to which a detailed explanation of the terms is beneficial to both parties is the sales and delivery guidelines for the licensed products. Sales guidelines should address the number of sales staff required, location of the sales team, responsibilities of each position, compensation, etc. A large licensee that manufactures for many brands may assign one brand manager to several brands or focus on brands with "big box" presence,[64] giving less attention to a smaller brand.

As manufacturer, the licensee should be the most aware of any potential defects and safety issues related to the licensed products.[65] It is therefore in the licensor's best interest to include a clause in the agreement whereby the licensee indemnifies licensor against any product liability suits caused by a defective product.[66] Oftentimes, license agreements have general liability insurance for both parties to support any claim for indemnification that may occur.[67] The licensee also may have products liability insurance, in which the licensor may be named as an additional insured party so that the insurance company would have to pay the licensor directly as a result of a products liability action.[68]

A recent issue that should be addressed in fashion license agreements, particularly those involving shoes, handbags, belts, and kids' products, is California's Proposition 65 and its related restrictions.[69] The Safe Drinking Water and Toxic Enforcement Act of 1986, also known as Prop 65, requires businesses in California to notify consumers about specific amounts of chemicals that could cause cancer or reproductive toxicity contained in the products sold by the manufacturer.[70] For the fashion industry, the most commonly targeted chemicals are lead and phthalates. Any licensor who sells products within the state of California should make certain its licensees are abiding by the regulations set forth in Prop 65 to avoid litigation.[71] The licensor also should include strong indemnification language to cover such potential litigation.

A common problem associated with foreign licensing is parallel importing. "Parallel importing involves a situation where goods bearing valid trademarks that are manufactured abroad are imported into the United States without the trademark owner's authorization to compete with domestically manufactured goods bearing the same valid trademarks."[72] The Supreme Court recently granted certiorari in *Omega S.A. v. Costco Wholesale Corp.*,[73] in which the Ninth Circuit held that Costco infringed upon Omega's copyright by selling Swiss-manufactured watches with Omega's copyrighted design without authorization.[74] To overcome parallel importing problems, licensors should keep a close eye on their licensees' distribution system and be sure to incorporate any necessary restraints into the licensing agreement.

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Anti-Counterfeiting in Fashion

By Barbara Kolsun, Heather McDonald, and Anita Surendran

I. The Nature of the Counterfeiting Problem

A. "The Crime of the Twenty-First Century"

In 2006, Hong Kong action-movie star Jackie Chan took to the stage in a memorable publicity stunt.[1] First, the screen legend fought off a group of attackers wearing Jackie Chan masks. Then, with customary panache, he used a chainsaw to tear apart a stall and in a single swoop ripped the clothing off a tourist. The explanation: it was a PR event organized to raise public awareness of the dangers of counterfeiting. The public demonstration and following press conference, which were sponsored by the International Trademark Association (INTA), provide a classic example of the multi-pronged strategy of global brand owners in their never-ending battle against counterfeits.

As we discuss below, brand owners have successfully undertaken a number of concerted efforts to draw public and government attention to the counterfeiting problem. Their lobbying efforts have led, in part, to the negotiation of an international treaty addressing counterfeiting, which is currently awaiting adoption (the Anti-Counterfeiting Trade Act or "ACTA"). Individually, or working together in industry groups, brand owners have learned to use a variety of legal methods, including civil seizures and criminal prosecutions, to attack particular counterfeiting operations. Most recently, the battle has been taken to the Internet, where mega-firms eBay and Google have been sued over alleged failure to discourage fakes adequately.

High-fashion and luxury products—which command a premium for their prestigious brands—are especially susceptible to trademark counterfeiting. Thus, the flagship brands of the global fashion industry, Louis Vuitton, Rolex, Cartier, Nike, Burberry, Gucci, etc., are also amongst the most widely-counterfeited. U.S. Customs and Border Protection seizes around $16 million in wearable apparel each year and estimates that knockoff clothing accounts for about 17 perent of domestic counterfeit goods—more than any other commodity.[2] It is estimated that losses to brand owners due to counterfeit goods reach $600 billion per year, with $30 billion in losses to the retail industry alone.[3] In addition, U.S. companies suffer approximately $9 billion in trade losses caused by international copyright piracy.[4] In response, Fortune 500 companies typically spend $2-$4 million per year on anti-counterfeiting efforts, with some reportedly investing up to $10 million per year.[5]

Lost revenues due to counterfeiting, when added to the amounts spent on enforcement, can sharply decrease profit margins. It has been estimated that costs associated with counterfeiting have led to the loss of more than 750,000 jobs in the United States.[6] In New York City alone, counterfeiting in 2008 accounted for $380 million in lost taxes, $290 million in lost business income taxes, and $360 million in lost personal income taxes.[7] In 2008, Mayor Bloomberg attested to the fact that "[counterfeit] goods cheat the City, the consumers, legitimate business owners, and trademark holders and their proliferation is standing in the way of the revitalization of [downtown areas in New York City such as] Chinatown.[8]"

Although journalists and fashion professionals often use the terms "knockoff" and "counterfeit" as synonyms, this is legally imprecise. The term "knockoff" as used in the fashion industry simply refers to any article that imitates or copies another article. Legally, however, there are three distinct possibilities:

1. the copy may be entirely legal (in fact, most fashion designs may be freely copied);
2. the copy may constitute an infringement (in which case, civil remedies become available); or
3. the copy may constitute an egregious form of trademark infringement known as a counterfeit (which may trigger criminal penalties).

Trademark counterfeiting is the act of manufacturing or distributing a product bearing a mark identical to, or substantially indistinguishable from, a registered trademark.[9] Counterfeiting is theft of a brand's intellectual property; counterfeit goods are the resulting contraband. At a minimum, counterfeits directly deprive brand-owners of revenue due to substitution of counterfeits for genuine articles. More broadly, however, counterfeiting may decrease overall brand revenues due to overexposure and harm to a brand's carefully cultivated image of exclusivity, as luxury products increasingly appear accessible to the masses at mass-market prices.[10]

B. Not a Victimless Crime

Beginning with profit losses at large corporations, continuing with the exploitation of sweatshop workers who toil away in deplorable conditions, and ending with consumers who purchase shoddy goods in violation of health and safety standards, counterfeiting is anything but a victimless crime.[11] Despite this, casual fashion consumers often fail to recognize the broader social harms associated with the purchase of counterfeit products. While most consumers can easily be convinced of the dangers of counterfeit pharmaceuticals, for example, they may fail to see the harm in purchasing a counterfeit handbag. (Not all countries are alike in this respect: in France and Italy, for example, consumers have learned that buyers of counterfeit goods risk criminal penalties; in Japan, counterfeits are reputedly less successful because of a culture of respect for the high quality of the genuine article.) Given the apathy of many fashion consumers, anti-counterfeiting groups strive to make consumers aware of the link between fashion counterfeiters and organized crime. Consider the case of ZX Trading, a New York-based operation that made millions selling imported Chinese knockoffs, including counterfeit apparel with brand names such as Disney, Nike, and North Face.[12] When the counterfeit apparel was seized, investigators also found more than half a million fake Trojan brand condoms, which did not have spermicide as advertised and later failed water leakage tests. Similar cases have been reported in China, such as one in Hunan province where two million condoms were found to have been made in unsterile conditions. Such cases prove that counterfeiters do not restrict themselves to product categories: profits earned from counterfeit apparel inevitably will help finance production of more dangerous counterfeit products (like counterfeit medicines, condoms, and the like).

There is evidence that organized crime and terrorist organizations are increasingly becoming involved with counterfeiting operations. These organizations derive much of their funding from such underground businesses, particularly in the United States, Europe, and Asia.[13] Counterfeiters often take advantage of previously established narcotics distribution channels in order to get their goods into the United States.[14] Congress, upon recognizing the association between organized crime and counterfeiting, enacted federal criminal copyright and trademark piracy laws under the Racketeer Influenced Corrupt Organizations (RICO) Act in 1970.[15] Interpol declared that counterfeiting is not only *a* source of funding for corrupt organizations but the *preferred* source of funding for organizations such as Al Qaeda, Hamas, Hezbollah, and the Irish Republican Army.[16] The Federal Bureau of Investigation has since provided evidence of a direct link between the sale of counterfeit merchandise in New York and the bombing of the World Trade Center in 1993.[17]

Counterfeiters generally run all-cash businesses, paying no taxes and leaving no paper trail, which makes it difficult to ascertain if counterfeiters are complying with international human rights health and safety standards in their factories.[18] A recent *Harper's Bazaar* Luxury Report documented child laborers in Thailand were assembling counterfeit handbags on a factory floor because the "owners had broken the children's legs and tied the lower leg to the thigh so the bones wouldn't mend. [They] did it because the children said they wanted to go outside and play."[19]

Customs and police statistics suggest that the world's greatest source of counterfeit products is still China,[20] followed closely by Russia, with smaller infringers located in Argentina, Belize, Brazil, Egypt, Indonesia, Israel, Lebanon, Paraguay, Turkey, Ukraine, and Venezuela.[21] China's reluctance to embrace IP laws is arguably due to the perception that such laws were adopted out of pressure to comport with the Western world's legal mindset.[22] In June 2006, European and U.S. officials formed a joint task force to fight counterfeiting, known as the "EU-US Action Strategy for the Enforcement of Intellectual Property Rights"; China and Russia were the main subjects of concern.[23] As a follow-up, in 2007 the U.S. Trade Representative announced the launch of the Anti-counterfeiting Trade Agreement to effectuate universal standards for enforcement in numerous countries.[24]

Trademark owners not only incur the direct harm of lost sales, they also risk the long-term loss of customers. A consumer may choose not to purchase a genuine product from the trademark owner at a later date after owning a poor-quality counterfeit product bearing the same mark. Consumers risk their health when purchasing counterfeit products that may not comply with minimum public safety standards.[25] This can be especially important in the field of beauty and fragrance products: counterfeit manufacturers take as many shortcuts as possible and often use substances that are toxic or proven skin irritants.[26]

While the majority of anti-counterfeiting issues in the realm of fashion relate to improper usage and reproduction of a company's trademark, it is important to note that a host of other concerns exist. For instance, in Latin America, the biggest problems arise from domain name pirates and counterfeiters claiming to be authorized distributors for U.S. companies.[27]

C. Identifying a Counterfeit

It is often difficult to properly identify a counterfeit item, which presents a major threshold challenge to enforcement efforts. While poorly made counterfeits are obvious to the untrained eye, counterfeiters today are capable of producing extremely precise products that perfectly mimic luxury originals down to the shade of thread used in the lining. Thus, fake Hermes bags of unusually high quality are reportedly sold in Hong Kong for over $1000 per bag, and fake Cartier "Tank" watches have been found with cases made of solid gold.[28] Due to the difficulty in identifying such counterfeits, companies have begun using "product-securing devices," such as unique stitching designs in the label, to validate the authenticity of their products.[29] Consignment stores that carry high-end fashion merchandise often implement screening processes. For instance, a store employee may take a consigned Prada purse to the actual Prada store for verification prior to entering into a consignment arrangement.[30]

II. Anti-Counterfeiting Statutes

18 U.S.C. § 2320 prohibits trafficking in counterfeit labels, patches, and medallions bearing a copy of a registered trademark that are unattached to any goods.[31] Mark owners, particularly those associated with luxury brands, are advocating legislation that removes the burdensome requirement that the spurious mark be used in connection with goods or services identical to those for which the genuine mark is already registered.[32]

A. Federal Criminal Statutes

The act of counterfeiting is defined quite broadly and comprehensively by statute; every aspect of production, distribution, and sales can have criminal implications. Federal crimes involved with counterfeiting include money laundering, mail and wire fraud, tax evasion, human rights violations, and conspiracy to commit such offenses.[33] While the crimes can be substantial in nature, it is often hard to convince federal prosecutors to devote time and resources to counterfeiting issues when the federal dockets are full of other crimes that the general public may perceive as a greater threat to society.[34]

A few criminal statutes have proven effective in combating counterfeiting. The Stop Counterfeiting in Manufactured Goods Act (H. R. 32) establishes prison terms of up to twenty years and fines of up to $15 million. It also includes mandatory forfeiture, destruction, and restitution provisions. Furthermore, it disallows the shipment of falsified labels or packaging, which counterfeiters would attach to fake products in order to defraud consumers who may believe the goods were legitimate. Finally, the Act requires that counterfeiters reimburse the businesses they have harmed.

The Trafficking in Counterfeit Goods or Services Anti-counterfeiting Consumer Protection Act of 1996[35] provides that an intentional trafficker can be fined up to $2 million or imprisoned for up to 10 years or both. Other important federal statutes include: Criminal Infringement of a Copyright,[36] RICO,[37] Criminal Conspiracy,[38] Money Laundering,[39] Mail Fraud,[40] Wire Fraud,[41] Entry of Goods by Means of False Statements,[42] and Smuggling Goods into the United States.[43]

B. State Criminal Statutes

Approximately two-thirds of the states have enacted criminal counterfeiting statutes;[44] New York,[45] California,[46] and Florida[47] are particularly stringent in imposing severe state penalties for counterfeiting. Other states that lack such statutes still may prosecute counterfeiting under offenses such as fraud.[48]

III. Enforcement

A. Civil Seizure Actions

Trademark owners may seek recourse by filing a civil action and seeking an ex parte seizure order that allows for the seizure of goods.[49] The party seeking the ex parte seizure must prove that if the counterfeiter were put on notice of his infringing actions, he would likely flee or destroy the illegal goods. Plaintiffs in such civil seizure actions may recover profits, damages, costs, and attorney's fees, in addition to obtaining a permanent injunction.[50]

Treble damages are commonly awarded in counterfeiting cases. Plaintiffs also may seek statutory damages in lieu of actual damages, which can be difficult to ascertain. Damages can run between $500-$100,000 per infringing mark; if the plaintiff can prove the infringement was willful, damages can reach $1,000,000 per mark.[51]

B. Third-Party Liability Actions

Retailers and vendors are often the easiest targets of an infringement lawsuit. While they may lack the deeper pockets of the other participants in the counterfeiting chain, targeting such parties can lead to effective detection of the original source and location of counterfeit goods. If they are found liable, retailers and vendors can be subject to stiff penalties.

In 2006, Fendi sued Burlington Coat Factory Warehouse for trademark infringement in violation of a 1987 injunction barring the retailer from selling Fendi's trademarked goods without authorization. Burlington was held in contempt for violating the injunction and was ordered to pay Fendi $4.7 million. That sum represented $2.5 million in profits, $1.6 million in interest, and more than $540,000 in attorneys' fees.

Landlords that knowingly rent space to counterfeiters and/or refuse to take steps to counter such illegal activities can be held liable under theories of contributory and vicarious liability, and plaintiffs can recover damages from the landlord's property value itself. In certain states, landlords may face added liability under other state statutes. For instance, in New York, landlords can be held responsible for the illegal conduct of their tenants when, after being put on notice, they take no action.[52]

In an unusual move, Coach sued the City of Chicago for failing to prevent the sale of counterfeit Coach products at the New Maxwell Street Market. The City of Chicago operates the flea market and collects a $50 annual license fee from vendors who sell goods in the market. Coach alleges that in August 2009 its investigators discovered countless counterfeit products being sold at the market and promptly alerted the Chicago police department. When the City failed to respond to a December 2009 cease-and-desist letter requesting the City's cooperation in ending the infringing conduct, Coach conducted a follow-up investigation. After discovering that counterfeit products were still available at the market, Coach sued. The case is currently pending in the Northern District of Illinois.[53]

C. Counterfeits on the Internet: An Emerging Legal Battleground

Today, anyone can type a search for "Louis Vuitton replicas" into Google and be led to websites featuring obviously counterfeit Louis Vuitton handbags—much to the chagrin of the brand owner. Consequently, brand owners have recently carried the war on counterfeits into the digital arena in a number of closely watched lawsuits.

In a landmark 2008 decision in the Southern District of New York, affirmed on appeal in 2010, Tiffany failed in its bid to hold eBay responsible for counterfeit merchandise sold on the defendant's auction website.[54] Although Tiffany submitted evidence that approximately 73 percent of the silver "Tiffany" merchandise available on eBay was counterfeit and that less than 5 percent was genuine, the court declined to hold eBay liable for contributory infringement. Applying the *Inwood Laboratories* standard, which finds contributory liability only when a distributor continues to supply product to one whom it knows to be guilty of trademark infringement, the court absolved eBay because eBay routinely and regularly removed listings from sellers of counterfeits once eBay had been notified of their existence. Tiffany had sought to shift the burden of screening for counterfeit sellers onto eBay's shoulders, but the court demurred: "[I]t is the trademark owner's burden to police its mark and companies like eBay cannot be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement might be occurring on their websites."[55]

More recently, Gucci pursued another avenue of attack on Internet-marketed counterfeits by applying theories of vicarious and contributory negligence in its lawsuit against (inter alia) major credit card companies, including MasterCard.[56] This litigation stemmed from an earlier action in which Gucci successfully sued Laurette, Inc., for operating a website that sold counterfeit Gucci items.[57] Gucci's subsequent suit alleged that the credit card processing services established by the three defendants were essential to Laurette's sale of counterfeit Gucci products. In a June 2010 ruling, the court held that Gucci had alleged sufficient facts to defeat the defendants' motion to dismiss.

D. Leading and Managing the Anti-Counterfeiting Strategy

Brand owners must be prepared to invest considerable time and resources in protecting their trademarks. Companies often designate an in-house lawyer to focus solely on anti-counterfeiting efforts, particularly when dealing with luxury brands.[58] At the very least, in-house counsel should ensure that it has registered and maintained all trademarks and domain names for the brand, in all countries where the company sells, manufactures, or distributes products or components.

As a further step, in-house counsel should be trained to identify counterfeit products so they can direct law enforcement agents and private investigators in conducting targeted local sweeps to find counterfeit copies of their products. [Training program materials can be found at http://www.iaccfoundation.org/.] Most important, in-house counsel must maintain an evidentiary chain of custody, so that records are kept for each and every civil and criminal action related to the maintenance of the brand.[59]

Upper management must cooperate with in-house and outside counsel by trying to understand the unavoidable costs associated with anti-counterfeiting and enforcement strategies. Upper management also must implement training for lower-level personnel and sales staff whereby they are informed of the potential counterfeiting issues and are able to notice the differences between genuine and counterfeit goods.[60] The more cognizant every employee is of the problem, the easier it will be for a company to execute an effective anti-counterfeiting effort.

Finally, to get the message to consumers, management should allocate funds for certain public relations strategies in the annual budget. One approach is collaborating with other fashion companies to launch a public awareness campaign against counterfeit goods.[61] While such campaigns may not be commonplace for many companies, PR initiatives such as these will further help promote awareness of the counterfeiting issue.

In terms of federal law enforcement agents, Customs and Border Protection (CBP)[62] and Immigration and Customs Enforcement (ICE)[63] are two of the most important allies a company should have in the fight against counterfeiting. The two entities conduct investigations at international airports as well as at various other points of entry into the United States. ICE agents work closely with other units, such as the National Intellectual Property Rights Coordination Center, ICE Cyber Crimes Center, and ICE Attaché Offices overseas.[64] The FBI, as previously mentioned, also plays an important role in the detection of organized crime and channels through which counterfeit goods can be distributed.

Private investigators can act as useful intermediaries between trademark owners, their lawyers, and law enforcement. Because they have the resources to track counterfeiting operations, private investigators can target the source and are able to go undercover to purchase counterfeit goods.[65] In addition, competent investigators have strong law enforcement contacts in multiple jurisdictions, relationships that are extremely beneficial for the trademark owner. The IACC website is a good place to start when researching potential investigators to hire.

Finally, trade organizations that unite trademark holders and support their fight against counterfeiting can be beneficial to companies that are beginning to implement and develop an anti-counterfeiting program. Examples of such organizations include the IACC,[66] the International Trademark Association,[67] and the American Apparel and Footwear Association,[68] to name a few.

