

Inside

A publication of the Corporate Counsel Section
of the New York State Bar Association

Message from the Chair

To the members of the Corporate Counsel Section:

I hope you had an enjoyable summer.

Our thanks to Andral N. Bratton, Gregory J. Hessinger, Michael S. Ross, John K. Villa and James Q. Walker, this year's *Ethics for Corporate Counsel* panel, for a stimulating and relevant fall meeting program. Thanks, too, to Steven G. Nachimson, who once again organized the program and was instrumental in its success. Those of you who were unable to attend should note that our Section presents *Ethics for Corporate Counsel* annually, enabling you to obtain your four required CLE ethics credits in one sitting, at a program designed specifically to speak to the issues faced by inside counsel. Next year's Ethics program will be presented in conjunction with the 2009 Corporate Counsel Institute.

Mark your calendars now to attend our Annual Meeting program, *E-Record Management and E-Discovery for the Corporate Lawyer*, scheduled for the morning of January 28, 2009 during the NYSBA Annual Meeting. Already committed to attend are three Magistrate Judges of the Southern District of New York, a number of law firm speakers on E-discovery, IT issues and E-Record Management, and inside counsel who will discuss useful information and helpful tips relating to dealing with electronic discovery, including what to do before the hold requirement arises and what to do when the case comes in. We expect it to be a worthwhile program and we look forward to seeing many of you there.



This issue of *Inside* has a special focus on Intellectual Property for the generalist. We hope those of you who are not IP specialists but face the many IP issues that come up in your work will find the articles useful. We hope to have future specialty issues as well, in the hope that we can deliver valuable information to our membership in specialized areas of law about which they would like a basic understanding in order to address the day-to-day needs of their clients.

As always, please contact me at groth@bmi.com with any suggestions for programs that your Executive Committee might consider.

Gary F. Roth

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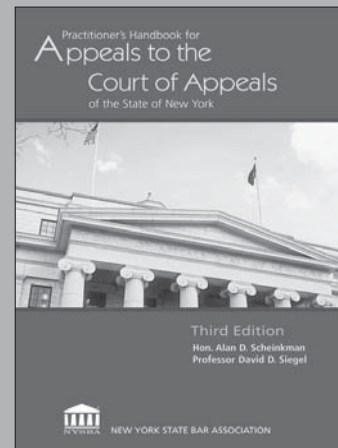
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Profiles

We continue in the issue the profiles of our members, starting with members of our Executive Committee. In our next issue and thereafter we will profile other members in the Section in the hopes that getting to know who we are and what we do will encourage mutual interaction, support and assistance among Section members.

Jeff Futter

Jeff Futter, one of the longest serving and most active members of the Executive Committee, says the following about himself: "One might say that I should feel 'old,' having practiced corporate and regulatory law in-house for more than 35 years, but when you're the father of three sports-minded young girls (an eight-year-old and twin six-year-olds) you don't have the luxury of feeling that way." Jeff's first "career" was chiefly occupied with a heavy dose of utility regulatory litigation, including nuclear power plant licensing; his current position with Con Edison is focused more on natural gas contracting and regulatory work. Jeff served as Chairman of the Corporate Counsel Section 1997–1998. Thereafter, he represented the Section in the NYSBA House of Delegates both as a Delegate and currently as an Alternate Delegate. He is a life member of The Fellows of the New York Bar Foundation. In addition to his bar involvement, Jeff served for a number of years as an officer and board member of the Cold Spring Harbor Fish Hatchery & Aquarium and currently serves on the Executive Committee of the Dartmouth Club of Long Island, having previously been its president for three years. His main extracurricular activity continues to be playing tennis (which hopefully will enable him to keep up with the kids).



Gregory H. Hoffman

Greg is employed as General Counsel of North America LiveCareer, a fast growing, privately held Internet company that offers free career-related tests and tools to help people make career and educational decisions at key points in their lives. Greg handles corporate matters (e.g., secretarial and reporting functions), transactional work, litigation, privacy issues and intellectual property matters. He also oversees human resource functions and has direct responsibility for accounting and finance. Before joining LiveCareer, Greg worked for AT&T in San Francisco and then New York. He also worked for Proskauer Rose LLP in New York as a litigation associate for five years immediately after concluding his federal District Court clerkship.

Greg is a native New Yorker living in Hell's Kitchen with his partner and their two-year-old son. Outside of work, Greg has a long history of involvement in the non-profit sector. He has chaired the Duke Alumni Advisory Admissions Committee, Chaired the Corporate Committee for Miracle House, served on the Board of Directors of Academy of Friends, a San Francisco organization that funds local HIV/AIDS organizations, and served on and as Chair of various New York State Bar and American Bar Association committees. He is currently on the Board of Treatment Action Group, an independent AIDS research and policy think-tank.

Greg is a graduate of the University of Southern California Law Center and Duke University.