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Distinction Without Difference? The Impact of *Salinger* on Preliminary Injunctions in Trademark Cases in the Second Circuit

By Robert N. Potter and Andrew I. Gerber

I. Introduction

This article addresses the likely impact of the Second Circuit's recent decision in *Salinger v. Colting*[1] on future efforts to obtain injunctive relief in trademark cases in the Second Circuit. While the opinion, on its face, endorses application of the patent injunction test applied by the Supreme Court in *eBay Inc. v. MercExchange, L.L.C.*[2] to copyright injunctions, it also suggests that this framework will apply equally to trademark (and all other) plaintiffs seeking injunctive relief. A critical aspect of the *eBay/Salinger* framework is its refusal to allow for a presumptive finding of irreparable harm upon a showing of a likelihood of success on the merits. As we address herein, however, a likelihood of success on a trademark infringement claim will essentially always lead to a finding of irreparable harm, even absent a presumption.

II. Background

A. *eBay* and *Salinger*: Presumption of Irreparable Harm for Patents and Copyrights

Before 2006, when the Supreme Court handed down its decision in *eBay*, plaintiffs in patent cases needed only to establish a prima facie case of infringement in order to obtain injunctive relief. Upon making such a showing, plaintiffs in any intellectual property case were virtually assured of injunctive relief in some form. The Second Circuit, like nearly all other circuits, afforded this special treatment to patent, trademark, and copyright plaintiffs,[3] effectively relieving plaintiffs of the burden of making any showing of irreparable harm so long as the requisite showing of infringement was made. As such, the Second Circuit "nearly always issued injunctions in copyright cases as a matter of course upon a finding of likelihood of success on the merits."[4]

The *eBay* decision explicitly rejected the longstanding presumption of irreparable harm in patent cases, holding that a patent plaintiff seeking injunctive relief must demonstrate "(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction."[5] Although *eBay* was a patent case, the Court did not hide its belief that automatic presumptions of irreparable harm in intellectual property cases should not replace or modify the existing traditional analysis for injunctive relief.[6]

Four years later, in *Salinger*, the Second Circuit removed any doubt as to the application of *eBay* to copyright cases. First noting that "traditionally, this Court has presumed that a plaintiff likely to prevail on the merits of a copyright claim is also likely to suffer irreparable harm if an injunction does not issue," the Second Circuit held that "eBay applies with equal force (a) to preliminary injunctions (b) that are issued for alleged copyright infringement."[7] Slightly modifying the four-factor *eBay* test for the preliminary injunction context, the Second Circuit in *Salinger* required a plaintiff to show (1) "either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the plaintiff's favor"; (2) that the plaintiff "is likely to suffer irreparable injury in the absence of an injunction" (and that "remedies available at law…are inadequate to compensate for that injury"); (3) that "the balance of hardships between the plaintiff and defendant…tips in the plaintiff's favor"; and (4) "that the public interest would not be disserved by the issuance of a preliminary injunction."[8] (For the sake of convenience, and because the *eBay* and *Salinger* tests are essentially identical but for the differences inherent in seeking preliminary versus permanent injunctive relief, we will generally refer to both tests as the "four-factor test" or the "*eBay/Salinger* test.")

In extending the *eBay* decision to the copyright context, the *Salinger* court noted that the *eBay* Court "expressly relied upon copyright cases in reaching its conclusion."[9] Of even greater importance for trademark practitioners, the *Salinger* court also observed that "although today we are not called on to extend *eBay* beyond the context of copyright cases, we see no reason that *eBay* would not apply with equal force to an injunction in *any* type of case."[10] Just as *eBay* addressed the injunction standard for patents but left the door open for copyrights, so did *Salinger* address the injunction standard for copyrights but leave the door open for trademarks.

Only months after *Salinger* was handed down, we are now left with this question: Will the Second Circuit's mandate in *Salinger*—that "courts must not simply presume irreparable harm"[11]—be applied with equal force in trademark infringement cases, and, if so, to what effect?

Several recent district court cases in this Circuit have followed the lead of *eBay* and *Salinger* and eliminated the presumption of irreparable harm in trademark infringement cases.[12] But even if trademark infringement cases in the Second Circuit are now also subject to the new standard from *eBay* and *Salinger*, which we expect them to be, we do not believe the injunctive relief analyses and determinations of such cases will be—or should be—affected to any significant degree by this new standard.

III. *eBay* and *Salinger* as Applied to Trademark Actions in the Second Circuit

A. Will the *eBay/Salinger* Test Apply to Trademark Plaintiffs Seeking Injunctive Relief?

Although the *eBay* opinion involved patent law, and the *Salinger* opinion dealt with copyright law, there is little doubt that both the Supreme Court and the Second Circuit intend the four-prong standard to be utilized in *all* cases seeking injunctive relief, including trademark cases.

The Supreme Court in *eBay* spoke broadly in connection with the application of the four-factor framework, noting simply that "a plaintiff seeking a permanent injunction must satisfy [the] four-factor test before a court may grant such relief."[13] The Court indicated no limitations on this general rule, finding that "a major departure from the long tradition of equity practice should not be lightly implied" and that "[t]hese familiar principles apply with equal force to disputes arising under the Patent Act."[14]

Taking a narrower approach, the Second Circuit in *Salinger* expressly applied *eBay*'s four-factor test only to the copyright case then before it, suggesting in dictum that it also would apply in other types of actions. That said, and while there is a credible argument that *Salinger* does not necessarily apply to non-copyright actions—the Second Circuit's opinion was not decided en banc, nor did it overrule post-*eBay* trademark decisions in which the Second Circuit found a presumption of irreparable harm upon a showing of likelihood of success on the merits[15]—it appears likely that courts within the Second Circuit will nonetheless apply the four-factor standard to injunctive relief analyses in every action, including those involving trademark infringement.

Indeed, while district courts within this Circuit were split in their application of *eBay* to trademark cases prior to *Salinger*,[16] the few reported post-*Salinger* opinions have applied the four-factor test to trademark injunctions. Two recent trademark decisions, one from the Southern District of New York, *New York City Triathlon, LLC v. NYC Triathlon Club, Inc.*,[17] the other from the District of Connecticut, *People's United Bank v. PeoplesBank*,[18] both applied the four-factor framework to requests for preliminary injunctions under the Lanham Act. As these cases indicate, future trademark litigants seeking injunctive relief in the Second Circuit will undoubtedly be expected to make a showing as to each of the four factors, and irreparable harm will no longer be presumed upon a prima facie showing of infringement. Less clear, however, is whether the *eBay/Salinger* standard—notwithstanding its application in patent and copyright cases—*should* apply to trademark actions.

B. Should the *eBay/Salinger* Test Apply to Trademark Plaintiffs Seeking Injunctive Relief?

While the four-factor standard articulated in *eBay* and applied in *Salinger* will almost certainly be extended to trademark actions in the Second Circuit, the issue is nonetheless informed by critical distinctions between the Lanham Act, on the one hand, and the Patent and Copyright Acts at issue in *eBay* and *Salinger*, respectively, on the other. These distinctions are particularly notable when one examines the attributes of the Patent and Copyright Acts that were found analogous and compelling in those cases.

When applying the four-factor test to the patent dispute in *eBay*, the Supreme Court cited copyright decisions for the proposition that "this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed."[19] The Court then went on to draw two critical parallels between patent and copyright law that, in the Court's view, made such a presumption equally inappropriate in patent cases. The first involves a patent owner's statutory "right to exclude" others from using his patented invention. The Federal Circuit, in its *eBay* opinion, reasoned that this statutory right to exclude justifies a categorical presumption of harm in patent cases when infringement has been determined.[20] The Supreme Court rejected this reasoning, noting that a copyright holder similarly possesses the right to exclude others from using his copyrighted material, but a categorical presumption of harm had not been applied in the Supreme Court's copyright decisions.[21]

The Supreme Court found another parallel between patent and copyright law in the language of the Patent and Copyright Acts themselves that justified a consistent approach to injunctive relief in both cases. Just as the Patent Act provides that courts "may grant injunctions in accordance with the principles of equity,"[22] the Copyright Act states that a court "may…grant…injunctions on such terms as it may deem reasonable."[23] The Court found that nothing in the language of these statutes suggests a departure from the traditional four-factor framework for granting injunctions, and thus a categorical presumption of harm was not appropriate in either case.

It is true that these two attributes apply equally to trademark actions under the Lanham Act. Certainly, trademark owners have a right to exclude others from using copies, counterfeits, reproductions, or colorable imitations of their trademarks;[24] similar rights are inherent in the monopolies given to owners of all intellectual property under U.S. law. It is also true that the Lanham Act, like the Patent and Copyright Acts, explicitly vests courts with the power to grant permissive injunctions consistent with traditional notions of equity. Indeed, the Lanham Act's injunctive provision incorporates both the "principles of equity" language of the Patent Act *and* the "on such terms as the court may deem reasonable" language of the Copyright Act.[25] Thus, as to both the right to exclude and the permissive notion of equitable injunctions, the *eBay* standard appears as appropriate for injunctive relief in trademark cases as it is in patent and copyright cases.

There is, however, a crucial difference between the Lanham Act and Patent and Copyright Acts that has not been addressed by the Supreme Court, the Second Circuit, or the district courts within this Circuit that have addressed the issue. The distinction lies in the principles underlying the creation of each type of intellectual property law as well as in the constitutional basis for the respective Acts.

Both the Patent and Copyright Acts are rooted in the Constitution's "Intellectual Property" Clause, which gives Congress the power to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[26] Trademarks, however, are tethered to neither arts nor science, and the Lanham Act is grounded in the Constitution's Commerce Clause.[27] These different constitutional bases demonstrate the divergent purposes for which protection is given to these various forms of intellectual property.

The protection provided by patents and copyrights is meant to balance two competing interests. On the one hand, in order to encourage artists and scientists to create new works and make new discoveries, they are provided with a monopoly over the use of their creations to reward them for the time and effort put into creating them. On the other hand, the Founding Fathers recognized that art and science belong, ultimately, to the people, and thus society at large must eventually be allowed to incorporate and build upon the artistic creations and scientific discoveries of others. For this reason, patent and copyright owners are given monopolies over the use of their creations only for "*limited* times."

Trademark owners, on the other hand, potentially enjoy a *perpetual* monopoly over their marks, so long as they continue to use them in connection with the associated goods and services.[28] This is consistent with the underlying purpose of trademarks: to allow brand owners to uniquely identify their goods and services and control the goodwill and reputation associated with them and to allow consumers to identify the manufacturer that created and presumably stands behind a given good or service.[29] So long, then, as a brand owner continues to offer a particular good or service in connection with a particular trademark, it is entitled to the exclusive use of that trademark. To allow otherwise would harm the brand owner's goodwill and reputation as well as the public's ability to identify and rely upon the manufacturers it has come to trust.

This type of harm, which, we would argue, is irreparable and flows inevitably from the infringement of a trademark, is unique to trademark law. A patent or copyright owner is given a limited monopoly over his creation as a financial reward for the efforts invested in creating it.[30] Thus, when a patent or copyright is infringed, there may conceivably be a calculable monetary remedy that can make the owner whole (although this often may not be the case in practice). The nature of the trademark monopoly, however, which is meant to protect the brand owner's reputation and the public's expectations, does not lend itself so easily to financial remuneration.

The damage to such nebulous and subjective concepts as reputation and expectation is incalculable and irreparable and thus may be redressed only by equitable remedies designed to halt such damage. As a result, the presumption of irreparable harm should flow automatically from a finding of trademark infringement. It also follows that the four-factor *eBay* framework is not as instructive for trademark injunctions as it is for cases decided under copyright, patent, or other substantive areas of the law. Accordingly, while it seems almost inevitable that the *eBay* standard *will* be applied to trademark actions, it is not necessarily as clear that it *should* be applied them.

In our view, however, the unique nature of trademarks—and the equally unique harm that flows from their infringement—will almost always lead to a finding of irreparable harm under the four-factor analysis set forth in *eBay* and *Salinger*. For this reason the *eBay* framework, and its apparently mandatory application after *Salinger*, represents to trademark litigants a distinction without a difference.

IV. Trademark Injunctions in the Second Circuit in a Post-*Salinger* World

Whether or not courts in the Second Circuit extend *Salinger* to the trademark realm, we predict there should be little practical effect on trademark injunctions. As stated above, even where courts apply the *Salinger* standard to injunctive relief analysis in trademark infringement cases, we believe injunctive relief still will almost always be granted upon a finding of likelihood of success on the merits. *Salinger*, in other words, will have little to no effect on trademark cases, regardless of whether courts apply it.

That said, trademark litigants seeking preliminary injunctive relief in the Second Circuit will be well advised to address specifically each of the four *Salinger* factors. Although litigants may no longer be able to rely on a presumption of irreparable harm when a likelihood of success on the merits has been shown, demonstrating such harm should, in most cases, be easily accomplished. Satisfying the remaining two factors—that the balance of hardships and the public's interest both support injunctive relief—also should be relatively straightforward once prima facie infringement has been shown. We address each of the four factors in turn.

A. Likelihood of Success on the Merits

This factor will remain the *sine qua non* of obtaining a preliminary injunction. As it always has in trademark actions, it will involve an assessment of the relevant *Polaroid* factors.[31] There is nothing in *Salinger* to suggest that the burden of satisfying this factor is any more or less onerous than in the past. The *Salinger* court did emphasize, however, at least in connection with copyright cases, that "courts should be particularly cognizant of the difficulty of predicting the merits of a copyright claim at a preliminary injunction hearing" and that "[t]his difficulty is compounded significantly when a defendant raises a colorable fair use defense."[32] While the arguments for and against a finding of trademark infringement obviously are not the same as in the copyright context, each presents similar difficulties as to predicting a likelihood of success on the merits. Perhaps strengthened by the Second Circuit's caveat in *Salinger*, trademark litigants must continue to make as strong a showing as possible as to this factor.

B. Irreparable Harm

On its face, this is the factor most affected by *Salinger*, as plaintiffs may no longer rely upon an automatic presumption of harm after establishing a likelihood of success. Moreover, as *Salinger* indicates, courts are likely to look more closely at whether monetary damages are truly an inadequate remedy.[33] Practically speaking, however, most plaintiffs should have little difficulty satisfying this element through a showing of the investments they have made in their trademarks and the loss of goodwill and reputation that will stem from the infringement.

Within the Second Circuit, this type of harm has long been considered both an irreparable and inevitable result of a likelihood of confusion. As early as 1971, the Second Circuit noted that "[w]here there is…such high probability of confusion, injury irreparable in the sense that it may not be fully compensable in damage almost inevitably follows.… Furthermore, if an infringer's product is of poor quality, or simply not worth the price, a more lasting but not readily measurable injury may be inflicted on the plaintiff's reputation in the market."[34] Multiple other opinions by the Second Circuit echo this sentiment.[35]

It is this reasoning—that trademark infringement leads to the non-compensable loss of a brand owner's reputation and goodwill—that led to the creation of the presumption of irreparable harm in the first place.[36] Although *eBay* and *Salinger* have now mandated that trademark plaintiffs make the common-sense argument that was previously presumed, the logic of the reasoning remains intact. Courts will surely remain cognizant of this history and consistently find irreparable harm when a trademark plaintiff argues loss of goodwill and reputation.[37] Indeed, in the only two reported opinions in the Second Circuit that have applied *Salinger* in connection with trademark injunctions, each looked to the movant's finances, reputation, and goodwill when assessing irreparable harm.[38] There is nothing to suggest this trend will not continue and that—so long as a plaintiff has not unduly delayed in seeking preliminary injunctive relief[39]—a proper showing along these lines will not support a finding of irreparable harm.

C. Balance of Hardships

As the Second Circuit recognized in *Salinger*, this factor is closely related to irreparable harm,[40] and the same arguments that support a finding of irreparable harm should, in the normal course, also tilt the balance of hardships in the plaintiff's favor. As the *Salinger* court noted in the context of copyrights, both a plaintiff and a defendant have an interest in using the works at issue, but these interests are relevant to the injunctive analysis "only to the extent they are not remediable after a final adjudication.…In the context of copyright infringement cases, the harm to plaintiff's property interest has often been characterized as irreparable in light of possible market confusion."[41]

This rationale is perhaps even more relevant in the trademark context, where market confusion is the very litmus test of infringement. The only reported trademark opinion within the Second Circuit that has addressed this factor in light of *Salinger*—the Southern District of New York's opinion in *New York City Triathlon*—appears to have implicitly adopted this reasoning, finding that, solely upon the plaintiff's showing of irreparable harm, "the balance of hardships tips decidedly for the Plaintiff."[42] Thus, a plaintiff that has shown it will face irreparable harm absent an injunction has essentially also shown that the balance of hardships tip in its favor, as any harm the defendant might suffer (e.g., lost sales under an allegedly infringing mark) generally will be compensable financially. There certainly may be contrary situations, but they are likely to be few and far between.

D. Public Interest

This "public interest" factor, as with each of the other factors, also will almost always support a preliminary injunction once a plaintiff has made a prima facie showing of trademark infringement. This is because "the public has an interest in not being deceived—in being assured that the mark it associates with a product is not attached to goods of unknown origin and quality."[43] As a leading trademark treatise notes, "[o]nce a likelihood of confusion is shown, it follows that the public interest is damaged if such confusion continues."[44]

V. Conclusion

Although the *Salinger* opinion likely mandates the use of the four-factor analysis in actions seeking injunctive relief within the Second Circuit, the practical impact this will have on trademark plaintiffs is negligible. It is true that a movant no longer can rely on an automatic presumption of irreparable harm upon establishing a likelihood of success on the merits and instead will have to explicitly address that and the other *Salinger* factors. But a finding that these factors support an injunction will, for all intents and purposes, follow inexorably and inevitably from a showing of likelihood of success on a trademark infringement claim.

Although litigants and courts in this Circuit will devote greater attention to these factors than in the past, the categorical presumption that *eBay* found inappropriate will essentially still apply in the trademark realm; preliminary injunctions in trademark infringement actions will be granted whenever a likelihood of success on the merits has been shown. In this regard, the *Salinger* standard represents a procedural distinction without a substantive difference.

Endnotes

1. 607 F.3d 68 (2d Cir. 2010).
2. 547 U.S. 388 (2006).
3. *See, e.g.*, *Sanofi-Synthelabo v. Apotex Inc.*, 488 F. Supp. 2d 317, 325 and 342 (S.D.N.Y. 2006) ("On substantive questions of patent law, [federal courts] are bound by the precedents of the U.S. Court of Appeals for the Federal Circuit," and "[t]he Federal Circuit has consistently held that a party that moves for a preliminary injunction and clearly establishes likelihood of success on the merits 'receives the benefit of a presumption on the second' factor, irreparable harm.") (quoting *Reebok Intern. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir. 1994)); *Malletier v. Burlington Coat Factory Warehouse Corp.*, 426 F.3d 532, 537 (2d Cir. 2005) ("In trademark disputes, a showing of likelihood of confusion establishes both a likelihood of success on the merits and irreparable harm.") (internal citations omitted); 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* (hereinafter McCarthy), § 30:47 (4th ed.) ("The rule followed by almost all courts is that irreparable injury is presumed if a likelihood of success on the merits of trademark infringement is proven."); *Richard Feiner & Co., Inc. v. Turner Entm't Co.,* 98 F.3d 33, 34 (2d Cir.1996) ("When a plaintiff establishes a *prima facie* case of copyright infringement, irreparable harm is presumed."); 4 Melville B. Nimmer and David Nimmer, Nimmer on Copyright § 14.06[A][2][b] ("Many cases state the prevailing view that a showing of a *prima facie* case of copyright infringement, or reasonable likelihood of success on the merits, raises a presumption of irreparable harm.") (internal quotations and citations omitted).
4. *Salinger*, 607 F.3d at 76.
5. *eBay*, 547 U.S. at 391.
6. *Id.* at 393.
7. *Salinger*, 607 F.3d at 75, 77.
8. *Id.* at 79-80.
9. *Id.* at 78 (citing *eBay*, 547 U.S. at 392-93 (collecting cases)).
10. *Id.* at 78 n.7 (emphasis in original).
11. *Id.* at 82.
12. *People's United Bank v. PeoplesBank*, 2010 WL 2521069, *9 (D. Conn. June 17, 2010); *New York City Triathlon, LLC v. NYC Triathlon Club, Inc.*, 2010 WL 808885, *32 (S.D.N.Y. May 4, 2010).
13. *eBay,* 547 U.S. at 391.
14. *Id.* (quoting, in the first citation, *Weinberger v. Romero-Barcelo*, 465 U.S. 305, 320 (1982), and citing *Amoco Prod. Co. v. Village of Gambell*, 480 U.S. 531, 542 (1987)). Two years later, the Supreme Court further confirmed the presumptive application of this standard to all cases, regardless of the substantive law involved, when (without even mentioning *eBay*) it applied the four-factor test to claims arising under the National Environmental Policy Act. *Winter v. Natural Resources Defense Council*, __ U.S. __, 129 S. Ct. 365, 374 (2008) ("A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest.").
15. *See, e.g.*, *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 246 (2d Cir. 2009) ("A plaintiff who establishes that an infringer's use of its trademark creates a likelihood of consumer confusion generally is entitled to a presumption of irreparable injury.").
16. *Compare, e.g.*, *E. Gluck Corp. v. Rothenhaus*, 585 F. Supp. 2d 505, 519 (S.D.N.Y. 2008) (holding that *eBay* applies only to permanent injunctions under the Patent Act, and that the presumption of irreparable harm still follows a showing of likelihood of success in a trademark case) *with Microsoft Corp. v. AGA Solutions, Inc.*, 589 F. Supp. 2d 195, 204 (E.D.N.Y. 2008) (applying *eBay* in a permanent injunction trademark case, and noting that "[a]n injunction does not automatically follow a determination that a…trademark has been infringed").
17. 2010 WL 808885 (S.D.N.Y. May 4, 2010).
18. 2010 WL 2521069 (D. Conn. June 17, 2010).
19. *eBay*, 547 U.S. at 392-93 (collecting cases). As others have noted, however, the selective copyright cases cited by the Supreme Court are not representative of the general rule towards a presumption of irreparable harm. *See, e.g.*, Eleanor M. Lackman, *Factoring in the Public Interest: The Impact of* eBay *on Injunctive Relief in Copyright Cases*, 18 Bright Ideas 2, 3 (Winter 2009) ("Even the Supreme Court cases that the Court cited [in *eBay*] for the proposition that it has 'consistently rejected' the automatic issuance of an injunction do not establish a general rule in copyright law: the Court…did not point to any modern Supreme Court cases in which it rejected a copyright injunction on the merits.").
20. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005).
21. *eBay*, 547 U.S. at 392.
22. 35 U.S.C. § 283.
23. 17 U.S.C. § 502(a).
24. 15 U.S.C. § 1114(1).
25. 15 U.S.C. § 1116(a).
26. U.S. Const., art. I, § 8, cl. 8.
27. *See* U.S. Const., art 1, § 8, cl. 3 (giving Congress the power to "regulate commerce…among the several states"); McCarthy, *supra* note 3, § 24:102 (noting that the Lanham Act is founded on the Commerce Clause of the Constitution); *see also, e.g.*, 15 U.S.C. § 1051(a)(1) (allowing registration of "a trademark used in commerce"); *id.* at § 1125(a)(1) (allowing the recovery of remedies against those who use "in commerce" confusingly similar marks).
28. *See, e.g.*, *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 147 (2d Cir. 2007) ("[S]o long as a person is the first to use a particular mark to identify his goods or services in a given market, and so long as that owner continues to make use of the mark, he is entitled to prevent others from using the mark to describe their own goods in that market.") (internal citations and quotation marks omitted).
29. *See, e.g.*, *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 163-64 (1995) ("[T]rademark law, by preventing others from copying a source-identifying mark, 'reduce[s] the customer's costs of shopping and making purchasing decisions,' for it quickly and

easily assures a potential customer that *this* item—the item with this mark—is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product.") (quoting McCarthy, *supra* note 3, § 2.01[2] (3d ed.)).

30. *See, e.g.*, *New Era Publ'ns Int'l, ApS v. Henry Holt & Co.*, 695 F. Supp. 1493, 1526 (S.D.N.Y. 1988) (Leval, J.) ("[T]he justification of the copyright law is the protection of the *commercial* interest of the artist/author. It is not to coddle artistic vanity or to protect secrecy, but to stimulate creation by protecting its rewards.").

31. *See Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961).

32. *Salinger*, 607 F.3d at 80-81.

33. *Id.* at 80.

34. *Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190, 1195 (2d Cir. 1971).

35. *See, e.g.*, *Tom Doherty Assoc. v. Saban Entm't, Inc.*, 60 F.3d 27, 38 (2d Cir. 1995) ("[A] loss of prospective goodwill can constitute irreparable harm."); *Power Test Petroleum Distribs., Inc. v. Calcu Gas, Inc.*, 754 F.2d 91, 95 (2d Cir. 1985) ("[I]rreparable injury[] exists in a trademark case when the party seeking the injunction shows that it will lose control over the reputation of its trademark pending trial."); *Paco Rabanne Parfums, S.A. v. Norco Enters., Inc.*, 680 F.2d 891, 894 (2d Cir. 1982) ("The likelihood of damage to reputation and good will, even where there is no proof of lost sales or side-by-side competition, entitles a plaintiff to preliminary relief.").

36. McCarthy, *supra* note 3, § 30:47 ("The basis of the presumption is that trademark infringement monetary relief is, in the language of equity, inherently 'inadequate' and injury is 'irreparable.' By showing a likelihood of success in proving a likelihood of confusion, plaintiff also shows that, pending trial without a preliminary injunction, it will probably lose control of its reputation because this reputation rests upon the quality of defendant's activities as a result of a likelihood of confusion of purchasers. Such a likelihood of damage to reputation is by its nature irreparable.").

37. As Chief Justice Roberts noted in his concurrence in *eBay*, "From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases.…When it comes to discerning and applying those standards, in this area as others, a page of history is worth a volume of logic." 547 U.S. at 395 (internal citation and quotation marks omitted).

38. *See People's United Bank*, 2010 WL 2521069, at *9 (finding that *Salinger* "require[es] a separate inquiry into harm" and that, in addition to having failed even to establish a likelihood of success on the merits, movant "did not even address harm to its finances, reputation or ability to attract business opportunities"); *New York City Triathlon*, 2010 WL 808885, at *32 (stating that, "without deciding whether *eBay* also alters the presumption of irreparable harm in the context of a trademark infringement action, this Court applies *Salinger*'s articulation of the standard for injunctive relief," and finding that "[p]rospective loss of [plaintiff's] goodwill alone is sufficient to support a finding of irreparable harm" and "loss of control over one's reputation is neither calculable nor precisely compensable") (internal citations and quotation marks omitted).

39. *See Citibank, N.A. v. Citytrust*, 756 F.2d 273, 276 (2d Cir. 1985) ("Significant delay in applying for injunctive relief in a trademark case tends to neutralize any presumption that infringement alone will cause irreparable harm pending trial, and such delay alone may justify denial of a preliminary injunction for trademark infringement.").

40. *Salinger*, 607 F.3d at 81.

41. *Id.* (citation omitted).

42. 2010 WL 808885, at *33.

43. *Id.* at *34.

44. McCarthy, *supra* note 3, § 30:52.

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Tiffany v. eBay: “Notice and Takedown Plus” as the Standard for Contributory Liability for Online Marketplace Sites?

By Robin Gruber and Chehrazade Chemcham

I. Introduction

On April 1, 2010, the Second Circuit affirmed most of the July 14, 2008 district court decision by Judge Richard J. Sullivan holding that eBay Inc. (“eBay”) was not liable for direct or contributory trademark infringement or dilution of the trademarks of plaintiffs Tiffany (NJ) Inc. and Tiffany and Company (“Tiffany”) by knowingly facilitating the sale of counterfeit Tiffany silver jewelry on its online marketplace.[1] However, the court remanded for further proceedings as to Tiffany’s false advertising claim. The decision essentially endorsed Judge Sullivan’s conclusion that brand owners are largely, but not solely, responsible for identifying counterfeit sales on online auction sites such as eBay’s. This finding seems to hinge on the facts that:

- when eBay was made aware of specific instances of counterfeiting by Tiffany, it promptly removed the listings in question; and
- in light of its generalized knowledge of the occurrence of counterfeiting on its website, eBay adopted a number of anticounterfeiting measures to ensure that its site was a safe shopping platform for consumers.

While the Second Circuit’s decision partly clarifies the limits of the legal responsibility of online marketplace operators for their users’ counterfeiting activities, it leaves continuing challenges for brand owners attempting to tackle online counterfeiting. This article discusses the Second Circuit’s decision and explores its likely effect on the sale of counterfeits through online marketplaces.

II. Background and District Court Decision

In June 2004, Tiffany sued eBay for the sale of counterfeit Tiffany silver jewelry on eBay’s website between 2003 and 2006. Tiffany asserted claims for direct and contributory trademark infringement, unfair competition, false advertising, and direct and contributory trademark dilution based on eBay allegedly having facilitated the sale of Tiffany counterfeit merchandise on its website. Even though individual sellers were responsible for the actual sales of counterfeit Tiffany silver jewelry, and eBay never took possession of the goods, Tiffany argued that eBay was on notice that counterfeiting occurred on its site and that it was eBay’s responsibility to investigate and control its sellers.

Prior to the litigation, Tiffany had contacted eBay to complain about the “deluge of counterfeit Tiffany merchandise, the vast majority of which ha[d] been sold through eBay,” and requested that eBay (1) immediately remove listings for all counterfeit Tiffany merchandise on eBay at a particular point in time; (2) take appropriate and continuing measures to eliminate the sale of counterfeit goods through the eBay site in the future; and (3) cease using the TIFFANY trademark to label counterfeit goods.[2] eBay responded by encouraging Tiffany to participate in its Verified Rights Owner (“VeRO”) Program and in Ranger Online. eBay refused to remove listings that did not appear “on their face to be offering counterfeit Tiffany items without notice from Tiffany.”[3]

A year after the first contacts with eBay, Tiffany informed eBay that according to Tiffany’s surveys, 73 percent of the sterling silver Tiffany merchandise available on eBay was counterfeit and only 5 percent was genuine.[4] In light of the survey and the continued sale of counterfeits on eBay, Tiffany asked eBay to (1) ban any eBay seller from listing five or more Tiffany jewelry items at any given time (“Tiffany’s Five or More Rule”); (2) ban the sale of silver Tiffany jewelry from eBay, since most of it was counterfeit; (3) ban the sale of any TIFFANY item advertized as being counterfeit or “inspired by Tiffany”; (4) not advertise the sale of Tiffany merchandise; and (5) remove sponsored links to Tiffany goods on any search engine.[5] Shortly thereafter, Tiffany sued eBay in the Southern District of New York.

Eight months after the November 2007 bench trial, the court issued a 66-page opinion finding for eBay on all grounds. On the issues of direct infringement, contributory infringement, and false advertising, the court made the following findings:

1. eBay was not liable for direct trademark infringement. Tiffany argued that eBay had directly infringed its mark by using it on eBay’s website to advertise the availability of Tiffany merchandise and by purchasing sponsored links on Google and Yahoo containing and openly displaying the TIFFANY mark. The district court held that the use of Tiffany’s trademark was protected by the doctrine of nominative fair use, finding that (1) Tiffany jewelry was not readily identifiable without the use of the registered trademark as a source indicator for the goods; (2) eBay used only so much of the mark as was “reasonably necessary”; and (3) eBay did not do anything that would suggest sponsorship or endorsement by Tiffany.[6] The court further found that eBay's use of TIFFANY in sponsored links also was protected as a nominative fair use.[7]

2. eBay was not liable for contributory trademark infringement. The district court applied the standard articulated by the U.S. Supreme Court in *Inwood Labs., Inc. v. Ives Labs*.[8] ("*Inwood*"), i.e., "[i]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product *to one* whom it *knows or has reason to know* is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit."[9] In this case, Tiffany did not allege that eBay induced intentionally its customers to sell counterfeit goods, so the court focused on the second part of the test, i.e., whether eBay continued to provide its services to customers when it knew or had reason to know that these customers were engaged in trademark counterfeiting. The court found that eBay had only general knowledge that counterfeiting was taking place on its website and that general knowledge is not sufficient to meet the *Inwood* "knows or has reason to know" standard and thus not enough to impose on eBay an "affirmative duty to remedy the problem."[10] The court rejected the "reasonable anticipation" reading of *Inwood* Tiffany had urged, noting that the Supreme Court "specifically disavowed the reasonable anticipation [of infringement] standard as a 'watered down' and incorrect standard."[11]

The court concluded that "the law [did] not impose liability for contributory trademark infringement on eBay for its refusal to take […] preemptive steps in light of eBay's 'reasonable anticipation' or generalized knowledge that counterfeit goods might be sold on its website."[12] Rather, the law requires "more specific knowledge as to which items are infringing and which seller is listing those items before requiring eBay to take action."[13] The court found that eBay responded appropriately to specific notices of infringement by promptly taking those down, and that was all that the law required it to do.

The court also rejected the notion that eBay's failure to take affirmative steps to prevent the sale of counterfeit TIFFANY items amounted to "willful blindness" sufficient to meet the *Inwood* "knows or has reason to know" standard.[14] The court found that eBay was not willfully blind because (1) it did not purposefully try to avoid learning about counterfeiting on its website; (2) it did not fail to investigate specific instances of infringement; and (3) it invested tens of millions of dollars in anti-counterfeiting measures, including the VeRO program, which is designed to remove infringing listings after notification by brand owners. The court ultimately found that Tiffany "must … bear the burden of protecting its trademark" and that it was for lawmakers to change the law should they find it inadequate.[15]

3. eBay was not liable for false advertising. Tiffany objected to eBay's reference to Tiffany products in promotional materials on eBay's website, to eBay's purchase of Tiffany keywords to promote the availability of Tiffany products on eBay's website, and to eBay providing links to Tiffany products for sale on eBay. Tiffany claimed these uses of its trademark amounted to false advertising because so many of the listings on eBay were for counterfeit Tiffany merchandise.[16] The court held, however, that the advertisements at issue were not literally false "[b]ecause authentic Tiffany merchandise [was] sold on eBay's website," even if counterfeit Tiffany products were sold there as well.[17] The court further found that the advertisements were not misleading for three reasons. First, eBay's use of Tiffany's mark in advertising was "protected, nominative fair use."[18] Second, Tiffany had failed to prove that eBay had "specific knowledge as to the illicit nature of individual listings," implying that such knowledge would be necessary to sustain a false advertising claim.[19] And third, "to the extent that the advertising was false, the falsity was the responsibility of third party [sic] sellers, not eBay."[20]

In its ruling, the district court took special note of eBay's anti-counterfeiting measures, noting that eBay had invested "significant" resources in developing tools to tackle online counterfeiting, and highlighting the following measures:

- the VeRO program, a notice-and-takedown program that allows brand owners to report potentially infringing items for removal and potential suspension of seller. Upon notification, eBay removes most items within 24 hours.

- eBay's "fraud engine," which applies 13,000 different search rules used by eBay to monitor its website and remove listings that use the words "counterfeit," "knock-off," "replica," or "pirated."

- software flags, which are sent to eBay staff for review. Upon review, eBay would (1) remove the infringing listing; (2) send a warning to the seller; (3) place restrictions on a seller's account; and (4) work with law enforcement.

- the three-strike rule that allows eBay staff to suspend sellers caught three times dealing in counterfeit goods. Immediate suspension would apply if there was evidence that sellers signed up for eBay services only to deal in counterfeit goods.

- the About Me Page, which is an educational page about brand owners' products, intellectual property rights, and legal positions. The Tiffany "About Me" page stated that "most of the purported TIFFANY & CO. silver jewelry on eBay is counterfeit."

The district court also focused on additional steps that eBay undertook specifically in response to Tiffany's complaints about listings for counterfeit Tiffany products on eBay. For instance:

- eBay used special warning messages when a seller attempted to list a Tiffany item. These messages instructed the seller to make sure the item was authentic and informed the seller that eBay "d[id] not tolerate the listing of replica, counterfeit, or otherwise unauthorized items" and that violation of this policy "could result in suspension of [the seller's] account."[21] The warning message also provided a link to Tiffany's "About Me" page. If the seller continued to list an item despite the warning, the listing would be flagged for review by eBay staff.
- eBay also periodically conducted reviews of listings in an effort to remove those that might be offering counterfeit Tiffany goods. eBay staff searched the eBay website manually to find counterfeit listings. The court concluded that numerous listings were thereby removed and sellers suspended.
- eBay implemented Tiffany-specific filters in its fraud engine.

The district court further applauded eBay for developing and implementing general anticounterfeiting measures in 2006 that would apply to certain "higher risk" brands. For instance, eBay delayed the ability of buyers to view listings that used certain brand names for six to twelve hours in order to enable eBay's staff to manually review those listings. eBay also developed the ability to automatically assess the number of items offered in a given listing, and it prohibited one-day and three-day auctions and restricted cross-border trading for certain brand-name items.

These general and specific measures, considered by the court to have been both reasonable and appropriate responses to eBay's online counterfeiting problem, seem to have played a major role in the district court's reasoning. Although such measures have been regarded positively in the United States, they have been viewed differently in Europe, at least in France, where the French courts considered the VeRo Program insufficient to prevent online counterfeiting.[22] These divergent decisions appear to turn on the fact that eBay was considered a broker, not just a host, under French tort principles. It is not clear what additional actions eBay should have taken, but the French decisions suggest that eBay should be policing its content more closely and conducting some due diligence on its sellers.

Judge Sullivan's decision in favor of eBay came a few weeks after the French Commercial Court awarded luxury brand manufacturer LVMH over 60 million dollars in three related counterfeiting cases against eBay.[23] Both decisions were appealed. The French appeals are still pending.

III. The Second Circuit's Partial Affirmance

The Second Circuit seemed wary about creating precedent that would have a significant commercial impact on either eBay or Tiffany.[24] It is interesting that the court highlighted that eBay was a very successful company with more than six million new postings a day and had "an interest in eliminating counterfeit Tiffany merchandise from eBay."[25] The court also noted that Tiffany would benefit from reducing or eliminating the sale of all second-hand Tiffany goods available on eBay, pointing to the fact that there was some evidence that Tiffany pursued this litigation "to shut down the legitimate secondary market in authentic Tiffany goods."[26] Furthermore, while criticizing Tiffany's surveys that purported to quantify the amount of Tiffany counterfeit merchandise available on eBay, the court also highlighted the eBay anti-counterfeiting measures discussed in the district court's decision.

The Second Circuit's main conclusions were:

1. **No direct infringement.** The court of appeals agreed with the district court that eBay did not directly infringe Tiffany's trademarks, reasoning that "a defendant may lawfully use a plaintiff's trademark where doing so is necessary to describe the plaintiff's product and does not imply a false affiliation or endorsement by the plaintiff of the defendant."[27] The court found that eBay used TIFFANY to accurately describe the genuine branded goods, and eBay's uses did not suggest any affiliation with or endorsement by eBay. The court further noted that the fact that eBay knew that counterfeit goods were also available on eBay when using the trademark TIFFANY was not relevant to the direct infringement claim, as distinct from the contributory infringement and false advertising claims.

2. **No contributory infringement.** The court endorsed the district court's conclusion that generalized knowledge is not a sufficient basis for contributory trademark infringement liability. The issue of the potential contributory trademark infringement liability of an online marketplace was an issue of first impression. The court noted that European courts seemed to be the only other courts that had dealt with this issue.[28] Because eBay did not contest on appeal the application of *Inwood* to the operator of an online marketplace, the court focused only on whether eBay was liable under *Inwood*. Because Tiffany did not contest the district court's finding that eBay was not contributorily liable for the infringing conduct of sellers whose listings eBay promptly shut down upon notification by Tiffany (by removing infringing postings, warning sellers and buyers, cancelling fees it earned from those listings, and directing buyers not to consummate the sale of the disputed items), the principal issue before the Second Circuit was whether generalized knowledge is sufficient to impose liability under *Inwood* when eBay, despite that generalized knowledge, continued to provide services to infringing sellers.