Steven H. Mosenson

Steven H. Mosenson has been General Counsel of Cerebral Palsy Associations of New York State since 1989, representing a network of providers of services for individuals with developmental disabilities and their families throughout New York State. Prior to his current position, he was an Assistant Corporation Counsel in the General Litigation Division of the New York City Law Department from 1985 to 1989, where he litigated federal and state cases challenging city policies in a wide variety of issues. He began his career as an associate in a New York City law firm from 1982 to 1985.

For the past 10 years, Steve has also been on the adjunct faculty of the New York University School of Continuing and Professional Studies, teaching courses in the health care, human resources, conflict resolution and law and taxation professional certificate programs. Prior to teaching at NYU, he was an adjunct professor at Hostos Community College of City University of New York, teaching courses in the Social Services Department.

Steve is a trustee of the Board of Education of the Valley Central School District in the Town of Montgomery, Orange County, New York, and is pro bono counsel to several not-for-profit corporations. He has been recognized as an "Empire State Counsel" by the New York State Bar Association for his pro bono work.

Steve frequently trains boards of directors of not-for-profit corporations throughout New York State, focusing

on the duties and obligations of directors and officers, corporate and regulatory compliance, and oversight of programs and services. He regularly chairs and presents at continuing legal education programs through the New York State Bar Association, in the areas of governance and operation of not-for-profit corporations, legal ethics and representing people with disabilities.

Steve is a past Chair of the New York State Bar Association's 1800-member Corporate Counsel Section, and continues as Chair of the Section's Pro Bono Committee. He is former Chair of the NYSBA's Committee on Issues Affecting People with Disabilities, and is currently a member of the NYSBA's Continuing Legal Education Committee. From 1998 to 2003, he served as an elected delegate for the 9th Judicial District to the NYSBA House of Delegates.

A 1982 *cum laude* graduate of Benjamin N. Cardozo Law School of Yeshiva University, Steve also holds a Master's in Public Administration (1979) and Bachelor of Science (1978) from New York University. With his wife and four children, Steve is currently restoring the Benjamin Haines Farmstead (*circa* 1750), an intact 18th century farmstead in Orange County, New York, listed on the Town of Montgomery, New York State and National Registers of Historic Places. His biography appears in *Who's Who in America*, and *Who's Who in American Law*, and he has received the Legion of Honor Award of the Chapel of the Four Chaplains in Valley Forge, Pennsylvania.

Bonni G. Davis

Bonni G. Davis was appointed to the Corporate Counsel Section's Executive Committee in January 1995. She became an officer of the Section in 1996 and was elected Chairwoman in 2000. Bonni served as Editor of the Section's magazine, *Inside*, from January 2003 to January 2008.



Bonni has been Vice President, Secretary and General Counsel of Finlay Enterprises, Inc., a publicly held nationwide fine jewelry retailer, since 1988. She was also Secretary and General Counsel to Finlay's former affiliates, Adrien Arpel, Inc., a cosmetics manufacturer, and Tru-Run Corporation, a jewelry and watch repair company. Prior to that time, Bonni held various positions in the legal department of NYSE-listed Seligman & Latz, Inc., a worldwide owner of beauty salons operating under the trade name "Essanelle."

In her current position, Bonni's primary responsibilities include regulatory compliance, litigation management, corporate acquisitions and divestitures, contractual matters and human resources/benefits matters. Bonni also places the company's property/casualty insurance.

Bonni is a lifelong New York City resident. She is admitted in both New York and New Jersey.

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Your Company Sucks Dot Com: Taking Swipes at Gripe Sites

By Sarah Feingold

Introduction

Today, the Internet is an integral means to most individuals and businesses for obtaining and distributing information. The Web also provides anyone with access to an Internet connection an outlet to communicate opinions, both positive and negative, with a worldwide audience. While the average consumer may choose to voice concerns directly to a company representative, some publicize their complaints on dedicated Web sites. These complaint-driven forums are frequently known as “gripe sites” and can raise legal and public relations concerns to both the business and to in house counsel.

Gripe Sites

Generally, a gripe site is an independent Web site that criticizes and encourages others to criticize a specific company, product or service. These sites usually utilize a company’s trademark or trade name.

One of the earliest gripe site lawsuits concerned Bally Fitness health club (*Bally Total Fitness Holding Corp. v. Faber*, 29 F. Supp. 2d 1161 (S.D. Cal. 1998)). Andrew Faber operated a “BallySucks” Web site where he criticized the company and its health clubs. Faber’s site included language that the site was “unauthorized” and not a Bally official site. Faber did not receive revenue from the site.

Bally Fitness sued Faber for trademark infringement and trademark dilution, and in 1998 the federal District Court in California ruled for Faber. The court reasoned that “no reasonably prudent Internet user would believe that ‘ballysucks.com’ was an official Bally site or that it was sponsored by Bally.” Because Faber’s use of the Bally mark was not found to be commercial, Bally’s dilution claim failed as well. The court concluded that the Internet is “an efficient means for business to disseminate information, but it also affords critics of those businesses an equally efficient means of disseminating commentary.”

Legal Remedies

Depending on the content on the site, a company’s legal options to combat gripe sites range from civil litigation like trademark infringement to claims under the Anticybersquatting Consumer Protection Act and the Uniform Domain Name Dispute Policy.