The court of appeals agreed with the district court that "a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods."[29] The court noted that "some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary."[30] Citing *Inwood*, the court clarified that "a service provider is not contributorily liable merely for failing to anticipate that others would use its service to infringe a protected mark,"[31] thereby endorsing the district court's rejection of the "reasonable anticipation" standard. The Second Circuit interpreted *Inwood* narrowly, noting that "Inwood [does not] establish…the contours of the 'knows or has reason to know' [standard]," and that in *Inwood* the Supreme Court had applied only the "inducement" prong of the test."[32] The court looked for support to *Sony Corp. of America v. Universal City Studios, Inc.*,[33] where the Supreme Court, in a copyright case, cited *Inwood* as analogous authority for the proposition that the "knows or has reason to know" standard does not contemplate generalized knowledge of infringement.

Given the insufficiency of generalized knowledge of infringement as a basis for contributory infringement liability, Tiffany's non-specific notices of counterfeiting on the eBay website did not give rise to any duty to act on eBay's part. It is interesting to note that the Second Circuit agreed with the district court as to the value of Tiffany's "Five or More" rule, implying that had the rule been sound in terms of reflecting Tiffany's experience with respect to counterfeiting on eBay, such a general statement to eBay might be sufficient to impute specific knowledge to eBay.[34]

Looking to *Hard Rock Café* and *Fonovisa*,[35] the court confirmed that "[a] service provider is not … permitted willful blindness,"[36] and that contributory liability "may arise where a defendant is (as was eBay here) made aware that there was infringement on its site but (unlike eBay here) ignored that fact."[37] After reviewing the district court's factual findings, the court of appeals agreed that eBay "was not willfully blind to the counterfeit sales,"[38] as it did not ignore Tiffany's VeRO notifications concerning listings for counterfeit goods on its website. Like the district court, the court of appeals seemed to rely heavily on the anti-counterfeiting measures taken by eBay, including the fact that eBay promptly removed infringing postings that Tiffany brought to its attention.

The court distinguished *Hard Rock Café* and *Fonovisa*, noting that "eBay's efforts to combat counterfeiting far exceeded the efforts made by the defendants in those cases," and the court noted that "neither case concluded that the defendant was willfully blind."[39]

3. False advertising. The Second Circuit remanded the false advertising cause of action for further proceedings. To evaluate a claim of misleading advertising, a court "must determine whether extrinsic evidence indicates that the challenged advertisements were misleading or confusing."[40] The Second Circuit noted that the district court's reasons for rejecting Tiffany's claim did not seem to reflect such a determination.

The Second Circuit agreed that eBay's advertisements "were not literally false inasmuch as genuine Tiffany goods were offered for sale on the eBay website."[41] The court was unable, however, to determine whether the advertisements "were not 'likely to mislead or confuse consumers.'"[42] Because of the sale of counterfeit Tiffany items on eBay's website, the court could not establish whether advertisements implying the sale of genuine Tiffany products on eBay were misleading to consumers.

The court specifically addressed the amicus arguments warning of the chilling effect on online advertisers of a ruling against eBay on this issue. Suggesting the use of a disclaimer, the Second Circuit emphasized that the law "prohibits an advertisement that implies that all of the goods offered on a defendant's website are genuine when in fact, as here, a sizeable proportion of them are not."[43]

* * *

The Second Circuit's ruling stands for two main propositions: (1) online marketplaces may be liable for their sellers' counterfeiting activities where they fail to act on notice of specific instances of infringement; (2) advertisers who affirmatively advertise the availability of genuine trademarked products on websites where counterfeits for the same trademarked products are also available may be liable if the trademarks are used in a misleading or confusing way, whether in advertisements or sponsored links.

IV. The Impact of the Second Circuit's Decision in the Fight Against Counterfeiting on eBay and Similar Sites

The immediate conclusion that one might draw from the Second Circuit's decision is that brand owners are solely responsible for monitoring eBay for counterfeit goods, which is often a daunting task. Between 2003 and 2006 Tiffany reported more than 284,000 infringing listings to eBay through the Vero program, which illustrates the massive undertaking of online monitoring.

What remains unclear is whether the result would have been the same had eBay not already been taking strong anticounterfeiting measures; possibly not. The court's findings seem to turn in part on the fact that eBay provides a number of extensive, sophisticated, and costly anticounterfeiting measures. Thus, while brand owners are largely responsible for monitoring online marketplaces for counterfeits and requesting that specific counterfeit listings be taken down, the online marketplace also bears some responsibility. One may infer from the court of appeals' decision that eBay's current response and policies in dealing with online counterfeiting is the industry's new "standard of care." Divergent international decisions also may create additional pressures on online marketplaces like eBay to continue adapting its response and policies to address online counterfeiting, including, for example, through increasing its monitoring and enforcement capabilities.

Of note in the court's decision is its implicit assumption that the "notice and takedown" regime provided in the Digital Millennium Copyright Act (DMCA) applies to trademarks as well. This is an important but overlooked aspect of the decision, as many online marketplaces still refuse to take down postings that are specifically identified as infringing. Both the district court and the court of appeals drew support for their application of the *Inwood* knowledge standard in the trademark context from courts' interpretation of the *Inwood* standard in contributory copyright infringement cases such as *Sony*. The recent decision in *Viacom v. YouTube* further confirms this parallel. The *Viacom* court cited the Second Circuit's *Tiffany* decision to support its finding that YouTube was not liable for contributory infringement, noting that the principle articulated in *Tiffany*, i.e., that general knowledge of trademark infringement "does not impose a duty on the service provider to monitor or search its services for infringements," is the same as that embodied in the DMCA.[44]

One of the significant effects of the Second Circuit's *Tiffany* decision is likely to be that it will give brand owners a basis to insist that an online marketplace apply a prompt notice-and-takedown procedure for counterfeits as well as taking the same or similar additional preventative measures as did eBay or face legal action. Brand owners should take full advantage of the anti-counterfeiting tools developed by eBay and other online marketplaces, including notice-and-takedown programs, fraud searches, customized keyword searches adapted to specific products and brands, consumer information tools, and other online monitoring tools. Brand owners with trademarks that are especially targeted by counterfeiters may also consider working with eBay or other online marketplaces to set up additional procedures such as delaying the viewing of listings for certain brand names and banning one-day or three-day auctions.

Working with eBay and other online marketplaces, when possible, to stop counterfeiting is unavoidable. Brand owners must use all resources available to stop counterfeit sales online but may expect that once they have identified a counterfeit, *at the very least* the site must take down the infringing posting to avoid legal liability.

While resources are scarce at many companies, there must be an allocation of resources for the regular monitoring of troublesome marketplace sites, follow-up on each questionable listing, identification of repeat offenders and those selling large quantities, intelligence-gathering, investigation, and cross-referencing.

Last and most important, in order to clarify the Second Circuit's ruling, brand owners should consider lobbying Congress for specific statutory provisions targeting Internet counterfeiting, recognizing the need for additional protection of trademark rights and consumer protection while taking into account the legitimate business interests and concerns of Internet auction sites and other Internet actors. Without such provisions, uncertainty continues to rule the online counterfeiting arena, and uncertainty only benefits counterfeiters.

Endnotes

1. *Tiffany (NJ) Inc. et al. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).
2. *Tiffany (NJ) Inc. et al. v. eBay Inc.*, 576 F. Supp. 2d 463, 481-82 (S.D.N.Y. 2008).
3. *Id*. at 482.
4. *Id*.
5. *Id*.
6. *Id*. at 497-98.
7. *Id*. at 501.
8. 456 U.S. 844, 854 (1982).
9. *Tiffany,* 576 F. Supp. 2d at 502.
10. *Id*. at 508.
11. *Id*. at 470.
12. *Id*.
13. *Id*.
14. *Id*. at 513-14.
15. *Id*.
16. *Id*. at 520.
17. *Id*.
18. *Id*.
19. *Id*. at 521.
20. *Id*.
21. *Id*. at 491.
22. *See SA Louis Vuitton Malletier v. eBay Inc. et al*., Tribunal De Commerce De Paris, Première Chambre B, RG No. 2006077799, June 30, 2008; *La Société Christian Dior Couture, SA v. eBay Inc. et al*., Tribunal De Commerce De Paris, Première Chambre B, RG No. 2006077807, June 30, 2008; and *Hermès International v. eBay Inc. et al*., Tribunal de Grande Instance De Troyes, Chambre Civile, June 4, 2008.
23. *See supra* note 22. It is interesting to note that Tiffany asked the district court to recognize the French Commercial Court of Paris decision and to give preclusive effect to factual determination made in that case. After a conference concerning this request, Tiffany withdrew the request.
24. 600 F.3d 93 (2d Cir. 2010).
25. *Id*. at 98.
26. *Id*.
27. *Id*. at 103 (citing *Dow Jones & Co. v. Int'l Sec. Exch., Inc*., 451 F.3d 295, 308 (2d Cir. 2006)).
28. *See id*. at 105 n.8.
29. *Id*. at 107.
30. *Id*.
31. *Id* at 110 n.14 (citing *Inwood*, 456 U.S. at 854 n.13 (stating that for contributory liability to lie, a defendant must do more than

"reasonably anticipate" a third party's infringing conduct (internal quotation marks omitted)).

32. *Id.* at 108.
33. 464 U.S. 417 (1984).
34. *Tiffany (NJ) Inc.*, 600 F.3d 93 at 109 n.12.
35. *See Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (holding that a flea market operator could be held liable for trademark violations if it "knew or had reason to know of them" but finding that the facts alleged by plaintiff were insufficient to establish knowledge or willful blindness); *Fonovisa Inc. v. Cherry Auction Inc.*, 76 F.3d 259, 265 (9th Cir. 1996) (holding that plaintiff record company stated a cause of action for contributory copyright and trademark infringement against swap-meet operator for the sale of counterfeit goods by its vendors by alleging that the defendant "supplie[d] the necessary marketplace for the sale [of counterfeit recordings] in substantial quantities" with knowledge of infringement by vendors).
36. *Tiffany*, 600 F.3d at 109.
37. *Id.* at 110.
38. *Id.* at 110.
39. In *Hard Rock Café*, the case was remanded for the district court to apply the correct definition of "willful blindness," and in *Fonovis*a, the court rejected a motion to dismiss.
40. 600 F.3d at 113.
41. *Id*.
42. *Id*.
43. *Id.* at 114.
44. No. 07 Civ. 2103 (LLS), 2010 WL 2532404 (S.D.N.Y. June 23, 2010).

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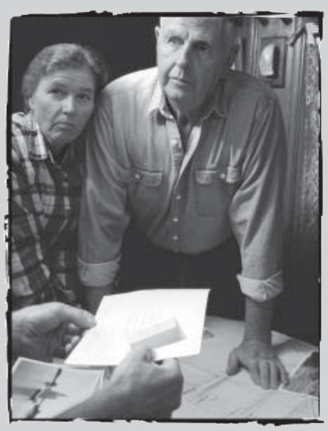

Key Distinctions in the European Approach to Online Jurisdiction and Trademark Disputes

By Gareth Dickson

I. Introduction

Many today see the commercial success of the Internet as a modern industrial revolution, one of the major achievements of the age. Yet just as an inability to communicate thwarted a monument to greatness at Babel,[1] many now believe a lack of international uniformity in the regulation of conduct on the Internet will similarly frustrate the realization of its potential.

Courts in most jurisdictions agree that a court cannot render an enforceable judgment against a defendant unless that defendant has had a sufficiently substantial presence within its borders to give the court personal jurisdiction over him. Similarly, various international and regional treaties reflect considerable worldwide uniformity in the principles underlying intellectual property (IP) laws. In particular, they give owners of registered trademarks negative rights to prevent the use of an identical or similar mark where consumers are liable to be confused and, in some cases, the right to prevent dilution or the taking of an unfair advantage of a party's good will. There is also broad agreement that service providers should not be liable for the infringing acts of third parties.

Despite these areas of agreement, recent cases involving cross-border jurisdiction and trademark infringement reveal a lack of uniformity in how these principles are being applied to online activities in two of the most important marketplaces for any international business, namely the United States and Europe. These cases suggest that unless businesses comply with the most restrictive potentially applicable rules, they will have to adopt separate policies in relation to every territory in which they do business online or within which they seek to protect their IP rights.

Part II of this article looks at why different conclusions on the sufficiency of an online presence for a finding of personal jurisdiction will increase the cost of IP protection and highlights the need for a uniform interpretation of IP laws as they apply to the Internet. It also explains the practical role that Internet service providers increasingly will be called upon to play. Part III examines differences in recent U.S. and European trademark cases involving the Internet, in particular the use of keywords, while Part IV discusses why the European interpretation of ISP safe-harbor provisions may give IP owners reason for optimism.

II. Enforcement of Judgments in Intellectual Property Disputes When Jurisdiction Is Based on an Internet Presence

Despite its advantages, the ubiquity of the Internet can be problematic for those doing cross-border business. A dispute litigated in California and then in England and Wales provides a good example of the cost and uncertainty caused, first, by disparate approaches to what actions give rise to jurisdiction, and, second, by the unwillingness of courts to adjudicate the validity and extent of intellectual property rights properly granted elsewhere.

In the mid-1970s, Andrew Ainsworth, an Englishman living in England, was approached by Lucasfilm to manufacture the helmets and armor for what became Star Wars Stormtroopers. Lucasfilm retained all rights to the Stormtroopers. In 2004, Ainsworth began selling replica helmets and body armor online. Although still based in England, where (perhaps surprisingly) the helmets and armor have been held to be functional rather than artistic and therefore not eligible for protection by UK copyright law, his website was visible worldwide. After Ainsworth had sold around $14,500 worth of goods, Lucasfilm sued him in California.[2] Ainsworth argued that he had not engaged in substantial, continuous, and systematic activities within California, nor had he purposefully availed himself of the privilege of conducting activities there, and he argued that the court therefore had no personal jurisdiction over him. This argument failed.[3] Ainsworth took no further part in the action, and in 2006 Lucasfilm obtained default judgment and damages of $20 million (plus interest and costs).[4]

Lucasfilm then sought enforcement of their judgment in England or, in the alternative, a declaration that Ainsworth's acts were an infringement of U.S. copyright law. The dispute went to the Court of Appeal,[5] which decided all issues in favor of Ainsworth (although an appeal before the (UK) Supreme Court is pending). Crucial to the Court of Appeal's refusal to enforce the California judgment was its finding that "the sheer omnipresence of the Internet does not easily create that presence which is a necessary ingredient in the enforceability of foreign judgments,"[6] since a website fell short of "establishing a fixed place of business from which [a defendant] carries on business."[7] Speaking more broadly, the court held that "the mere selling of goods from country A into country B does not amount to the presence of the seller in country

B."[8] The court also held that because IP rights are territorial, it did not have jurisdiction to decide de novo whether Lucasfilm's U.S. copyright had been infringed.[9]

The inability of international businesses to enforce either foreign judgments or foreign IP rights means that they increasingly will have to turn to local litigation. However, as *Lucasfilm* demonstrates and as two recent cases from the highest court in Europe confirm, local litigation can have different outcomes even where the causes of action are similar on their face. In cases where this leaves an IP owner without an effective remedy, Internet service providers are likely to become one of the only practical means of preventing online infringements, and their role in and obligations with respect to third-party infringements will become increasingly important for the protection of intellectual property.

III. Online Use of Third-Party Trademarks

A. The Significance of Google's AdWords System

It will come as no surprise that many of the recent cases involving the (mis)use of trademarks online have had some connection to Google. A large portion of Google's annual $23 billion in profits comes from its AdWords program, which invites advertisers to purchase keywords (by bidding on them) to trigger a sponsored ad when that keyword is searched using Google's technology. Google allows advertisers to purchase keywords that are registered trademarks, including those that are inherently distinctive and indicate a single origin of goods or services. The company exercises no control over which of its affiliates may bid on these keywords, but its keyword suggestion tool does suggest the inclusion of trademarks where advertisers have chosen descriptive keywords and, at other times, suggests words to accompany keywords or trademarks already selected.

Whatever they bid, advertisers are unable to control whether their ads will appear as sponsored links. Whether that happens is dictated solely by Google, whose algorithms balance factors such as how much other parties have bid for that keyword and how "good" Google considers the ad to be. Brand owners, infuriated by a company making billions of dollars from the sale of their trademarks to competitors and counterfeiters, have filed suits in many countries against advertisers and against Google.

B. Do Search Engines and Advertisers Infringe U.S. Registered Trademarks When Employing Them in Online Promotions?

Despite conflicting federal court decisions on whether the internal (and therefore invisible) use of trademarks in online promotions constitutes "use in commerce" for the purposes of section 32 of the Lanham Act,[10] it has been established (in the Second Circuit and other federal courts) that Google's sale of trademarks within its AdWords program constitutes "use in commerce."[11] The significance of this may be mooted, however, after the District Court for the Eastern District of Virginia recently granted Google's motion for summary judgment in a trademark infringement action brought by Rosetta Stone on the ground that there was not a sufficient likelihood of confusion for the claim to proceed to trial.[12] Judge Gerald Bruce Lee had not handed down his written decision when this article went to press, but Rosetta Stone has stated that it will consider appealing an adverse ruling. Judge Lee's decision is awaited with interest.[13]

In *Tiffany v. eBay*,[14] another recent high-profile trademark decision, the Second Circuit held that eBay was not responsible for direct trademark infringement when it used the TIFFANY mark as a keyword for sponsored ads or on its website, even where the relevant ads directed users to sales of both genuine and counterfeit products.[15] The court held, on the basis of Second Circuit precedent,[16] that "a defendant may lawfully use a plaintiff's trademark where doing so is necessary to describe the plaintiff's product and does not imply a false affiliation or endorsement by the plaintiff of the defendant."[17]

C. The European Court of Justice Steps into the Debate

On the other side of the Atlantic, two ongoing AdWords actions are providing guidance on the interpretation of the legislative provisions that harmonize registered trademark law among the twenty-seven Members of the European Community (the "Trademarks Directive").[18] The first case, between Louis Vuitton and Google, concerned the liability of search engines for the sale of keywords identical to registered trademarks as well the liability of the advertisers who select and bid on them. The case began in 2003 when Louis Vuitton sued Google in France over the sale of keywords including LOUIS VUITTON, VUITTON, and LV, as well as over Google's suggestion, in response to advertisers selecting these keywords, of the further keywords "imitation" and "copy." There was no dispute that Google sold keywords to counterfeiters and competitors of the plaintiffs. Given that this was the first significant case of its kind, the Cour de cassation in Paris referred various questions on the interpretation of the Trademarks Directive, and of the "safe harbor" provisions of the E-Commerce Directive,[19] to the highest court in Europe, the Court of Justice of the European Union[20] (CJEU),[21] whose judgment was handed down on March 23, 2010.[22] In the second case, the owner of the mark PORTAKABIN sued Primakabin over its selection and use of the plaintiff's mark, and close misspellings of it, in connection with the resale of the plaintiff's goods as well as other competing goods. [23]

A plaintiff in a registered trademark infringement action in Europe first must establish that the defendant is using its mark in the course of trade,[24] i.e., in the context of commercial activity with a view to economic advantage and not as a private matter.[25] If the case is one of "double-identity" of marks and goods and/or services,[26] CJEU case law dictates that a plaintiff must show that the use in question is liable to have an adverse effect on the functions of a trademark. The so-called "essential function" of a trademark is its ability to indicate the origin of its goods or services, while others include a guarantee of quality as well as functions of communication, investment, and advertising.[27] Only cases of mere similarity require proof of a likelihood of confusion.[28]

In *Google France*, the CJEU held that an advertiser's selection of a trademark as a keyword is clearly use of that mark in the course of trade, but it is its application of this test to service providers where European cases differ from their U.S. counterparts. The CJEU held that "use" under the Directive implies that a defendant must be using the sign on its own commercial communications and not simply be creating the conditions necessary for others to do so.[29] It made no difference that the defendant was remunerated for its acts, nor that the sign was employed invisibly to consumers as a keyword.[30] Accordingly, the court held that all the claims for registered trademark infringement against Google failed at the first hurdle.