According to the United States Patent and Trademark Office, “a trademark includes any word, name, symbol, or device, or any combination, used, or intended to be used, in commerce to identify and distinguish the goods of one manufacturer or seller from goods manufactured or

sold by others, and to indicate the source of the goods.” The owner of a registered trademark may bring a trademark infringement suit if the site’s unauthorized commercial use of a trademark is likely to confuse potential consumers.

The owner of a famous mark may also bring a claim under the Federal Trademark Dilution Act (FTDA). The purpose of the FTDA is to protect famous marks from subsequent uses that dilute the mark’s distinctive quality.

Along with civil litigation, a company may file a complaint under the Uniform Dispute Resolution Procedures (UDRP) of the Internet Corporation for Assigned Names and Numbers (ICANN), the international Internet governance authority, to force recovery of the domain. A UDRP proceeding may be an appropriate action against the site owners who have registered a domain name that is confusingly similar to a company’s trademark or trade name.

Although Bally Fitness argued trademark infringement and trademark dilution, other companies have pursued false advertising claims and trade libel claims against a gripe site owner. Likewise, companies may also bring a claim under the Anticybersquatting Consumer Protection Act (ACPA) if the confusingly similar domain name was registered with the intent to profit from the site.

The Right to Gripe

As shown by the Bally’s court, the First Amendment of the U.S. Constitution offers some protection to gripe sites as forums of speech.

In fact, the right to gripe is likely the reason why many gripe sites exist today. In 2005, Forbes.com published a special report on the “Top Corporate Hate Web Sites” (http://www.forbes.com/2005/03/07/cx_cw_0308hate.html). Forbes examined more than 100 gripe sites and narrowed the field by examining “ease of use, frequency of updates, number of posts, hostility level (angrier is better), relevance, and entertainment value (Hey! Angry and funny!).” The article featured sites like WalMart-Blows.com, PayPalsucks.com and Verizon pathetic.com. The majority of the highlighted gripe sites are still up and running today.

Although many companies refrained from providing Forbes.com with an interview, when asked about UnitedPackageSmashers.com, United Parcel Services (UPS) explained that “[b]ecause we live in a free society, people have the right to their opinion, and we recognize that people will use the Internet to voice their opinion.”

UPS added that it believes "customers can get much more valuable and accurate information from [the official UPS] site."

Gripe Sites and Your Client

Even though case law illustrates that courts are increasingly protecting gripe sites, the First Amendment does not protect trademark infringement or defamation.

As corporate counsel, before sending a cease and desist letter, commencing a lawsuit or filing a UDRP complaint, David Stimson, Chief Trademark Counsel of Eastman Kodak Company, suggests that you do your homework. Stimson recommends that counsel examine the site, the site's popularity, the use of the company's trademark or trade name, and the legitimacy of the complaints. According to Stimson:

[C]ompanies should look at the larger picture of the gripe site because even with a legitimate legal basis to remove a site, attempts to take down a gripe site frequently gives the complainer attention and credibility. A cease and desist letter

circulated on the Internet may encourage copycat sites or result in a "David versus Goliath" type of publicity that may bring negative press to a company.

In a borderline case, an attempt to remove a gripe site may result in more headaches than simply keeping an eye on the domain.

Conclusion

The Internet is a powerful information distribution tool for both individuals and companies. A company may use the Internet to obtain a customer base, and a customer may use the Internet as an outlet to voice an opinion. When faced with the issue of a gripe site, there are many legal options available to the griped-about company. Counsel must examine the gripe site's characteristics in order to analyze the legal and business issues and best advise the client.

Sarah Feingold is general counsel for www.etsy.com, an online venue to buy and sell all things handmade.

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Corporate Counsel Section Program
E-Record Management and
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Wednesday, January 28, 2009

The Corporate Counsel Section of the New York State Bar Association will be presenting a program entitled "E-Record Management and E-Discovery for the Corporate Lawyer" at the Annual Meeting of the NYSBA on January 28, 2009. The Program, which is being held at the New York Marriott Marquis, is scheduled for 9:00 a.m. to 1:00 p.m. and will include presentations by judges and attorneys who have experienced the brave new world of electronic information and its impact on corporate governance, operations and litigation. The program will also include participation by experts in the technology of document retention and retrieval, including representatives of document management service providers. The Program is expected to provide 3.5 CLE credits to attendees.

I Once Settled an IP Dispute “This Big”

By Laurence Beckler

An independent interactive marketing agency started a new online business to promote young comics (the “Start Up”) and sought to drive traffic to its recently launched Web site. Months prior to launching the Web site, the Start Up dubbed snippets from a high-grossing film to lampoon the recent behavior of one of Hollywood’s highest paid actor/directors (the “Property”). The Property was posted on YouTube and generated a small amount of buzz. Three months after the launch of the Property on YouTube, a network television show (the “Network”) ran a parody of the same actor. This Network appeared to have copied the idea directly from the Property, using much of the same language but in the context of a different movie. Though the Start Up was intrigued about the prospect of suing the Network for damages related to copyright infringement, it contacted my firm to determine how to profit from the perceived infringement.