The CJEU then completed its analysis of an advertiser's liability where it uses Google's services to purchase trademarks as keywords. In assessing the impact of a sponsored ad on a mark's essential function, the court found it significant that ads appear immediately after a trademark has been entered as a search term and while that mark remains displayed on the page. It also referred to article 6 of the E-Commerce Directive, which introduces into the European trademarks regime a requirement that the identity of "the natural or legal person on whose behalf the [ad] is made must be clearly communicated."[31] Therefore, said the court, a sponsored ad that has been triggered by a keyword that is identical to a registered trademark and that suggests an economic link between the advertiser and the brand owner, or fails the article 6 requirement by being vague as to the party responsible for it, does have an adverse effect on the mark's essential function[32] and, accordingly, infringes that mark.

In *Portakabin* the CJEU extended its analysis of double-identity cases to the use of keywords that are only similar to registered trademarks. First, the CJEU held that vague and misleading ads not only have an adverse effect on the mark's essential function but also constitute grounds for a finding of a likelihood of confusion in cases of similarity,[33] as some had predicted.[34] Second, even an advertiser of genuine second-hand goods "cannot, in principle" rely on the defense of having acted in accordance with "honest practices"[35] when using such an ad since it cannot "genuinely claim" to have been unaware of the ambiguity it causes.[36] Similarly, the advertiser cannot rely on the exhaustion rule laid down in article 7 Trademarks Directive,[37] since the suggestion of a commercial connection between the advertiser and the trademark proprietor constitutes a legitimate reason for that otherwise applicable defense not to apply.[38]

Finally, the CJEU commented on a matter analogous to the false advertising claim remanded by the Second Circuit in *Tiffany v. eBay*. The referring Dutch court had asked the CJEU whether a defendant infringed a plaintiff's trademark by using it in advertising that linked Internet users not only to the resale of genuine products of the plaintiff but also to sales of unrelated goods. The court ruled that the use of the plaintiff's trademark in such a situation would not be permissible if the presence of those other goods risked causing serious damage to the plaintiff's image.[39]

These decisions provide two more general points of interest for online advertisers. The first is that the appearance of an ad against a slightly different colored background, at a different position on the page, with the words "sponsored links"[40] above them, is not by itself sufficient to avoid a finding of confusion among European consumers. The second is that the CJEU's comments on merely vague ads indicate that Europe is moving toward a concept of initial interest confusion.

Brand owners will have mixed feelings about these decisions. They will be disappointed that the case against the party with the most control over the appearance of infringing ads has failed, but, at least as importantly, they will be encouraged by the court's finding that the tests for "adverse effect" and "likelihood of confusion" can be satisfied merely by showing that the ad in question does not clearly disclose that a party other than the mark owner is responsible for it. This would seem to make it easier to prove infringements online than in other forms of advertising media. What is less clear is whether these decisions ultimately will benefit consumers. On the one hand, consumers may have greater choice in locating goods and services where properly drafted ads are used. On the other hand, the fact that Google can continue to sell trademarks to counterfeiters and misleading advertisers with impunity is arguably bad news for consumers.

IV. Differences Between U.S. and E.U. Concepts of Safe Harbors

Louis Vuitton's action is unlikely to be the last against Google's AdWords, since the CJEU's exoneration of Google is limited to certain provisions of the Trademarks Directive. The court expressly acknowledged that other causes of action, such as unfair competition and passing off, could be viable.[41] Accordingly, the scope of the "safe harbor" provisions found in section 4 of the E-Commerce Directive remained of importance, and the court provided interesting guidance on its interpretation. Here too the European position differs from that of U.S. courts.

In his June 23, 2010 summary judgment decision in *Viacom v. YouTube*,[42] Judge Louis L. Stanton of the Southern District of New York drew an analogy between the "safe harbor" provisions of the DMCA and the Second Circuit's holding as to Tiffany's contributory liability claim against eBay,[43] holding that while the second prong of *Inwood*[44] requires specific, contemporaneous knowledge of infringing acts (or willful blindness[45]), the DMCA "applies the same principle" albeit "by a different technique."[46]

The idea that the "same principles" should govern exemptions from liability in both trademark and copyright claims is the accepted position in Europe, where section 4 of the E-Commerce Directive provides safe harbors for service providers with respect to civil liability where they are acting as a "mere conduit" of information (article 12) or are simply caching (article 13) or hosting material (article 14). These safe harbors do not replace or codify any defenses in the European registered trademark regime.

While both the DMCA and the E-Commerce Directive require a lack of knowledge of the infringing activity and expeditious removal of infringing material, the E.U. regime is philosophically different from, and more limited than, that of the DMCA. First, the E-Commerce Directive applies only to the providers of intermediary information society services, which are defined as "any service normally provided for remuneration, at a distance, by electronic means and at the individual request of a recipient of the services."[47] By contrast, 17 U.S.C. §512(c)(1)(B) expressly prohibits the receipt of money in connection with the allegedly infringing act.[48] The CJEU did not give any guidance on the interpretation of how strictly it would define a "service normally provided for remuneration," but the fact that the publication of user-submitted content normally does not attract any fee may place social networking sites such as Facebook and MySpace outside section 4 altogether.

Second, as *Google France* has emphasized,[49] the E-Commerce Directive's safe harbors for transmission, caching, and hosting activities apply only where the provider is acting as a "neutral" intermediary with respect to services of a "mere technical, automatic and passive nature."[50] This is a potentially very significant difference from the DMCA, where only the conduit and caching exemptions of sections 512(a) and 512(b), respectively, require that the acts be "automatic" and "technical"; the hosting exemption of section 512(c) has no such limitation,[51] and there is no express requirement anywhere in the DMCA that acts must be "passive" to be exempted.[52]

To understand these distinctions, it should be remembered that the E-Commerce Directive and the DMCA were drafted long before the era of Web 2.0. In the late 1990s and early 2000s, hosting was still a back-end, largely anonymous, network service that allowed users to rent Web space. The user, and not the host, controlled the design, content, and address of the hosted websites, and any income derived from that content belonged to the user alone. A "host" to the drafters of the E-Commerce Directive, therefore, was a provider of mere technical, automatic, and passive services whose identity was usually disclosed only by looking up the nameserver records for the website's domain name.

Today, however, hosting sites such as YouTube interact with the material they host and have created their business models around the active solicitation and publication of (artistic) user-generated content as a means of promoting their own branded platforms. Their trademarks are applied to uploaded videos. Their income depends on the appeal of the content they publish and not on the amount of space they offer. Web 2.0 hosts also acquire extensive, even perpetual, royalty-free, worldwide licenses for the commercial use of material received from their users. *Viacom* suggests that it does not matter that these companies host material only so that they can engage with it and exploit its appeal for their own pecuniary gain, nor that their business models are so different to those of the hosts of 1998. By contrast, the unequivocal restriction of section 4 to mere technical, automatic and passive acts, which typified the hosts that were familiar to the drafters of the E-Commerce Directive, indicates that the CJEU considers that it matters significantly.

Having provided its interpretation of the Trademarks Directive and the E-Commerce Directive, the CJEU has now referred *Google France* back to Paris for the Cour de cassation to make a factual determination as to whether Google's AdWords service and its keyword suggestion tool are neutral, automatic, technical, and passive services.[53] While doing so, it noted that Google is responsible for the software used to control which ads are displayed,[54] and it instructed the Paris court that "the role played by Google in the drafting of the commercial message which accompanies the advertising link or in the establishment or selection of keywords is relevant."[55]

V. The Challenges Ahead for Online Advertising

It may be many years before all of the issues raised by the types of cases discussed above are settled by definitive decisions from any country's highest court. That is regrettable, not least because the current divergence of opinions over what businesses can do online creates barriers to realizing the full potential of a global economic marketplace.

For the time being, it is clear that ads that are lawful in the United States are not necessarily lawful in Europe. Online service providers, particularly those invested in user-generated content such as Google, YouTube, and eBay, will await the Cour de cassation's interpretation of the E-Commerce Directive's "safe harbor" provisions. Trademark and copyright owners will do the same, pondering the value in any event of fighting against players who are already perceived by many as being so embedded in the worldwide economic order that they are "too big to fail" a test case that would require radical, systemic changes to online business. They also will lament the difficulties they face in securing an enforceable judgment where the infringer's presence within the jurisdiction may be by Internet alone, as is often the case in the international counterfeiting trade.

By contrast, although perhaps only until the expected claims for unfair competition and passing off have been fully addressed in Europe, Internet service providers can take some comfort from recent trademark decisions on either side the Atlantic. Having arrived there by different means, courts in the United States and Europe have held that models such as Google's AdWords do not infringe registered trademarks.

In the meantime, owners of intellectual property rights should continue to monitor infringements and make use of the available takedown procedures. Where possible, they should ensure that service providers are fulfilling their existing obligations and work with them to improve those procedures for the benefit of both themselves and their customers. In an age where the barriers to worldwide infringement are limited, and enforcement against those directly responsible is expensive, any action that results in the removal of offending items has interim benefits over commencing litigation, not the least of which are speed and certainty. For those who wish to conduct business on an international scale, two familiar options remain: they must either find and follow the lowest common denominators of permissible activity in jurisdictions where they wish to do business, or they must forgo the idea of a global uniform approach for the time being.

Endnotes

1. Genesis 11 vv. 1-9.
2. *Lucasfilm Ltd. v. Shepperton Design Studios Limited and Ainsworth*, No. CV05-3434 RGK (MANx) (W.D.Cal. Sept. 21, 2006).
3. *Available at* http://rpf.exoray.com/LFL_vs_SDS/minutes_10_3.pdf.
4. *Available at* http://rpf.exoray.com/LFL_vs_SDS/final.pdf.
5. *Lucasfilm Ltd & Ors. v. Ainsworth & Anor.* [2009] EWCA Civ 1328.
6. *See id.* ¶ 194.
7. *Id.* ¶ 191.
8. *Id.* ¶ 192.
9. The position would have been different had the claim concerned the copyright law of an E.U. Member State, since the Brussels Regulation would apply. *See Pearce v. Ove Arup* [2000] Ch. 403.
10. *See, e.g.*, *Nilton Corp. v. Radiation Monitoring Devices, Inc.*, 27 F. Supp. 2d 102 (D. Mass. 1998) (metatags, likely use); *Brookfield Communications, Inc v. West Coast Entertainment Corp*, 174 F.3d 1036 (9th Cir. 1999) (metatags, use); *U-Haul International, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723 (E.D. Va. 2003) (pop ups, no use); *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005) (pop ups, no use); *J.G. Wentworth, S.S.C. Ltd v. Settlement Funding LLC*, 85 U.S.P.Q.2d 1780 (E.D. Pa. 2007) (search engine keywords, use); *S&L Vitamins v. Australian Gold*, 521 F. Supp. 2d 188 (E.D.N.Y. 2007) (search engine keywords, no use).
11. *Rescuecom Corp. v. Google, Inc.*, 562 F.3d (2d Cir. 2009).
12. *Rosetta Stone Ltd. v. Google, Inc.* Case 1:09-cv-00736-GBL-TCB (E.D. Va. Apr. 28, 2010).
13. In *Private Career Training Institutions Agency v. Vancouver Career College (Burnaby) Inc.*, 2010 BCSC 765, the first Canadian decision on keywords, the Supreme Court of British Columbia held that the evidence of actual confusion presented by the plaintiff did not result from the defendant's use of keywords but from Internet users' "carelessness," "imprudence," and "oversight" and the fact that they had not paid "a reasonable amount of attention." In dismissing a claim for misleading advertising, the court held that "the information readily available on the various [sponsored link] websites is more than adequate to inform the [user] that they are examining [the sponsor's website] and not the one they were initially searching for." *Id.* ¶ 78.
14. *Tiffany (NJ) Inc. and Tiffany and Co. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).
15. Tiffany's claim for false advertising in respect of these facts was remanded to the district court.
16. Including *Dow Jones & Co. v. Int'l Sec. Exch., Inc.*, 451 F.3d 295, 308 (2d Cir. 2006).
17. *Tiffany*, 600 F.3d at 102-03.
18. First Directive 89/104/EEC of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trade Marks. The provisions relating to national marks are equivalent to those of Council Regulation (EC) No 40/94, which governs the Community Trade Mark.
19. Directive 2000/31/EC of the European Parliament and of the Council on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market.
20. Formerly the European Court of Justice (ECJ).
21. Further questions from England and Wales concerning advertisers' liability, including in respect of claims of dilution and free-riding, are currently pending before the CJEU: *Interflora, Inc. v. Marks and Spencer PLC* [2009] EWHC 1095 (Ch), revised in [2010] EWHC 925 (Ch) following the *Google France* decision.
22. Joined Cases C-236/08 to C-238/08 *Google France and Google v. L.V.M.H.* [2010].
23. Case C-558/08 *Portakabin Ltd & Portakbin B.V. v. Primakabin B.V* [July 8, 2010].
24. Art. 5, Trademarks Directive.
25. Case C-206/01 *Arsenal Football Club* [2002] ECR I-10273; Case C-17/06 *Céline* [2007] ECR I-7041.
26. Art. 5(1)(a), Trademarks Directive.
27. *Google and Google France*, ¶¶ 75-77.
28. Article 5(1)(b), Trademarks Directive.
29. *Id.* ¶ 56.
30. *Id.* ¶ 65.
31. *Id.* ¶ 86.
32. *Id.* ¶¶ 84, 90.
33. *Portakabin*, ¶¶ 51, 53.
34. *See, e.g.*, comments by G. Dickson in "Talking Points: Google Keywords," 25 *World Trademark Review* 14, 16 (June 2010).
35. Art. 6, Trademarks Directive; *Portakabin*, ¶ 71.
36. "It is the advertiser itself, in the context of its professional strategy and with full knowledge of the economic sector in which it operates, which chose a keyword corresponding to another person's trademark and which, alone or with the assistance of the referencing service provider, designed the ad and therefore decided how it should be presented." *Portakabin*, ¶ 70. This broad reference to the use of "a keyword" indicates that liability could be found anywhere that keywords are used, including in the meta data found in pages returned as a natural search result.
37. It should be noted that in Europe the exhaustion principle only applies to goods put into circulation within the European Internal Market.

38. *Portakabin*, ¶ 82.
39. The court held that "a reseller cannot be prohibited from using a mark to advertise its resale activities which include—apart from the sale of second-hand goods under that mark—the sale of other second-hand goods, unless the resale of those other goods risks, in light of their volume, their presentation or their poor quality, seriously damaging the image which the proprietor has succeeded in creating for its mark." *Portakabin*, ¶ 91. There was no suggestion that PORTAKABIN is a famous mark, so the apparent ability of its holder to protect the "image" of the mark is an interesting, and unexpected, development.
40. Where the search term is an inherently distinctive trademark and is entered by itself, could the use of the word "sponsored" actually *increase* the likelihood of confusion?
41. *Google France*, ¶¶ 57 and 107.
42. *Viacom International Inc. v. YouTube, Inc.*, 2010 U.S. Dist. LEXIS 62829 (S.D.N.Y. June 23, 2010)).
43. The Court in *Tiffany* did not decide whether *Inwood* applied to service providers at all, but proceeded on the basis that it did, since eBay did not appeal that aspect of the district court's ruling. The Ninth Circuit has held that *Inwood* could apply to service providers that exercised sufficient control over the infringing conduct: *Lockheed Martin Corp. v. Network Solutions, Inc.* 194 F.3d 980, 984 (9th Cir. 1999).
44. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982).
45. *Tiffany*, 600 F.3d at 109.
46. *Viacom*, 2010 U.S. Dist. LEXIS 62829, at **34-35.
47. Art. 2(1), E-Commerce Directive.
48. This has interesting consequences for two familiar situations. First, Google's natural search results would not qualify for safe harbor protection in Europe but they could in the U.S.. Second, an online auction house that accepts payment to host a copyright infringing image as part of a listing would qualify for safe harbor protection in Europe, but might not in the U.S.. In both cases, of course, other defenses could apply.
49. *Google France*, ¶ 113.
50. Recital 42 to the E-Commerce Directive also provides that the exemptions from liability in arts. 12-14 "cover only cases where the activity of the Information Society Service Provider is limited to the technical process of operating and giving access to a communication network."
51. Nor has section 512(d), which provides an exemption for Information Location Tools. The E-Commerce Directive has no comparable provision.
52. Although Judge Stanton in *Viacom* held that "storage" under the DMCA included the "replication, transmittal and display of videos," an explicit requirement that the storage in question be of a "mere technical, automatic and passive" capacity may have prevented such a finding. See *Viacom*, 2010 U.S. Dist. LEXIS 62829, at *38.
53. Since the decisions of one Member State's courts are not binding on the Courts of any other Member States, the Cour de cassation's finding is unlikely to conclude the debate and each of the 27 Member States could reach a different conclusion.
54. *Google France*, ¶ 115.
55. *Id.* ¶ 118.

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Cost-Effective Design and Copyright Protection in the EU

By Patsy Day

I. Introduction

For U.S. practitioners, the broad scope of protection offered by the various EU design and copyright systems may come as a pleasant surprise. Acquiring EU designs and copyright can also be cost effective, as many rights do not require registration. Even where registration is necessary, registration costs and effort are low by U.S. standards. This article looks at registered designs, unregistered designs, and copyright in the EU and considers various cost-saving mechanisms.

II. EU Registered Designs

The benefits of design registration have in the past been questioned by rights holders, but the tide is turning in favor of this flexible form of protection. Rights holders are increasingly taking advantage of this cheap and quick-to-obtain registration, which has a powerful deterrent effect on would-be infringers.

Design registrations may be obtained at a national level in each of the EU Member States as well as at the EU level by way of a single application to the Office for Harmonization in the Internal Market for a Community Design (CD). Once registered, a CD provides protection in the entire European Union for up to twenty-five years. Each year CD applications are increasing, with the majority of applications being submitted by EU companies. CD registrations remain the least popular of all of the EU registered rights with U.S. entities despite their high ranking as filers of Community Trade Marks and patents with the European Patent Office.

U.S. entities may be missing out on this protection, as many assume that CD registrations are similar to U.S. designs when, in fact, they are much broader. Under Article 3 of Council Regulation 6/2002/EC on Community Designs (the "Regulation"), a design is defined as "the appearance of the whole or part of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture and/or materials of the product itself and/or its ornamentation," with a product being defined as "any industrial or handicraft item, including inter alia parts intended to be assembled into a complex product, packaging, get-up, graphic symbols and typographic typefaces." A design is protected by a CD to the extent it is new and has individual character (Article 4(1) of the Regulation). CDs can cover almost anything, including, for example, the appearance of a credit card, wheel trims, motor cars, lipsticks, mobile phone handsets, and confectionary. Surface decoration and packaging also are eligible for protection.

Designs may be represented in color or black and white, by way of photographs, or by line drawings. The broadest claims can be achieved by drawings showing only the contours of the design. In contrast, a photograph often specifies not only the shape but also the surface structure and the material as well, thereby narrowing the scope of protection accordingly. However, careful thought should be given to the representations of the designs, with each design being assessed on a case-by-case basis.

At present, it takes approximately six weeks from the filing of a CD application to its registration. A major reason this is such a fast procedure is that there is no substantive examination of the CD application. The downside of this is that the rights holder is granted an unexamined right, with the strength of the right being tested on enforcement. Well-informed defendants will appreciate this potential weakness in the CD registration, but many will not. A second consequence of unexamined registration is that that the CD register is filled with designs that could be easily invalidated. Approximately 70-75 percent of applications to invalidate CDRs are successful. Nonetheless, the deterrent effect of a registration cannot be underestimated.

III. Cost-Cutting Mechanisms

The official fees for a straightforward CD application (including filing, publication, and registration) are €350 (approximately $430 at the time of writing) for one design. However, there are also bulk discounts for filing a single application covering multiple designs (which is permissible in respect to designs that fall within the same Locarno class, a classification that serves exclusively administrative purposes).[1] For example, where a single application is filed covering more than ten designs, the official fees drop to €80 per design.