The Start Up was both eager and anxious to pursue legal action against the Network; however, it had failed to copyright the Property. As a result, the chances of a favorable outcome of a copyright infringement lawsuit against the Network appeared slim. My firm was faced with the task of managing the Start Up’s expectations from recovery of damages to something that would generate a low-cost, yet extremely effective, outcome. After some discussion, my firm worked with the Start Up to alter its objective from the pursuit of damages and an injunction against the Network to generating publicity to the Start Up, increasing the flow of its traffic to the Web site, and generating buzz about the mission and future success of the Start Up.

Over the last 20 years, both the perceived and real values of an individual’s or a business’s intellectual property have created an explosion in litigation that involves the ownership, licensing and conveyance of its intellectual property (IP). The term “intellectual property” covers the content of my *Wall Street Journal* (copyright), the logo and styling of my box of Frosted Flakes (trademark), and my iPhone’s touchscreen functionality (patent). Intellectual property laws cover ideas, inventions, literary creations, unique names, business models, industrial processes, computer program code and more. Such laws also extend to cover literary and media rights, including patent and copyright infringement. Given the ongoing level of interest on this matter, this article will focus on important issues to consider when settling an IP dispute.

Resolve Ownership Issues at the Outset of the Relationship

Primarily, disputes involving IP center on the ownership rights associated with such IP. Parties commonly dispute issues relating to licenses, grants, transfers, assign-

ments, royalties, or a surrender of rights of the property. When negotiating a settlement of a dispute, resolution of the ownership issue is paramount because if questions of IP ownership remain outstanding or unclear, the parties may never achieve a full and complete resolution of the matter.

At this point, I would like to offer another example of a successful resolution of an IP dispute with which my firm was involved. My client was being intimidated by a certain Fortune 500 company (the “Company”) to cede ownership of all computer software developed by him (including modifications, enhancements, upgrades, etc.) while working as an independent contractor for the Company. After weeks of negotiation, the parties agreed to designate certain elements of the entire software package into Type I and Type II Materials. If modifications were made to Type I Materials, my client would own all rights, title, and interest in that enhanced code. Conversely, should the modifications be made to Type II Materials, the Company would own all right and title in the modifications, but my client would retain a permanent, fully paid license to use the enhancements within his enterprise. The resulting negotiated agreement enabled each party to market its proprietary software to third parties and to represent that each party held good and valid title to such software. Costly litigation had been pre-emptively avoided.

Structuring Payment of a Settlement Agreement

If one should have the misfortune of finding oneself in a dispute involving IP, the parties should move right to the heart of the matter first: the payment provisions. Once the payment obligations have been negotiated, it becomes much easier to reach consensus on most of the other relevant legal issues. A settlement agreement should describe in detail how payments are to be made, whether in the form of cash or by way of royalty payments. Cash payments are a straightforward method of making payments under a settlement agreement because the numbers are presented in a way that both parties can accurately digest. In many instances however, the debtor party (the “Debtor”) will offer to the receiving party (the “Receiver”) royalty payments that can vary based on any of the following variables:

- The mechanism used to calculate the revenues used to determine royalty payments;
- The inclusion, within the royalty payments, of modifications, enhancements, updates or offshoots of the IP in dispute;
- The effects of a sale, transfer in interest, or any other significant corporate action that may enhance

or hinder the collection of such royalty payments; and

- The Receiver's right to audit the Debtor to ensure an accurate calculation of royalty payments.

If a Receiver chooses to accept royalty payments in lieu of a lump-sum cash payment or a defined stream of cash payments, the Receiver has taken on the risk that sales of the underlying IP will produce enough revenue to satisfy the Receiver's bargained-for settlement. In response to such an offer for royalty payments, a Receiver should demand from the Debtor that a premium be added to the settlement amount in order to account for the increased risk of collecting the royalty payments.

Issues on the Periphery

Other issues on which to negotiate include the exact scope of the settlement, in terms of geography and chronology, each party's current and outstanding obligations and liabilities under existing contracts, confidentiality clauses and publication restrictions to third parties.

Conclusion

As the IP industry has developed and prospered over the years, IP disputes have become increasingly complex. Additionally, the dollar value involved in such disputes has grown exponentially. Given such circumstances and the expenses associated with IP litigation, the settlement agreement carries more weight than merely as the conclusion of a dispute. Before executing a settlement agreement involving IP, an attorney and his or her client should consider consulting with a corporate and/or intellectual property attorney in order to fully understand the issues and execute a settlement agreement that will eliminate any future disputes.

Going back to my initial example involving the Start Up, my firm drafted a cease and desist letter to the Network detailing the alleged copyright infringement and strongly suggesting that the Network remove the infringing parody from its Web site and future broadcasts immediately. The Network vehemently denied the infringement, and it appeared that the Network would defend any action taken against it aggressively. However, the new objective was achieved. The Start Up generated a press release about the "David and Goliath" nature of the conflict that was picked up by a host of national publications and blogs.