There are a number of ways to take advantage of this relatively cheap form of protection:

- Use the grace period and bulk filing discounts to your advantage. As in the United States, there is a one-year grace period under the EU design system in which to file an application to register a design that has already been published. A rights holder could "save up" its designs for, say, six months, decide which are worth protecting, and then file a batch of designs under a single application using the bulk filing system.
- Consider registering graphic symbols (logos) as designs. Unlike trademarks, designs are not regis-

tered in classes. It is necessary to specify the Locarno class in which the design falls, but, as noted above, this is primarily to enable the design to be categorised for search purposes. The rights holder therefore obtains protection for use of the design in respect of any type of goods. A CD registration protecting a logo covers use of that logo on any number of goods, for example merchandising, clothing, cosmetics, or household goods, making it a cheaper and quicker option than filing a trademark covering multiple classes (without the risk of future cancellation on the grounds of non-use).

- However, the limitations on this right are uncertain. CD registrations are still relatively new by intellectual property standards, having only come into effect in 2003. To date, there have not been enough court decisions to demonstrate what judges will do, particularly when faced with some of the more unconventional registrations. When applying for a CD registration protecting a logo, the rights holder will need to appreciate that the scope of its right is not certain and should generally consider the design as complementary, rather than an alternative to, trademark protection. Rights holders also should bear in mind that unlike trademarks, designs can only be registered for a maximum of twenty-five years.

- The Hague System for the International Registration of Industrial Designs is another cost-effective mechanism to consider. This system allows a rights holder to file a single design application with WIPO designating other countries that are party to the Hague agreement concerning the International Registration of Industrial Designs. It is underused at the moment because the list of countries that are party to the Convention remains limited (the EU has joined, but the United States has not), and there are limitations on who may use the system (rather like with those that apply to the Madrid trademark filing system). However, as the system gains popularity, it may well become more useful.

- Design registrations in design-orientated industries that are targeted by counterfeiters (for example, mobile phone manufacturers) may be effective tools in Customs monitoring recordals. In the EU, there is no official fee for filing a Customs monitoring recordal (and again, a single Customs application can designate one or as many EU countries as are relevant to the rights holders), so putting the monitoring recordal in place is relatively cheap. However, the rights holder should devise a strategy for dealing with reports of potentially infringing goods, as costs may be incurred in prosecuting a detention of a consignment through to formal seizure.

IV. Unregistered Design Rights

Unregistered designs are inherently cost-effective, as there are no registration costs. However, many rights holders with poor record keeping systems stumble over the first hurdle when trying to assert their unregistered rights. The rights holder must be able to show who created the design, how it came to own the design, and when it was first published. It is therefore worth investing in securing this information (and the necessary assignments, as appropriate) at the early stages so that the rights holder is armed and ready to enforce when the time comes.

There are two types of unregistered design rights in the EU: national unregistered design rights in certain EU Member States and EU unregistered design rights. Copying is an essential requirement in claiming infringement of these rights. EU unregistered design rights protect the same types of designs as the EU registered designs, that is, the appearance of a product that is new and has individual character. The duration of the right is three years from the date on which the design is first made available to the public.

EU unregistered design rights are being put to good use, especially in relation to fast-moving areas such as fashion, merchandising, and toys. In the first and best-known EU unregistered design right case, toy manufacturer Mattel took successful action in the United Kingdom against a German company that had copied Mattel's MY SCENE dolls. Mattel was awarded nearly half a million pounds in interim damages as well as an EU-wide injunction preventing the defendant from producing, advertising, or selling the infringing dolls. The defendant was also ordered to disclose its list of customers in the EU and to recall all infringing products already on the market.

As with registered design rights, in addition to a uniform EU system, some EU Member States have their own unregistered design right systems, which vary from state to state. The United Kingdom, for example, has an unregistered design right that protects the design of any aspect of the shape or configuration (whether internal or external) of the whole or part of an article, excluding surface decoration. The duration of this right varies from ten to fifteen years (depending on how quickly articles made to the design are marketed).

U.S. companies may enjoy unregistered design protection in the United Kingdom in limited circumstances. The rules are complicated, but a U.S. company can own a U.K. unregistered design right if it can show that the first marketing of the product made to the design takes place in the EU by an EU company that is exclusively authorised by the U.S. company to first market the product in the U.K.

Although qualifying for these rights may appear a little arduous, in some ways an unregistered right can be a rights holder's strongest weapon, as the rights holder can focus its infringement claim on the part of the infringing product that has been copied (as opposed to having to show that the defendant's product as a whole is infringing).

The English case *A Fulton Co. Ltd. v. Totes Isotoner (UK) Ltd.*[2] involved cloth cases for portable umbrellas that folded into an oblong shape. The defendant's umbrella covers were initially an exact copy of the claimant's, but on learning of the claimant's registered designs, the defendant made some changes to its design to avoid infringement of the claimant's design as represented in the registration. The claimant then relied on its U.K. unregistered design rights in respect to only the cuff of the umbrella cover (which was designed to allow the umbrella to be easily inserted into the cover). The Court of Appeal found in the claimant's favor, holding that a designer is entitled to prevent the copying not only of the whole but also of part of a design, even if this means that claimants can narrow their claim to a design right in part of a product.

V. Copyright

As with unregistered design rights, the items protected under the copyright legislation in each EU member state differ. However, where an item is eligible for copyright protection, such protection arises without any need for registration. U.S. entities automatically enjoy these rights under the Berne Convention.

The position in respect of 3D items, in particular, varies in each EU Member State. In the United Kingdom, mass-produced items generally are not protected by copyright unless they are "works of artistic craftsmanship" or "sculptures." In the recent Court of Appeal decision in *Lucasfilms Limited & Others v. Andrew Ainsworth & Ano.*,[3] the claimant failed to stop sales of the replica STAR WARS helmets in the United Kingdom, as the models for the helmets lacked the necessary "artistic" elements to qualify for copyright protection.

It is possible, however, that a court in another EU territory (where the threshold for originality in respect of a copyright work is lower) may have reached a different decision. In Sweden, for example, Maglite Instruments, the owner of the rights to the MAGLITE torches, was successful against retail giant, Ikea, in the Supreme Court, which deemed the shape of a torch to be sufficiently original and individual to enjoy copyright protection as a work of applied art.[4] The Supreme Court did, however, consider this to be a borderline case where the scope of protection afforded to the design would be narrow.

In terms of cost-effective protection in the EU, copyright is certainly one to bear in mind. That said, to establish the jurisdiction in which it has the strongest rights, the rights holder may need to look at the laws of each of the twenty-seven Member States of the EU separately, which involves significant legal costs.

VI. Conclusion

Design and copyright protection in the EU should be viewed as a bundle of over-lapping rights. Rights holders are advised to look at each design from all angles, consider its importance to the business and the type of issues it is likely to face, and then use all the rights that are available to put itself in the best possible position when and if enforcement becomes necessary.

Endnotes

1. EC Regulation 2245/2002/EC Art 3(2).
2. [2003] EWCA Civ 1514, [2004] RPC 16.
3. [2009] EWCA Civ 1328.
4. Case T 1421-07, *Mag Instrument, Inc v. IKEA Svenska Försäljnings Aktiebolag*.

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Legalization of Documents in International Trademark Practice: A Primer

By Peter S. Sloane and Sergey Lysenko

No trademark professional who deals with foreign matters can escape the need to legalize certain documents from time to time. Legalization is the process of certifying or authenticating a document so that it will be recognized by a foreign country's legal system. Although the theoretical purpose of legalization is to authenticate the validity of signatures, one may reasonably suspect that the true motivation in requiring this arguably archaic practice is to raise governmental revenues by fee taxes. Still, legalization is a reality with which trademark lawyers must deal and, while not exactly rocket science, it is important to become familiar with the different ways to properly legalize documents in order to minimize unnecessary time and expense.

In the trademark field, the most common document requiring legalization is the Power of Attorney. Other documents requiring legalization include priority documents and sworn declarations or affidavits. Legalization of such documents is required by many countries around the world. A list of countries that require legalization may be found on Wikipedia at http://en.wikipedia.org/wiki/Legalization_(international_law). Notable countries requiring legalization include Brazil, Canada, Chile, China, Denmark, Singapore, and Thailand as well as Arab countries such as Iraq, Saudi Arabia, and the United Arab Emirates. These countries require following what is often referred to as the "Chain Authentication Method."

Notarization is usually the first step in the Chain Authentication Method. However, documents issued by the Secretary of State of any of the fifty states or by a federal agency need not be notarized. They are in a sense self-authenticating. For example, a certified copy of a trademark application certified by the United States Patent and Trademark Office does not require notarization.

Other non-official documents should be notarized by a licensed notary public. The notary should sign the notarial certification and affix his or her official seal. For example, a Power of Attorney authorizing a foreign law firm to act on behalf of a client should be notarized. If the Power does not incorporate a notarial certificate, it should be attached to the document as a separate page. Although the certificate should generally verify the identity of the person signing the underlying document, the District of Columbia and some states such as Arizona have specific required language. Familiarization with the notarization requirements in the various states is highly recommended.

Once the trademark-related document is executed and notarized, it is then necessary to certify the notary's signature. Some states, such as Connecticut, allow for certification by the Secretary of State. New York, however, requires certification by the clerk's office in the county where the notary is qualified. There are sixty-two counties in New York. Most counties have their own clerk's office. Specific rules and fee information can usually be found on their respective websites. In New York, once the county clerk certifies the signature of the notary, it is then necessary to send the document to the Secretary of State with a request for authentication. An "authentication" certifies the signature and the position of the official who has executed, issued, or certified a copy of a document.

There are two ways to authenticate documents in New York. The document may be mailed to the Department of State in Albany, or it can be brought in person to the Albany office or to the Department of State's New York City office. Documents submitted by mail are usually completed within two to four business days, while documents submitted in person are usually completed the same day. Each document submitted for authentication must be accompanied by a $10 fee. See www.dos.state.ny.us/corps/apostille.html for more information.

From the local Secretary of State, the document should then be sent to the U.S. Department of State in Washington, D.C. This is because foreign consuls can only authenticate the seal of an office that they recognize, and the U.S. Department of State is the highest office in the United States. Any document in a foreign language must include an English translation. The authentication fee is $8 per document. The authentication of documents currently takes about 25 business days to process from the time of receipt, although walk-in service is available.

After certification by the federal Department of State, unless the country is a member of the Hague Convention, as discussed further below, the document then must be certified by the embassy for the foreign country at issue. The Authentications Office of the U.S. Department of State will mail documents directly to the foreign embassy or consulates if provided with a transmittal letter, fee, and a pre-addressed stamped envelope.

Most foreign countries maintain their embassy in Washington, D.C. The website at www.embassy.org provides information on each of the embassies with links to web-based resources where available. Many countries also have consulate offices located in major metropolitan cities. For example, the People's Republic of China currently maintains consulates in New York, Chicago, San Francisco, Los Angeles, and Houston. The New York consulate, located in Manhattan, authenticates documents that already have been certified by the Secretaries of the following states: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and Vermont. Detailed information about specific rules and government fees can be found on the website at www.nyconsultate.prchina.org.

Many countries have specialized requirements for legalization. For example, documents intended for use in Angola must be translated into Portuguese, and documents for use in Cuba must be translated into Spanish.

To expedite the process, one should consider using an associate in Washington who is experienced and knowledgeable concerning the specific requirements to obtain legalization of documents. According to Kathryn Jennison Shultz of Jennison & Shultz in Washington, "It pays to have someone walk into the U.S. Department of State and the embassies to save time and provide confidence that the process is completed correctly."

Legalization does not necessarily end at the U.S. border. Some countries have further legalization requirements. These are often referred to colloquially as "superlegalization." For example, according to Marwan Haddad of Saba & Co. Intellectual Property, in the United Arab Emirates it is necessary to further legalize the documents up to the Ministry of Foreign Affairs. Thankfully, in certain cases, there is a less expensive and time-consuming approach to legalization. Apostille refers to the legalization of documents under the Convention Abolishing the Requirement of Legalization for Foreign Public Document, concluded on October 5, 1961. A list of countries that are party to the Convention may be found at www.hcch.net/index_en.php?act=conventions.status&cid=41. The Convention simplifies the legalization process by abolishing the need for the diplomatic and consular authentication of public documents. Under the Convention, public documents include (a) documents issued by a court; (b) documents issued by an administrative authority; and (c) documents executed before a notary public. When such documents have been certified by apostille, no further authentication is required for recognition by a Convention country.

The function of the apostille is to certify the authenticity of the signature on the document, the capacity in which the person signing the document acted, and the identity of any stamp or seal affixed to the document. The United States has been a party to the Convention since 1981. In the United States, apostille is issued by the local Secretary of State. The U.S. Department of State has a website page describing apostille requirements at www.state.gov/m/a/auth/c16921.htm. In New York, an apostille issued by the Secretary of State is a one-page document with a black and white laser-printed facsimile of the New York State Department of State Seal. The apostille includes the facsimile signature of the individual issuing the certificate.

Beyond the formal rules for apostilization, it is at times necessary to be familiar with the legalization requirements and common practice in particular jurisdictions. For example, even though Russia is a signatory to the Convention, the official website of the Russian embassy in the United States at www.ruscon.org/cons_other_ENG.html indicates that the Russian Federation "[m]ay not accept foreign corporate documents if they are not legalized by consular offices of Russian Federation in the countries where the documents originated." As a result, it is prudent to have a document with apostille further legalized by the Russian Embassy, which has branches in several states. The evident purpose of such a requirement is to raise official fees.

Although the process of legalization and apostilization is generally straightforward, there are caveats depending upon the particular county, state, and country. Consequently, it is helpful to seek information from the websites of the various governmental entities and even at times to seek assistance from experienced and knowledgeable local counsel in the United States and abroad.

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Avoiding Patent Immortality for Self-Replicating Technologies

By Yee Wah Chin

I. Introduction

The Supreme Court in *Quanta Computer, Inc. v. LG Electronics, Inc.*[1] reaffirmed the principle that the authorized sale of a patented item exhausts patent protection as to that particular item. However, it is unclear how the patent exhaustion/first sale doctrine should apply in the context of self-replicating technology, such as genetically modified seed. Especially given the extreme results possible in cases such as *Monsanto Co. v. Bowman*,[2] discussed below, this article proposes that contract law rather than patent law should govern the patent holder's rights in an object embodying self-replicating technology after an authorized sale.

II. *Quanta*

Quanta involved Intel chipsets that were made under license from LG Electronics. The license excluded any license to Intel's customers to use the chipsets with non-Intel products. Quanta bought Intel chipsets and incorporated them with non-Intel components to make computers, knowing it had no license from LG to do so. LG sued Quanta for infringement. Quanta's defense was that LG's patents were exhausted when it bought the chipsets from Intel. The Federal Circuit found there was no patent exhaustion/first sale. The Supreme Court unanimously reversed and found that "exhaustion turns only on Intel's own license to sell products practicing the LGE Patents," so that "Intel's authorized sale to Quanta thus took its products outside the scope of the patent monopoly, and as a result, LGE can no longer assert its patent rights against Quanta."[3]

The principle is: "The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights."[4]

III. Patent Exhaustion/First Sale in the Context of Self-Replicating Technology

It would seem to follow that patent rights in an object embodying self-replicating technology are exhausted upon its authorized sale. However, "patent exhaustion is limited to the purchaser's right to use and sell the product, and does not extend to the patentee's right to 'make a new article.'"[5] "When a self-replicating living invention is sold, does the purchaser have a right [under patent law] to reproduce that invention to make one—or thousands or more—copies?"[6] Specifically, in the case of genetically modified seed, is second-generation seed grown from purchased genetically modified seed a "production" of the patented seed and therefore an infringement?[7]

In *Monsanto Co. v. McFarling*[8] and *Monsanto Co. v. Scruggs*[9] the Federal Circuit held that patent exhaustion/first sale is inapplicable to saved seed. Monsanto prohibited buyers of its genetically modified seed from using second-generation seed to grow additional crops. The Federal Circuit found that Monsanto's saved-seed restrictions were enforceable under *Mallinckrodt, Inc. v. Medipart, Inc.*[10] and that patent exhaustion/first sale also was inapplicable because the saved seed was not the subject of any sale.[11] Moreover, "[a]pplying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder."[12] The Supreme Court denied certiorari in both *McFarling*[13] and *Scruggs*.[14]

A. *Monsanto Co. v. Bowman*

A fact pattern similar to that in *Monsanto Co. v. Bowman*[15] may persuade the Supreme Court to consider patent exhaustion/first sale in the context of self-replicating technologies. Bowman is a farmer who purchased commodity seed from a grain elevator that was a mixture of second-generation seed grown from Monsanto's Roundup Ready® seed and other seed. He planted the seed and saved some of the resulting crop for further planting. Monsanto sued for infringement even though it had no restrictions against the sale to grain elevators of second-generation seed with the Roundup Ready® trait and no requirement that second-generation seed be segregated from other seed by buyers such as grain elevators.[16]

Bowman argued patent exhaustion/first sale occurred when the licensed Roundup Ready® crop was sold without restriction to a grain elevator.[17] Monsanto argued that although the second-generation seed, the progeny of Monsanto's Roundup Ready® seed, belonged to Bowman, who bought it, "the technology contained in the progeny still belongs to Monsanto and without authorization, may not be duplicated through a planting of that progeny. In short, the progeny soybeans can be sold for any use *other than planting*, regardless of who is in possession."[18]

The court found that *McFarling* applied and that Bowman had infringed Monsanto's patents. The court noted that the Federal Circuit in *McFarling* relied on the "fact that Monsanto had not sold the progeny seeds…to eliminate a defense based upon patent exhaustion," and Monsanto similarly did not sell the progeny seeds that Bowman harvested.[19]

Bowman turns patent exhaustion/first sale on its head and effectively eliminates it for self-replicating technology so that a patent holder of self-replicating technology will continue to have patent rights in any item covered by its patents, regardless of any authorized sale. The sale of second-generation seed was undisputedly authorized. If Bowman had consumed the second-generation seed that he bought, instead of planting it, Monsanto would not and could not have claimed infringement. Under *Bowman* whether patent exhaustion/first sale applies would depend on what happens after the sale instead of on the nature of the sale as authorized or unauthorized, and it would "place licensees in the untenable position of not being able to ascertain in advance whether their sales were infringing or not."[20]

The only likely "use" of "first-generation" genetically modified seed is planting, which in most cases result in the creation of next-generation seed. Therefore, the next-generation seed is the natural result that should be protected from infringement claims by patent exhaustion/first sale if the first-generation progenitor seed was acquired through an authorized sale. There is little principled basis to determine whether next-generation seed is an infringement based on its use instead of on the circumstances of its creation.[21]

B. Contract Law as the Appropriate Remedy

Footnote 7[22] in *Quanta* indicates that patent holders may enforce contractual restrictions after an authorized sale, unless other laws bar the contract.[23] This may be an appropriate outcome—that an authorized sale triggers exhaustion/first sale but contract remedies may be available—given the substantially greater remedies available under patent law relative to contract law and the equities in situations such as Bowman's.[24]

Under this approach, a patent holder may require its licensees to sell objects embodying self-replicating technology under contracts that restrict the disposition of replications and enforce the restrictions under contract law. For example, Monsanto could license seedmakers to sell seed on the condition that second-generation seed be either consumed or sold to buyers who agree to either consume the seed or isolate that seed from other seed and to sell the seed only for consumption. As an alternative, Monsanto could require that second-generation seed be sold only to approved buyers who have agreed to Monsanto's conditions. In either case, Monsanto would have contract remedies.

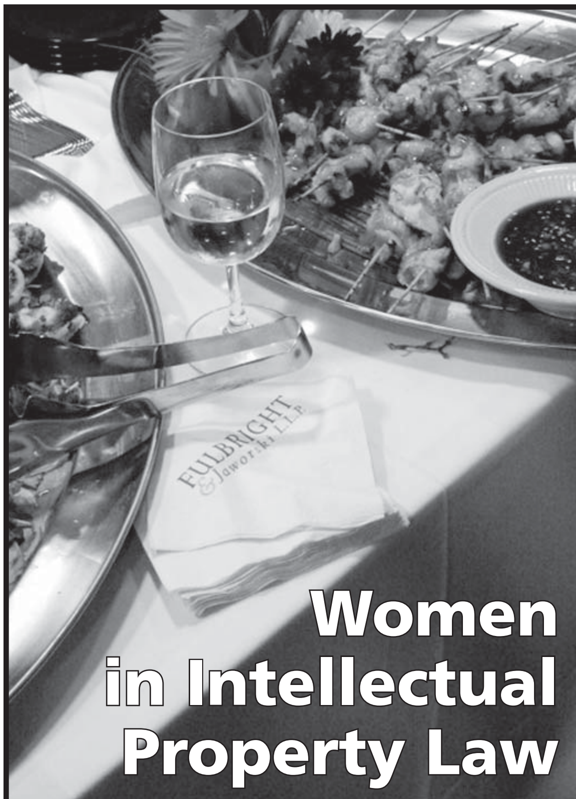
IV. Conclusion

Patent exhaustion/first sale should apply to free a second-generation object from patent claims where it was derived from an object obtained in an authorized sale that embodied self-replicating technology. Patent holders may rely on contract remedies.

Endnotes

1. 553 U.S. __, 128 S. Ct. 2109 (2008).
2. 686 F. Supp. 2d 834 (S.D. Ind. 2009).
3. 128 S. Ct. at 2122.
4. *Id*.
5. Jon Sievers, *Note: Not So Fast My Friend: What the Patent Exhaustion Doctrine Means to the Seed Industry after Quanta v. LG Electronics*, 14 Drake J. Agric. L. 355, 372 (2009) (footnotes omitted).
6. Harold C. Wegner, *Post-Quanta, Post-Sale Patentee Controls*, 7 J. Marshall Rev. Intell. Prop. L. 682, 695 (2008) (footnote omitted).
7. Andrew T. Dufresne, *Note: The Exhaustion Doctrine Revisited? Assessing the Scope and Possible Effects of the Supreme Court's Quanta Decision*, 24 Berkeley Tech. L.J. 11, 44 (2009); Sievers, *supra* note 5, at 373.
8. 302 F.3d 1291 (Fed. Cir. 2002).
9. 459 F.3d 1328 (Fed. Cir. 2006).
10. 976 F.2d 700 (Fed. Cir. 1992).
11. 302 F.3d at 1299.
12. 459 F.3d at 1336.
13. 537 U.S. 1232 (2003).
14. 549 U.S. 1342 (2007).
15. 686 F. Supp. 2d 834 (S.D. Ind. 2009).
16. *Id*. at 835-36.
17. *Id*. at 836.
18. *Id*. at 837 (emphasis in original).
19. *Id*. at 839.
20. Thomas G. Hungar, *Observations regarding the Supreme Court's Decision in Quanta Computer Inc. v. LG Electronics, Inc.*, 49 IDEA: The Intellectual Property Law Review 517, 541 (2009).
21. *See* Tod Michael Leaven, *Recent Development: The Misinterpretation of the Patent Exhaustion Doctrine and the Transgenic Seed Industry in Light of Quanta v. LG Electronics*, 10 N.C. J.L. & Tech. 119, 137-39 (2008).
22. "We note that the authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages.…" 128 S. Ct. at 2122 n.7.
23. Hungar, *supra* note 20, at 534, 538-39. *See also* Saami Zain, *Quanta Leap or Much Ado About Nothing? An Analysis on the Effect of Quanta vs. LG Electronics*, 20 Alb. L.J. Sci. & Tech. 67, 116-18 (2010).
24. *See, e.g.*, Dufresne, *supra* note 7, at 12, 45, 46-47; Harry First, *Controlling the Intellectual Property Grab: Protect Innovation, Not Innovators*, 38 Rutgers L.J. 365, 390 (2007) ("Antitrust enforcement is necessary to curb the excessive claims of intellectual property rights holders. It is an antidote to the intellectual property grab."); Zain, *supra* note 23, at 119.

Yee Wah Chin is counsel at Ingram Yuzek Gainen Carroll & Bertolotti, LLP in New York. The author has represented farmers in litigation against Monsanto Co. regarding its practices relating to genetically modified seeds that involved the issue of patent exhaustion.



Women in Intellectual Property Law

On Wednesday, June 9, 2010 the NYSBA Intellectual Property Law Section presented the 8th annual Women in Intellectual Property Law networking event, hosted by Fulbright & Jaworski L.L.P. Joyce Creidy, Esq. and Chehrazade Chemcham, Esq. put together a spectacular panel of three distinguished women who spoke about working and succeeding in the international field of intellectual property.

Leonora Hoicka, Esq., Associate General Counsel, Intellectual Property Law at IBM, started off the evening's talk by discussing her transition as a patent and trademark attorney in private practice in Canada to working for a global corporation, first in Canada and currently in the United States. Leonora spoke about the differences in the scope and breadth of practicing in an international company as compared with a firm, as well as the varying approaches to communicating with geographically diverse clients.

Annette I. Kahler, Esq., former Visiting Assistant Professor of Law and Director at the Center for Law & Innovation at Albany Law School and currently of counsel at Heslin Rothenberg Farley & Mesiti, spoke about women's innovation and participation in the field of intellectual property, with a focus on patent law. Annette is the chair of the NYSBA Intellectual Property Section's newly formed special committee to study and advance diversity.

Sheila Francis, Esq., with Rouse in North America, discussed her career path from an IP attorney based in Asia to her current position based in New York City as global marketing director for Rouse, an international IP law firm. She emphasized the importance of building networks, par-

ticularly with other women IP attorneys, and embracing changes and new opportunities with courage and determination.

Melissa McClenaghan Martin, Esq., President of CWI Advisory Services, wrapped up the evening's panel. Melissa spoke about her transition from an associate in a large international firm to her bold decision to form CWI Advisory Services, a research, networking, and consulting company that focuses on providing women and employers with the resources to cultivate women's careers.

The evening's talk concluded with a delicious dessert buffet hosted by Thomson Reuters/Thomson CompuMark and business card drawings for gifts by Brooks Brothers, HBO, and Revlon. We hope those who attended found the discussion and networking event to be informative and entertaining. For those who couldn't attend, please keep your eye out for next year's Women in IP event.

New York Bar Foundation's Intellectual Property Law Section Fellowship Renamed to Honor Miriam "Mimi" Maccoby Netter

Deadline for Grant Applications for the $5,000 Fellowship Is October 15, 2010

Mimi Netter

ALBANY—The Intellectual Property Law Section Fellowship, administered by The New York Bar Foundation, has been renamed to honor distinguished attorney and section leader, Miriam "Mimi" Maccoby Netter. The program goals for the **"Miriam Maccoby Netter Fellowship, created and funded by the Intellectual Property Law Section"** are to increase the representation of lawyers in intellectual property law (IPL) and to provide students with an opportunity to experience IPL practice.

The New York State Bar Association's IPL Section Chair, Paul Matthew Fakler (Arent Fox LLP, New York), said, "The Intellectual Property Law Section owes a great debt to Mimi Netter for her singular and extraordinary contributions that have helped to advance the Section's success and growth. She has been an inspirational leader in the area of Intellectual Property Law and the Section's executive committee voted unanimously to recognize her accomplishments by renaming this Fellowship in her honor."

Netter's continuing overriding interests in law have been influenced by her dedication to education for all, keeping current with emerging areas of the law, and mentoring of attorneys. She has placed an emphasis on women because of their difficulty in gaining access to many areas of legal practice. She became an early member of the New York State Bar Association's IPL section in order to share her early knowledge of IPL and to learn from others in similar situations.

"Mimi Netter is an exceptional lawyer who has worked tirelessly to strengthen the position and standing of the Intellectual Property Law Section within the legal profession," said M. Catherine Richardson (Bond Schoeneck & King PLLC, Syracuse), President of The New York Bar Foundation. "Her dedication to the law has only been enhanced by the many hours she has devoted to public service and the Greater Capital Region community. The Foundation is pleased to join the Intellectual Property Law Section to acknowledge her with this honor."

Born in Mount Vernon, NY, Netter, a resident of Delmar, NY, is a graduate of Brown University in Providence, RI and was awarded her law degree with honors from Albany Law School, where she was a law review editor. She received many awards evidencing her high academic achievements while attending school. She has been engaged in the general practice of law representing universities, colleges, corporations, individuals, and nonprofit organizations. She was afforded the opportunity to work with startup companies in developing intellectual property law and to serve on the Albany Law School Center for Law and Innovation.

"The Intellectual Property Law Section owes a great debt to Mimi Netter for her singular and extraordinary contributions that have helped to advance the Section's success and growth."

—Paul Matthew Fakler

Netter served as Vice President from the Third Judicial District on the State Bar's Executive Committee and as chair of its Membership and Bylaws Committees and the Special Committee on Committees, as well as on many other committees and initiatives. As a member of the Committee on Attorney Professionalism, she initiated the prestigious annually conferred Award for Attorney Professionalism. She has been a constant promoter of diversity in the profession and in its leadership. Additionally, she serves as a member of the IPL Section's Executive Committee and as Co-Chair of its Copyright Committee.

Netter found it increasingly rewarding to assist both charitable organizations and women and, as a partial result of her efforts, she was honored with The Legal Aid Society of Northeastern New York's inaugural Ruth M. Miner Award. Additionally, she has been the recipient of the Community Service Award of the Wildwood Programs; the Third Age Achievement Award in the field of law of the Senior Services Foundation of Albany; the Governor's Award for Leadership in Lighting at Rensselaer Polytechnic Institute; the Special Service Award from the Kidney Foundation of Northeast New York, where she was legal counsel for 18 years; and the Shining Star award from Capital Repertory Theatre. She has served as an officer and/or board member for many of these organizations. In addition, she was instrumental in obtaining funding for and promotion of the highly prized annual Kate Stoneman Award at Albany Law School, and an award given to the keynote speaker at the annual Kate Stoneman event has been named in her honor.

"Mimi Netter is an exceptional lawyer who has worked tirelessly to strengthen the position and standing of the Intellectual Property Law Section within the legal profession."
—M. Catherine Richardson

Public interest intellectual property organizations or charities with the need for an IPL fellow are eligible to apply for a $5,000 grant to conduct the summer 2011 fellowship. *The grant application deadline is October 15, 2010.* The organization will provide the fellowship to a student enrolled in a New York State law school during the 2011 spring semester at the 1L or 2L level, and the fellow will assist the organization with matters relating to intellectual property law. Fellowship guidelines and a grant application may be accesssed at www.tnybf.org.

Founded in 1950, The New York Bar Foundation is celebrating its 60th Anniversary of providing funding through its grant-making program to facilitate the delivery of legal services; increase public understanding of the law; improve the justice system and the law; and enhance professional competence and ethics. Call 518/487-5651 or email foundation@tnybf.org for more information about The New York Bar Foundation.

###

Founded in 1876, the 77,000-member New York State Bar Association is the official statewide organization of lawyers in New York and the largest voluntary state bar association in the nation. The State Bar's programs and activities have continuously served the public and improved the justice system for more than 130 years. For more information, visit us at our website at www.nysba.org.

Publisher's Note: *It is with great sadness that we learned at the time we went to press that Miriam "Mimi" Maccoby Netter passed away. We mourn the loss of this talented lawyer, colleague and friend.*

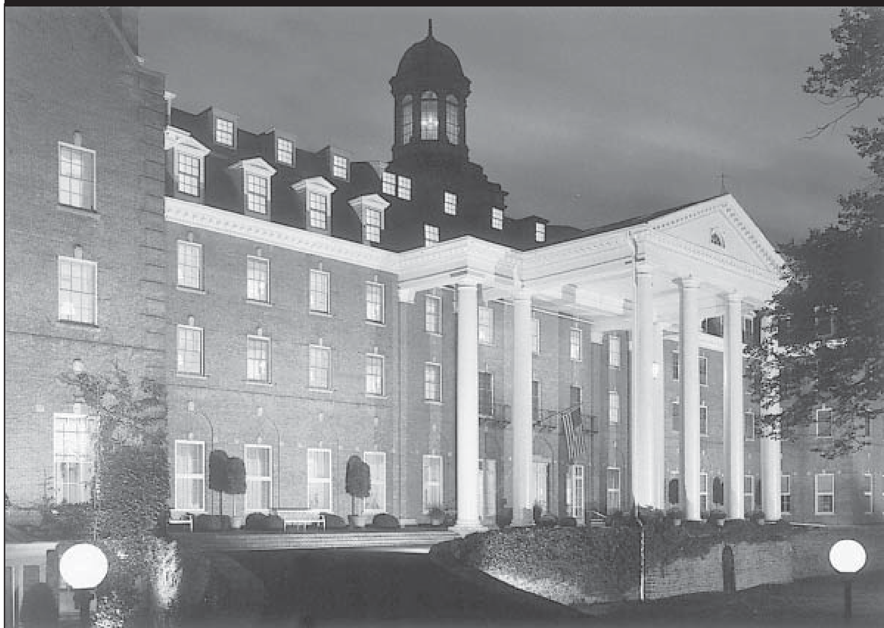
Trade Winds

Trade Winds offers Section members a way to keep up on the comings and goings of their colleagues and upcoming events of interest. Has there been a change in your practice? Any recent or forthcoming articles or lecture presentations? Won any awards recently? Please e-mail submissions to Jonathan Bloom at jonathan.bloom@weil.com.

Welcome New Members:

Zevit Aaron
Marianne Adams
John David Albright
Alvaro Arce
Tzevtomira Atanassova
Nicholas Scott Barnhorst
Emily Maruja Bass
Ryan L. Bergeron
Lindsay Warren Bowen
Francesco Braga
Michael David Brinton
Melissa Anne Brown
Robert Eugne Burk
Eric J. Bycer
Natalia Cianfaglione
Landon Royal Clark
Melissa Anne Cole
Billie Colombaro
Sarah Crutcher
David Lendon Cummings
Anna Dalla Val
Adam Davids
Magali Dieny
Anne Digiovanni
Carmit Pesia Dragushansky Tacher
Linda May Dubuque
Kelly E. Eagen
Matthew A. Eller
Alex Jonathan Feerst
Lauren L. Fornarotto
Keith Harris Forst
Gregory Freedman
Michael Aaron Fuerch
Ashley Gale
Richard Goldman
David Y. Goldstein
Karen Andrea Grus
Anna Kaarina Haapanen
Margaret Anne Hallet
Matthew Bennette Harris
Xuemei He
Erin Irene Herlihy
Matthew Hespos
Birte Hoehne
Kristine M. Holm
Amina Marie Kaal
Vanessa Kay Kaster
Erica Cheryl Klazmer
Charles H. Knull
Adam E. Kraidin
Adam Christopher Krol
Ronny Lee Kurzman
Alexander Markus Leisten
Kara Gail Lemberger
Sharon Ruby Lopez
Paolo Macchi
Jessica Mastrogiovanni
Charles D. May
Pamela Ann May
Elizabeth McKenzie
Ryan Scott Mellon
Merideth Mendenhall
Rositsa M. Mladenova
Jason Alexander Murphy
Sadaf Nakhaei
Bryan Nese
Pape Nicholls
Irene Mabune Ntetmen
Jeffrey David Parnass
Brandon Michael Perlberg
Sofya Peysekhman
Alicia Leilani Pitts
Michael John Pyeron
Tamiko J. Pyronneau
Joel S. Ray
Tiffany Rex
Eric Roman
Meryl Gail Rosen
Cassidy Lind Saitow
Sal Schinina
Jordana Seiden
Jonathan Alfred Selva
Sana Ahmed Shaikh
Ayal Israel Sharon
Elizabeth Hardeman Shofner
Caitlin Marie Smith
Omar Stewart
Myka Weiss Todman
C. F. Tsai
Cara Connell Vecchione
Adam Scott Walker
Rachel M. Weiss
Karen F. Winner
Michael Bryan Wolk
Grace Yang
Vanessa Y. Yen
Yingxue Zhang

NEW YORK STATE BAR ASSOCIATION



Section Chair
Paul M. Fakler, Esq.
Arent Fox LLP
New York City

Program Chairs
Debra I. Resnick, Esq.
FTI Consulting, Inc.
New York City

Erica D. Klein, Esq.
Kramer Levin Naftalis & Frankel LLP
New York City

NYSBA

"Money Makes the World Go Round"

Intellectual Property Law Section Fall Meeting

The Otesaga
Cooperstown, New York
October 7 - 10, 2010

NYSBA

Attendance at this meeting offers up to 11.0 MCLE credit hours—including 9.5 in Professional Practice and 1.5 in Ethics for experienced attorneys.

SCHEDULE OF EVENTS

Thursday, October 7

7:00 – 9:30 pm	**Buffet Dinner for *Otesaga Hotel Guests*** - Templeton Lounge *All Registrants, Spouses, Guests & Children **Staying at the Otesaga** are Welcome!*

Friday, October 8 *All Sessions will be held in the Ballroom*

7:00 – 9:30 am	**Breakfast *for Otesaga Hotel Guests*** - Main Dining Room *All Registrants, Spouses, Guests & Children **Staying at the Otesaga** are Welcome!*
8:00 am – 12:00 pm	**Golf** - Leatherstocking Golf Course Join us on the links for a round of golf at the resort's award-winning course. A pre-paid greens fee of $110.00 is required. Meet at the Pro-Shop by 8:00 am. ***Preregistration on meeting registration form required.***
9:00 am	**National Baseball Hall of Fame Tour** Join us on a self-guided tour of the Baseball Hall of Fame. Meet at the Entrance to the Hall of Fame, 25 Main Street, Cooperstown. ***Preregistration on meeting registration form required.***
9:00 am – 12:00 pm	**Registration** – Conference Center Lobby
12:00 – 1:00 pm	**Lunch *for Otesaga Hotel Guests*** – Main Dining Room
12:30 pm	**Registration** – Ballroom Foyer
1:00 – 1:10 pm	**Welcome & Introductory Remarks** **Paul M. Fakler, Esq.** Intellectual Property Law Section Chair Arent Fox LLP, New York, NY **1:10 – 2:00 pm PRICELESS: WHEN MONEY ISN'T ENOUGH** In *Salinger v. Colting,* the Second Circuit recently changed its legal standard for deciding preliminary injunctions in copyright cases, bringing that standard in line with other Circuits and Supreme Court precedent in patent cases. In particular, the court held that it would no longer recognize a presumption of irreparable harm where a likelihood of success on the merits is established, and therefore copyright holders must independently prove that monetary damages would be insufficient. Our speakers will discuss the impact of this important ruling on copyright litigation and the extent to which preliminary injunctions remain a valuable tool in the arsenal of copyright holders.
Panelists:	**Paul M. Fakler, Esq.**, Arent Fox LLP, New York, NY **Ashima Aggarwal, Esq.**, John Wiley & Sons, Inc., Hoboken, NJ
2:00 – 3:15 pm	**KEEPING THE GREEN: LESSONS LEARNED FROM JOINT DEFENSE LITIGATION** With the proliferation of multi-defendant litigation across the IP spectrum, joint defense groups in such cases are becoming almost standard. Join our panel of experts in discussing the nuances, benefits and drawbacks of working together in joint defense groups.
Moderator:	**Brian Napper**, FTI Consulting, Inc., San Francisco, CA
Panelists:	**Mark Baghdassarian, Esq**., Kramer Levin Naftalis & Frankel LLP, New York, NY **Steven M. Bauer, Esq**., Proskauer Rose LLP, Boston, MA **Kathlyn Card Beckles, Esq**., JPMorgan Chase Bank, NA, New York, NY
3:15 – 3:25 pm	**Coffee Break** – The Oak Room ***Sponsored by:*** **Arent Fox LLP**

3:25 – 4:40 pm **FROM RAGS TO RICHES: BRAND REHABILITATION AND RE-ESTABLISHMENT**
Everyone loves a good scandal. But what do you do when your brand is at the center? Listen to numerous perspectives on brand protection and rehabilitation, including how best to avoid controversy, manage external messages and capitalize on the power of reputation.