The end result of drafting and sending the cease and desist letter was a ten-fold increase in hits to the Web site of the Start Up. As a result, the Start Up attracted up and coming comedians to the Start Up for the purpose of producing and distributing their material. Currently, the Start Up has become both a producer and a manager for a series of talented comics and has been able to generate substantial revenue from the advertising appearing on its Web site.

The Law Office of Laurence Beckler, PLLC primarily represents individuals and companies in business and corporate matters, including drafting and negotiating transactional documents to support the operational needs of the firm's clients. Mr. Beckler has advised clients on a wide range of intellectual property issues related to advertising, marketing and ecommerce issues for national and international brands and has consulted on children's television shows currently being shown on PBS and Nickelodeon.

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If you have written an article and would like to have it considered for publication in *Inside*, please send it to either of its editors:

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Articles should be submitted in electronic document format (pdfs are NOT acceptable), and include biographical information.

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Trademark Searching and Clearance— 7 Pitfalls to Avoid

By Eric W. McCormick

Introduction

Proper searching and clearance of trademarks before they are adopted in the market is a critical part of business risk management. Failing to search, or not searching properly, can lead to enormous problems down the road. A new product launch or advertising campaign can be stopped in its tracks by an injunction, and significant money damages can be assessed, including treble and/or punitive damages if the infringement is found to be willful. Even if your client eventually prevails in the litigation, the costs can be tremendous, including attorneys' fees, expert fees and survey costs, as well as myriad "soft costs" such as having your client's business personnel tied up in depositions and other discovery matters rather than focusing on marketing and selling a new product or service. This article will discuss some of the more common mistakes made in the trademark searching and clearance process and how they can be avoided.

1. Not Conducting a Proper Search

Countless companies and individuals have become defendants in trademark litigation that could have been avoided had they just spent a few hundred dollars and conducted a proper trademark search before the launch of their new business, product or service. Over the years I have heard all kinds of reasons for why a trademark search was not conducted, ranging from "I didn't know that you had to search" to "The search would have cost too much" to "I conducted a business name search and found the name was available with the Secretary of State."

The U.S. Patent & Trademark Office (PTO) trademark database can be searched online at www.uspto.gov. The database—called the Trademark Electronic Search System, or TESS—is free and relatively easy to use as well. The TESS database offers a search template and extensive help features, thus allowing the public to find pending trademark applications and subsisting registrations. Similar databases are available to the public in other markets like Canada, England, the E.U., Hong Kong, Australia, Benelux and India.

It is important, however, to understand the limitations of an online search of the PTO trademark database. For example, the PTO database includes only federal trademark applications and registrations. It does not include common law usage or state trademark registrations. In the United States, trademark rights arise from use of a trademark in commerce. A trademark carries

underlying common law rights which are separate from any rights that arise out of its federal registration. They stand independent of each other.¹ Thus common law trademarks cannot be ignored as the owners of common law trademark rights can avail themselves of various unfair competition laws to assert a legal challenge to the use of a mark that is likely to cause consumer confusion. In addition, a basic search of the PTO database can easily miss trademarks that are not identical to the trademark of interest but nonetheless may be sufficiently similar to be likely to cause consumer confusion.

"A new product launch or advertising campaign can be stopped in its tracks by an injunction, and significant money damages can be assessed. . . . Even if your client eventually prevails in the litigation, the costs can be tremendous . . ."

In general, an online PTO database search is helpful in identifying "direct hits"—i.e., applications or registrations for identical marks for identical or closely related products or services. A PTO database search is generally not sufficient to clear a new mark for use. There may be some exceptions, such as if the mark is intended to be used for a very short duration (for example, as a one-time headline in a print ad) or if the mark is highly descriptive in nature. An experienced trademark attorney should be consulted to determine whether it is a reasonable risk to rely on a PTO database search alone. Even in such cases, it would be advisable to supplement the PTO search with an Internet search using a search engine such as Google to try and identify any pertinent third-party uses of the proposed mark on the Internet.

Given the limitations of a PTO database search, a full trademark search is generally imperative when clearing a new mark. A full trademark search is conducted by a commercial search vendor. There are a number of companies that offer quality trademark search services. These companies include Thomson & Thomson, Corsearch and Corporation Service Company. A full search covers not only the *U.S. Trademark Register* (federal applications and registrations) but also state registrations and common law uses. Full search reports list results found in a variety of databases and sources including various market directories and industry publications, trade name listings, the Internet and reported judicial decisions.²

Although the exact cost of a full search varies depending upon the desired turnaround time, they generally run in the range of \$500-\$1,000. The cost, however, is minimal when compared to the potential costs associated with a trademark infringement or unfair competition litigation.

It is important to note that there is even case law in the United States finding that a failure to conduct a full search after being advised by counsel to do so can be considered as evidence of “bad faith.”³ In *Int’l Star Class Yacht Racing Ass’n v. Tommy Hilfiger U.S.A., Inc.*, the clothing designer Tommy Hilfiger, in a line of sportswear, adopted the trademark, “Star Class,” which was a mark also used in yacht racing.⁴ The court held that in assessing Hilfiger’s bad faith, the district court should have considered Hilfiger’s failure to conduct a full trademark search after being advised to do so by its counsel.⁵ The court added that

Hilfiger’s choice not to perform a full search under these circumstances remind[ed] [them] of two of the famous trio of monkeys who, by covering their eyes and ears, neither saw nor heard any evil. Such willful ignorance should not provide a means by which Hilfiger can evade its obligations under trademark law.⁶

2. Assuming that Canceled Registrations and Abandoned Applications Can Be Ignored

A common mistake in the search and clearance process is to assume that one can ignore trademarks that are the subject of canceled registrations and abandoned applications, on the assumption that the marks are not being used. However, just because a registration has been canceled or an application has been abandoned does not mean that the trademark is not in fact being used in commerce and thus protected. Ignoring such registrations and applications can be a very costly mistake. Not every registrant or applicant has sophisticated systems in place to make sure that all Trademark Office deadlines are met. In addition, some applicants or registrants do not wish to spend the resources to respond to PTO Office Actions on trademark applications or to file renewals of their registrations. Thus, it is very possible that registrations can be canceled and applications abandoned merely because the registrants or applicants were not aware of the deadlines or other requirements, or they did not wish to spend the resources associated with the requirements.

It is particularly important to pay attention to use-based applications that have been abandoned. The fact that the application is use-based means that at some point the trademark was being used, and the fact that the application has gone abandoned does not mean that use of the trademark has in fact stopped. By way of example,

several years ago I conducted a search for a client and saw an application for the exact trademark for identical goods, but which had been abandoned 10 years earlier. I investigated the trademark and it turned out to still be in active use on a nationwide basis. Had I ignored the trademark because the application was abandoned, the client would have been exposed to an “open and shut” case of unfair competition, which would have likely stopped a multi-million dollar product launch or resulted in a large payout to the third-party trademark owner.

3. Not Conducting an Investigation

A trademark search often will not disclose any details about the actual usage of a trademark. Determining the nature and extent of use of a mark in the marketplace is essential in order to assess the likelihood of confusion and thus the potential for conflict. The test for trademark infringement—likelihood of consumer confusion—is a multi-factor test that includes the strength of the prior trademark, the similarity of the goods and services, the overlap in trade channels, the price points of the respective goods and services, and the sophistication of the target consumers. To perform a thorough analysis of these factors as applied to a potentially problematic third-party trademark, it is imperative that an investigation be conducted into the nature and extent of the use of the third-party trademark.

The following questions in particular need to be answered with respect to potentially conflicting marks. How long has the trademark been in use? How well known is the trademark? What are the products or services for which the trademark is used? Where are the products/services offered? What is their price point? What types of consumers purchase the products? What is the size of the owner of the mark and what does the owner have in the way of resources? How aggressive has the owner been in the past in enforcing the rights to the mark? The answers to these questions will provide information necessary to make an informed likelihood-of-confusion analysis—as well as provide valuable information in assessing a clearance strategy for going forward. For example, depending upon the nature and extent of the third party’s use and their resources and aggressiveness, various options may exist for addressing the issue. These options include pursuit of a purchase of the mark, a co-existence agreement, a license, or possibly seeking to cancel the registration for a mark that is no longer in use and has been abandoned.

An Internet search is an obvious free and easy way of obtaining some basic information about a mark’s use. Nowadays many marks can be found somewhere on the Internet. An Internet search, however, has limitations. For example, it may not tell you anything about how long a mark has been in use. Also, just because you are not able to find a mark on the Internet does not necessarily mean that the mark is in fact not in use. Accordingly, a

thorough investigation often requires the assistance of an experienced trademark investigator. There are a number of reputable firms that offer trademark investigation services.

4. Assuming that the “Little Guy” Can’t Cause Any Problems

Paying attention to only big trademark owners can be a big mistake. Smaller companies and individuals can have perfectly valid and enforceable trademark rights, and in some cases they may be more aggressive in defending those rights than larger companies as the trademark may be more important to their business. Over the years, numerous cases have shown just how much damage can be incurred by ignoring the smaller trademark owner.

In the 1984 case *Sands, Taylor & Wood v. Quaker Oats*, Quaker Oats, the then owner of the “Gatorade” beverage brand, launched a nationwide advertising campaign featuring the slogan “Gatorade is Thirst Aid for that Deep Down Body Thirst.”⁷ A few weeks after the launch, a lawyer for the owner of the trademark “Thirst Aid,” Karp & Sons, a distributor of bakery products, contacted Quaker Oats to complain of its use of “Thirst Aid” in the “Gatorade” slogan.⁸ The trademark had not been used on soft-drinks since a brief test market of an isotonic drink in 1980, when it had been licensed to another company and used in a five-month trial in Columbia, S.C. involving only 20 stores.⁹ When Karp complained of infringement, Quaker continued with its ads.¹⁰ Karp subsequently assigned his rights to Sands, Taylor & Wood for \$1. Sands, Taylor & Wood, a small, Vermont-based company that is perhaps better known for its product “King Arthur Flour,” promptly sued for infringement and won damages in the amount of \$42,629,399.09 from the district court.¹¹ Although the award for profits was found inequitable, the award for attorney fees was upheld and Quaker had to abandon its advertising campaign.¹²

Sands, Taylor & Wood shows just how dangerous the “little guy” can be in a trademark infringement case and that therefore how important it is to be cognizant of such rights holders when clearing a mark.