Moderator: **Erica D. Klein, Esq**., Kramer Levin Naftalis & Frankel LLP, New York, NY
Panelists: **Louis Ederer, Esq**., Arnold & Porter, LLP, New York, NY
Elizabeth Pearce, AIG, New York, NY
Jonathan Seiden, Esq., CKX, Inc. (Elvis Presley Enterprises, Muhammad Ali Enterprises, 19 Entertainment), New York, NY
Andrea Sullivan, Interbrand, New York, NY

6:00 – 7:00 pm **GROUP TOUR: BREWERY OMMEGANG**
Trolleys to depart from the Hotel Lobby at ***5:45 pm sharp!*** Following the Ommegang Tour, trolleys will drop us at the Farmers' Museum for Cocktails and a Barbecue.

7:00 – 9:15 pm **COCKTAIL RECEPTION AND BARBECUE AT THE FARMER'S MUSEUM**
Featuring local produce along with cider and ales.
Reception Sponsored by: **Thomson CompuMark**

9:30 – 11:00 pm **Join us for After Dinner Drinks** – Downstairs in the Templeton Lounge
Sponsored by: **Kilpatrick Stockton LLP**

Saturday, October 9 *All Sessions will be held in the Ballroom*

7:00 – 9:30 am **Breakfast *for Otesaga Hotel Guests*** – Main Dining Room
*All Registrants, Spouses, Guests & Children **Staying at the Otesaga** are Welcome!*

8:00 – 8:30 am **Registration and Coffee** – Ballroom Lobby

8:30 – 9:45 am **ETHICS IN THE NEW ECONOMY**
The economy has changed, but have the ethical rules affecting attorneys? This panel will address issues involved in alternative fee arrangements, taking equity positions in clients, law firm mergers and conflicts of interests, and their effect on the practice of law.

Panelists: **Ira Jay Levy, Esq**., Goodwin Procter, LLP, New York, NY
Additional Speakers to be Announced

9:45 – 9:55 am **Coffee Break** – The Oak Room

9:55 – 11:10 am **SPREADING THE WEALTH: THE POWER AND PITFALLS OF USE AND MISUSE OF INTELLECTUAL PROPERTY IN THE CURRENT ECONOMIC LANDSCAPE**
This panel will discuss the positives and negatives of various approaches to the use of intellectual property, including the "verbing up" of trademarks, reliance on open source software, and issues relating to fansites. The more things change, will they stay the same?

Moderator: **Lisa W. Rosaya, Esq**., Baker & McKenzie, New York, NY
Panelists: **Martin F. Noonan, Esq**., Pitney Bowes Inc., Shelton, CT
Anthony LoCicero, Esq., Amster Rothstein & Ebenstein, LLP, New York, NY
Additional Speakers to be Announced

11:10 am – 12:25 pm **THE GLOBAL IP ECONOMY: WILL DISHARMORY PREVAIL?**
With differing laws and disparate judicial decisions across the globe, how do companies create and implement a cogent global IP strategy and how do attorneys counsel clients and litigate multi-national disputes?

Moderator:	**Sujata Chaudhri, Esq**., Cowan, Liebowitz & Latman, P.C., New York, NY
Panelists:	**Margaret W. Walker, Esq**., Xerox Corp., Norwalk, CT **Eric Wesenberg, Esq**., Orrick, Herrington & Sutcliffe LLP, Menlo Park, CA **Jeffrey Siew, Esq**., United States Patent and Trademark Office, Alexandria, VA
12:25 – 1:25 pm	**Lunch *for Otesaga Hotel Guests*** – Main Dining Room
1:25 – 2:40 pm	**(DON'T) SHOW ME THE MONEY: RECENT DAMAGES TRENDS IN PATENT INFRINGEMENT LITGATION** With patent reform lingering in Congress, courts are redefining and clarifying the standards for obtaining monetary relief. Our panel will explore recent decisions and their impact on litigating patent infringement actions.
Panelists:	**Brian Napper**, FTI Consulting, Inc., San Francisco, CA **Nagendra (Nick) Setty, Esq**., Fish & Richardson, Atlanta, GA **David Killough, Esq**., Microsoft Corp., Redmond, WA
2:40 – 2:50 am	**Coffee Break** – The Oak Room ***Sponsored by:*** **Amster Rothstein & Ebenstein, LLP**
2:50 – 3:40 pm	**GETTING TO GREEN: TAKING AN IDEA FROM INVENTION TO MARKET** Focusing on green technology, our panel will discuss how to best protect and commercialize intellectual property in a challenging economic climate, including financing and investments, strategic partnerships and collaborations, licensing, and legal risks.
Moderator:	**Rory J. Radding, Esq**., Morrison & Foerster LLP, New York, NY
Panelists:	**Victor A. Cardona, Esq.**, Heslin Rothenberg Farley & Mesiti P.C., Albany, NY **Bill Hallisey,** NewWorld Capital Group, New York, NY **Additional Speakers to be Announced**
4:15 – 5:45 pm	**Softball Game** – Clark Sports Center, Susquehanna Avenue, Cooperstown Fun for all ages! Sign up in advance on meeting registration form. ***Sponsored by:*** **Cowan, Liebowitz & Latman, P.C**.
6:30 – 9:30 pm	**Children's Dinner** – Council Rock Room Drop off your children for dinner, crafts, games and videos.
6:30 – 7:30 pm	**Cocktail Hour** – Veranda ***Sponsored by:*** **Kramer Levin Naftalis & Frankel LLP**
7:30 – 9:00 pm	**Private Dinner** – Main Dining Room Join us for dinner and music on our final evening. ***Gentleman: Jackets are required for Dinner in the Main Dining Room***
9:00 pm – 12 mid.	**Casino Night** – Main Dining Room The fun and games continue...Try your luck at blackjack, craps and roulette. ***Sponsored by:*** **FTI Consulting, Inc.**

Sunday, October 10

7:00 – 9:30 am	**Breakfast *for Otesaga Hotel Guests*** - Fenimore Dining Room *All Registrants, Spouses, Guests & Children Staying at the Otesaga are Welcome!*
11:00 am – 1:00 pm	**Boxed Lunches *for Otesaga Hotel Guests*** Pick up in the Main Lobby for your Journey home.

IMPORTANT INFORMATION

Under New York's MCLE rule, this program has been approved for a total of 11.0 credit hours; 1.5 hours in ethics and 9.5 hours in professional practice. **Except for the 1.5 credit in ethics, this program will not qualify for credit for newly admitted attorneys because it is not a transitional basic practical skills program.**

ACCOMMODATIONS FOR PERSONS WITH DISABILITIES: NYSBA will make reasonable modifications/accommodations to allow participation in its services, programs, or activities by persons with disabilities. NYSBA will provide auxiliary aids and services upon request. NYSBA will remove architectural barriers and communication barriers that are structural in nature where readily achievable.To request auxiliary aids or services or if you have any questions regarding accessibility, please contact Catheryn Teeter at New York State Bar Association, One Elk Street, Albany, New York 12207 or cteeter@nysba.org.

DISCOUNTS AND SCHOLARSHIPS: New York State Bar Association members and non-members may apply for a discount or scholarship to attend this program, based on financial hardship. This discount applies to the educational portion of the program only. Under this policy, any member of our Association or non-member who has a genuine basis for his/her hardship, if approved, can received a discount or scholarship, depending on the circumstances. To apply for a= discount or scholarship, please send your request in writing to Catheryn Teeter at: New York State Bar Association, One Elk Street, Albany, New York 12207 or cteeter@nysba.org.

For more information about this program or to register, visit www.nysba.org/ipl or contact Catheryn Teeter at 518-487-5573.

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Intellectual Property Law

Smart in your world®
Arent Fox

The Farmers' Museum

Step back in time and experience history at *The Farmers' Museum*, where skilled artisans rekindle the traditions of 19th-century rural New York: blacksmithing, spinning and weaving, broom making, woodworking, and printing. See 19th century furnishings, period botanical specimens, a working farmstead with heritage breeds of animals, an early 19th-century wallpaper manufactory, and the Cardiff Giant. Hands-on activities, daily programs and special events throughout the year. ***Hours: 10 am to 5 pm daily***

Fenimore Art Museum

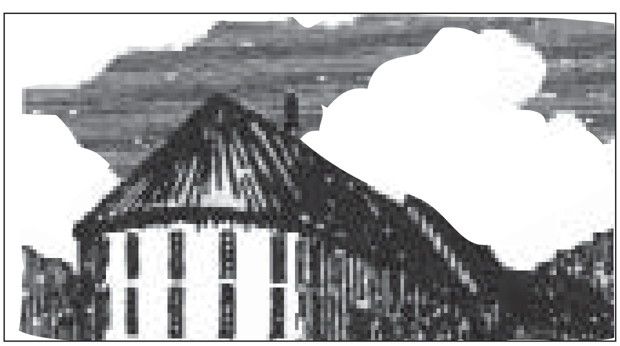
An elegant 1930s neo-Georgian mansion with terraced gardens overlooking Otsego Lake, Fenimore Art Museum is a showcase of premier collections of American art. The museum features changing exhibitions, with paintings by Edward Hicks, silver from Albany, and works by folk artist Eddie Lee Kendrick. Contemporary photography, James Fenimore Cooper memorabilia, Hudson River School paintings and more. Also enjoy the acclaimed Eugene and Clare Thaw Collection of American Indian Art. Gallery tours and multi-media programs daily, and special events throughout the year. ***Hours: 10 am to 5 pm daily.***

National Baseball Hall of Fame and Museum

Located on Main Street in the heart of picturesque Cooperstown, the *Hall of Fame* is one of the country's major tourist destinations and is surely the best-known sports shrine in the world. Opening its doors for the first time on June 12, 1939, the *Hall of Fame* has stood as the definitive repository of the game's treasures and as a symbol of the most profound individual honor bestowed on an athlete. It is every fan's "Field of Dreams" with its stories, legends, and magic to be passed on from generation to generation. ***Hours: 9 am to 9 pm daily***.

Brewery Ommegang

Don't leave Cooperstown without visiting Belgium! *Brewery Ommegang* is dedicated to brewing authentic traditional Belgian beers in America. Visit the farmstead brewery, take a tour, sample unique ales, and discover Belgian roots you never knew you had. ***Hours: 11 am to 6 pm daily.***



Fly Creek Cider Mill & Orchard

Located three miles from Cooperstown, Fly Creek has been squeezing apples into cider since 1856. Tour the old-fashioned water-powered mill where the tradition of cidermaking comes alive. ***Price: Free. Hours: 9 am to 6 pm daily.***

Clark Sports Center

Complete gymnasium with basketball courts, indoor track, horizontal climbing wall, bowling lanes, swimming & diving pools, aerobic room, squash & tennis courts, soccer/softball field, high rock climbing wall and indoor & outdoor high-adventure ropes course. Day Passes: $10 Adults; $8.00 under 21. ***Hours: 6 am to 9 pm Mon.-Fri.; 8 am to 6 pm Sat. Call 607-547-2800 for information.***

MEMBERSHIP APPLICATION

New York State Bar Association

INTELLECTUAL PROPERTY LAW SECTION

Membership in the New York State Bar Association's Intellectual Property Law Section is a valuable way to:

- enhance professional skills;
- keep up-to-date with important developments in the legal profession;
- join colleagues in exciting Section events.

OPPORTUNITIES FOR EDUCATION

The Intellectual Property Law Section offers both the experienced and novice practitioner excellent opportunities to enhance their practical and legal knowledge and expertise. Through Section activities, including conferences on intellectual property (an annual fall event), members may examine vital legal developments in intellectual property law. The Section's Web site provides current information regarding Section events and offers "members only" access to current issues of *Bright Ideas* and current Committee bulletins providing updates on intellectual property law. The Section sponsors continuing legal education (CLE) credit-bearing programs for Section members at reduced rates. Recent programs offered by the Section related to computer software and biotechnology protection, conducting intellectual property audits, and practical considerations in trade secret law. Now, with Mandatory Continuing Legal Education (MCLE) requirements, Intellectual Property Law Section membership is more valuable than ever before! The Section also sponsors joint programs with Law Schools including an annual writing contest for law students wherein the winning articles appear in an issue of *Bright Ideas*.

OPPORTUNITIES FOR PROFESSIONAL DEVELOPMENT

Intellectual Property Law Section committees address unique issues facing attorneys, the profession and the public. The Section offers opportunities to serve on committees such as Copyright Law; Diversity Initiative; Ethics; Greentech; International IP Law; Internet & Technology Law; Legislative/Amicus; Litigation; Meetings and Membership; Patent Law; Pro Bono and Public Interest; Trademark Law; Trade Secrets; Transactional Law; and Young Lawyers.

Committees allow you to network with other attorneys from across the state and give you the opportunity to research issues and influence the laws that can affect your practice. Committees are also an outstanding way to achieve professional development and recognition. Law students are automatically members of the Young Lawyers Committee. Section members may join more than one committee.

A VOICE IN THE ASSOCIATION

The Intellectual Property Law Section takes positions on major professional issues that affect practitioners and advocates those positions within the New York State Bar Association, the legislature, and the public.

See page 64 to become a member of the Intellectual Property Law Section

COMMITTEE ASSIGNMENT REQUEST

Please designate, from the list below, those committees in which you wish to participate. For a list of Committee Chairs and their e-mail addresses, please refer to page 66 of this issue.

___ Copyright Law (IPS1100)
___ Diversity Initiative (IPS2400)
___ Ethics (IPS2600)
___ Greentech (IPS2800)
___ International Intellectual Property Law (IPS2200)
___ Internet and Technology Law (IPS1800)
___ Legislative/Amicus (IPS2300)
___ Litigation (IPS2500)
___ Meetings and Membership (IPS1040)
___ Patent Law (IPS1300)
___ Pro Bono and Public Interest (IPS2700)
___ Trademark Law (IPS1600)
___ Trade Secrets (IPS1500)
___ Transactional Law (IPS1400)
___ Young Lawyers (IPS1700)

Please e-mail your committee selection(s) to Naomi Pitts at: npitts@nysba.org

* * *

To be eligible for membership in the Intellectual Property Law Section, you first **must** be a member of the NYSBA.

❒ As a member of the NYSBA, I enclose my payment of $30 for Intellectual Property Law Section dues. (Law student rate: $15)

❒ I wish to become a member of the NYSBA and the Intellectual Property Law Section. I enclose both an Association and Section application with my payment.

❒ Please send me a NYSBA application. No payment is enclosed.

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Please return payment and application to:

Membership Department
New York State Bar Association
One Elk Street
Albany, New York 12207
Telephone: 518/487-5577
FAX: 518/487-5579
http://www.nysba.org/membership

ANNOUNCING THE

Intellectual Property Law Section's

ANNUAL LAW STUDENT WRITING COMPETITION

To be presented at the **Annual Meeting of the Intellectual Property Law Section, January 25, 2011, New York, NY** to the authors of the best publishable papers on subjects relating to the protection of intellectual property **not published elsewhere, scheduled for publication, or awarded another prize.**

First Prize: $2,000

Second Prize: $1,000

COMPETITION RULES ARE AS FOLLOWS:

To be eligible for consideration, the paper must be written solely by students in full-time attendance at a law school (day or evening program) located in New York State or by out-of-state students who are members of the Section. One hard copy of the paper and an electronic copy in Word format on a 3.5" H.D. or CD disk must be submitted by mail, postmarked no later than December 7, 2010 to the person named below. As an alternative to sending the disk or CD, the contestant may e-mail the electronic copies, provided that they are e-mailed before 5:00 p.m. EST, December 7, 2010**.**

Papers will be judged anonymously by the Section and must meet the following criteria or points will be deducted: no longer than 35 pages, double-spaced, including footnotes; and one file with a cover page indicating the submitter's name, law school and expected year of graduation, mailing address, e-mail address, telephone number, and employment information, if applicable.

Winning papers may be published in the Section's publication *Bright Ideas*. Reasonable expenses will be reimbursed to the author of the winning paper for attendance at the Annual Meeting to receive the Award.

The judges reserve the right to: not consider any papers submitted late or with incomplete information, not to publish papers, not award prizes, and/or to determine that no entries are prizeworthy or publishable.

Entries by hard copy and e-mail to: Naomi Pitts, NYSBA, One Elk Street, Albany, NY 12207 (e-mail: npitts@nysba.org). Comments and/or questions may be directed to the Co-Chairs of the Young Lawyers Committee: Lara R. Corchado, 333 4th Street, Brooklyn, NY 11215-2845, (646) 220-8895, lcorchado@gmail.com or Natallia Azava, Law Offices of Peter Thall, 110 West End Avenue, Suite 7K, New York, NY 10023, (212) 245-6221, nazava@thallentlaw.com.

Winners of the 2009 Annual Law Student Writing Competition

First Place	Second Place
Nonna G. Akopyan	**Sean Scuderi**
Pace University School of Law	St. John's University School of Law

Section Committees and Chairs

The Intellectual Property Law Section encourages members to participate in its programs and to contact the Section Officers or Committee Chairs for information.

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The Litigation Committee of the Intellectual Property Law Section of the New York State Bar Association presents a Roundtable on:

FIRST PATENTS, THEN COPYRIGHTS, NOW TRADEMARKS? A LOOK AT *SALINGER V. COLTING* AND ITS FUTURE EFFECT—OR LACK THEREOF—ON TRADEMARK CASES IN THE SECOND CIRCUIT

Wednesday, November 3, 2010

Registration and Lunch: 11:45am to 12:15pm
MCLE Program: 12:15pm to 1:30pm
at Kilpatrick Stockton LLP
31 West 52nd Street, 14th floor (between 5th and 6th Avenues)
New York, NY
Check in downstairs, and take the elevator to the 14th Floor.

Andrew Gerber and Robert Potter, of Kilpatrick Stockton LLP, and authors of "Distinction Without Difference? The Impact of *Salinger* on Preliminary Injunctions in Trademark Cases in the Second Circuit," will conduct a Roundtable discussion of the recent Second Circuit decision in *Salinger v. Colting* and the impact on intellectual property owners to obtain injunctions in intellectual property cases. We will discuss:

- The *Salinger v. Colting* decision itself and its impact on injunctions in copyright cases
- Current analysis for presumption of irreparable harm in copyright and patent cases
- Whether the test from *Salinger v. Colting* will apply to trademark plaintiffs seeking injunctive relief
- Whether the test from *Salinger v. Colting* should apply to trademark plaintiffs seeking injunctive relief

This program has been approved for 1.5 MCLE credits in the area of Professional Practice. Please note that this program is a non-transitional course. Newly admitted attorneys will not receive MCLE credit for their participation.

Registration fees are $25 for NYSBA Intellectual Property Law Section members; $35 for all others. The fee includes lunch.

You may register now by obtaining information and forms at:
www.nysba.org/ipl

We hope to see you there!

Sincerely,
Paul Fakler, Section Chair
Marc Lieberstein and Eric Roman, Litigation Committee Chairs and Program Co-Chairs

NEW YORK STATE BAR ASSOCIATION
INTELLECTUAL PROPERTY LAW SECTION
One Elk Street, Albany, New York 12207-1002

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Submission of Articles

Anyone wishing to submit an article, announcement, practice tip, etc., for publication in an upcoming issue of *Bright Ideas* is encouraged to do so. Articles should be works of original authorship on any topic relating to intellectual property. Submissions may be of any length.

Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Winter 2010 issue must be received by October 1, 2010.

Bright Ideas is a publication of the Intellectual Property Law Section of the New York State Bar Association. Members of the Section receive a subscription to the publication without charge. Each article in this publication represents the author's viewpoint and not that of the Editors, Section Officers or Section. The accuracy of the sources used and the cases, statutes, rules, legislation and other references cited is the responsibility of the respective authors.

ISSN 1530-3934 (print) ISSN 1933-8392 (online)