5. Assuming that a Descriptive Mark Does Not Need to Be Searched

Just because a proposed mark seems descriptive does not necessarily mean that a third party cannot have rights in the same or a similar trademark. A descriptive mark or name, because it conveys some knowledge of the characteristics of a product or service—for example, its size, shape or quality—typically does not garner protection as a trademark. The reason is that a descriptive mark fails to identify and distinguish the goods or services of one entity from those of another, and thus does not function as a trademark (absent a showing of acquired

distinctiveness through extensive use and promotion). Nevertheless, the Trademark Office has granted many registrations over the years for trademarks that would seem on their face to be descriptive and it is often very difficult to determine when a mark is descriptive. Courts tackle the problem with a couple of different tests. The “Degree of Imagination” test provides the greater the imaginative leap from the mark to the product’s attributes, the less likely the mark is descriptive as opposed to suggestive. Applying this test, a court concluded that the use of “Sparkle” for a window cleaner is not descriptive.¹³ Another test is the “Competitors’ Needs” tests. Here the court examines whether the suggestion made by the mark is so remote that competitors will not need the term in describing their goods. Applying this test, the Second Circuit found “Season-All” to not be descriptive of storm windows.¹⁴

Descriptiveness was a key issue in *Sands, Taylor & Wood*.¹⁵ Prior to launching the advertising campaign the campaign was reviewed by Quaker’s in-house counsel who “concluded that the words ‘Thirst Aid’ did not raise any trademark problems because they were used to describe an attribute of the product rather than as a designation of source or affiliation.” A trademark search was therefore not conducted at that time.¹⁶ When confronted with an objection by the owner of the “Thirst Aid” mark, Quaker sought advice from outside trademark counsel who “essentially agreed . . . that there was no infringement because Quaker was using the words ‘Thirst Aid’ descriptively rather than as a trademark.”¹⁷ Quaker pushed ahead with the campaign and ended up embroiled in a costly trademark litigation.

Given how difficult it can be to determine whether a mark is truly descriptive, pushing ahead with use of a name on the belief that the name is descriptive can be very risky. If there are any doubts about whether a proposed mark is descriptive, it is best to conduct a search.

6. Focusing Too Much on “Registrability”

Another common mistake in trademark searching and clearance is to be too focused on whether a proposed trademark can be registered in the Trademark Office. When launching a multi-million dollar product, obtaining a federal trademark registration for the name of the product is obviously crucial. Registration provides many procedural and substantive advantages, such as: *prima facie* evidence of the validity of the mark; constructive notice of a claim of ownership; constructive use; and the potential to stop the importation of infringing goods into the United States. However, there may be cases where the best course of action is to simply use the mark and not seek to register it.

Although a registration has benefits, filing an application also serves to raise the profile of the new mark, as the application is accessible by the public and competitors

through the TESS database. As such, a very common way in which trademark owners identify potential infringements is through watch services that identify third-party filings for marks similar to their own marks.

While it is never wise to adopt a mark knowing of a significant potential problem, situations can exist where a third-party mark is viewed as a risk but where you have good arguments that use of your client's mark would not constitute an infringement. In such cases, the best course of action may be to not file an application and just use the mark in commerce. By just using the mark, the third party may never become aware of the use, or if they do it may be years later when it would be difficult to argue that confusion is likely given that the marks have coexisted for years in the marketplace. Also, if the mark is used for a good length of time without objection or evidence of confusion you can reconsider whether to file an application at a point in time when you would have good arguments that, in view of the coexistence, confusion is not likely. If you file the application up front, you raise the profile of your client's mark and make it much more likely that a third party who might have an issue with the mark will see the mark and raise an objection.

7. Relying on One Search Company for Major Clearances

As mentioned above, there are a number of companies that offer quality trademark search services. However, each company has access to different databases and the search results are influenced by the particular strategy used by the research. As one author has noted, "a search is only as good as the searcher," with some limiting their search strategies to prefixes and suffixes and excluding variations they do not feel are important.¹⁸ As a result, full searches of the same trademark done by different companies can often disclose different results. Accordingly, if you are searching a trademark that is destined to be used for a major product launch or extensive advertising, it is advisable to consider having the trademark searched by two or even three different search firms. Even then there is no guarantee that all relevant third parties will be uncovered.

Conclusion

Proper trademark searching and clearance is a critical part of new business initiatives such as a product launch or new advertising campaign. The search process is complicated and there are many potential pitfalls. It is important that an experienced trademark attorney be consulted to make sure that the process is done correctly. A few dollars invested up front in the search can save your client from incurring much more significant costs down the road.

Endnotes

1. 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 19:8, at 19-28 (4th ed. 2007 supp.).
2. *Id.* at § 19:6 at 19-22.
3. *Int'l Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc.*, 80 F.3d 749, 752 (2d Cir. 1996).
4. *Id.* at 754.
5. *Id.*
6. *Id.*
7. *Sands, Taylor & Wood v. Quaker Oats*, 978 F.2d 947, 950-51 (7th Cir. 1992).
8. *Id.* at 951.
9. *Id.* at 950.
10. *Id.* at 951.
11. *Id.* at 961.
12. *Id.* at 963.
13. McCarthy, *supra* note 1, at § 11:67, at 11-149.
14. *Aluminum Fabricating Co. v. Season-All Window Corp.*, 259 F.2d 314 (2d Cir. 1958).
15. 978 F.2d at 952.
16. 978 F.2d at 950.
17. *Id.* at 951.
18. Karol A. Kepchar, "Selecting and Searching Trademarks," SKO16 ALI-ABA 39 (Oct. 2004).

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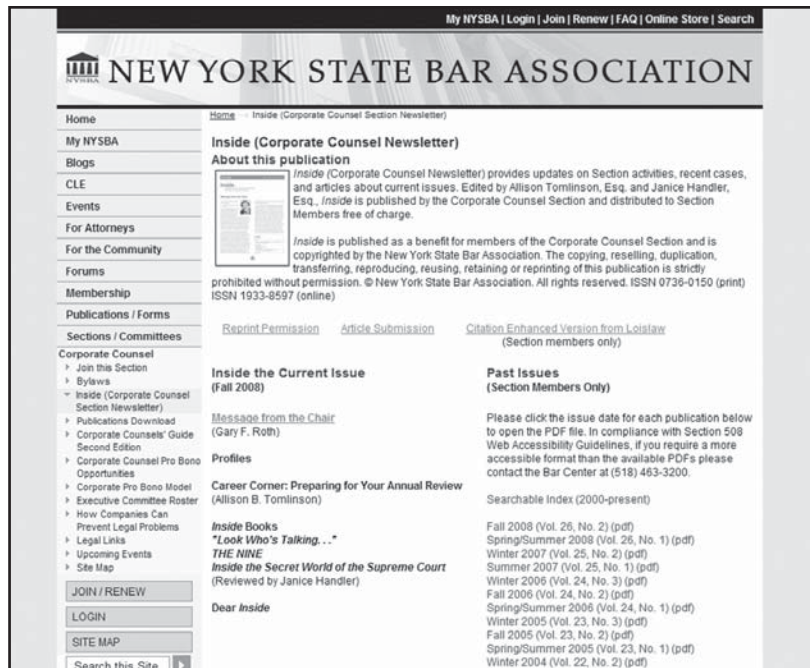
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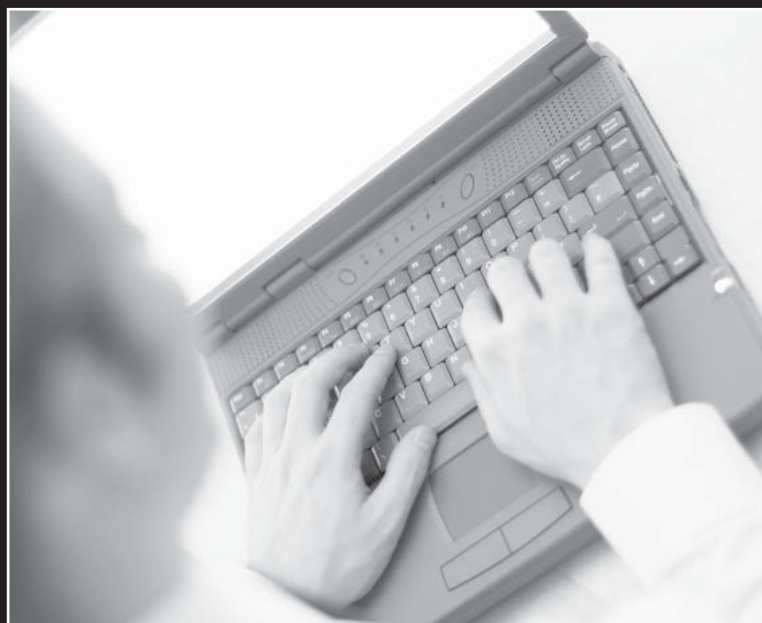
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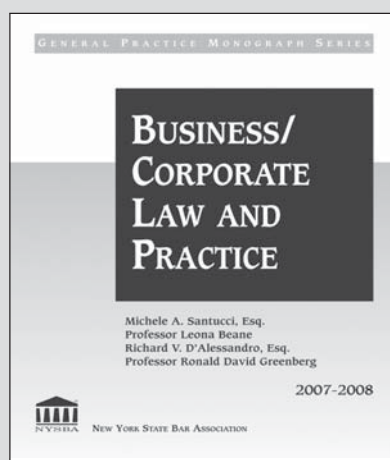
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