

Investment Management and Hedge Funds –

What's Happening Now?



Gregory J. Nowak and Lori E. Harrison

February 24, 2015

Trademarks – not just for consumer companies



- Trademarks are not just typical brand names – i.e. Nike, Coca Cola, Apple
- Investment companies should protect their trademarks too.
 - Products/services are hard to sell if relevant consumers cannot remember its name
 - Examples of successful financial products/services with strong trademarks – DOW JONES INDUSTRIAL AVERAGE

Strength of a Trademark: Categories

- The relative strength or weakness of a trademark often affects its scope of protection.
 - Coined or Fanciful: marks which have no dictionary meaning (LEXUS, KODAK)
 - Arbitrary: marks which have no meaning in connection with the goods or services (GUESS, YAHOO!, APPLE BANK)
 - Suggestive: marks which suggest a quality or characteristic of the goods or services (HOLIDAY INN, COPPERTONE, CITIBANK)
 - Descriptive: marks which describe the goods or services – must acquire “distinctiveness” through substantially exclusive and continuous use over a period of time (COMPUTERLAND, HAIR CUTTERY, CAPITAL MANAGEMENT)
 - Generic: terms which are common words used to describe a particular type of goods or service and cannot be trademarks (APPLE for apples, HEDGE FUND for hedge fund)

Choosing a Trademark

- Before hiring attorney, vet internally.
- Corporate name availability – not enough
- Google searches/USPTO searches are unreliable

“[a]ll the Greek gods were taken’ and ‘[s]o were many animals, mountain ranges, rivers roads – even solar systems’. [T]he task of finding a name for his fund ‘was harder than naming [his] children.’ *Wall Street Journal* article, 2005

Choosing a Trademark (cont'd)



- Recommend:
 - United States Patent and Trademark Office (“USPTO”) search
 - Comprehensive search includes common law
 - Domain name availability may be key

Choosing a Trademark (cont'd)



- Conservative approach may be best for financial services companies.
 - Trademark Office is not well-versed in financial industry and often considers marks to be similar even where there are significant differences.
 - Concern of tarnishment (if another company is subject of scandal or poor performance)

Obtaining Protection – Common Law Rights



- Trademark rights arise from use, not registration.
- Advantages
 - No costs associated with registration
 - Some ability to prevent others from using the mark in connection with similar goods/services

Obtaining Protection – Common Law Rights (cont'd)



- Disadvantages
 - Limited to a Geographic Area
 - Limited remedies
 - Does not provide access to federal courts
 - Coexisting Use of Trademarks (different goods/services)
 - Concurrent Use (different geographic areas)

Obtaining Protection – State Trademark Rights



- Advantages of State Registrations
 - Inexpensive
 - Notice

Obtaining Protection – State Trademark Rights (cont'd)



- Disadvantages
 - No presumption of validity
 - No cancellation of marks available
 - Does not safeguard opportunities for expansion into neighboring states
 - Does not provide access to federal courts

Obtaining Protection – Federal Rights



- Financial companies often like to operate under the radar, avoid publicity and do not advertise as consumer products companies do.
- Advantages of a Principal Registration
 - Notice- ® and citable by USPTO
 - Presumptive evidence that you own trademark and that it is valid.
 - Exclusive right to use trademark nationwide
 - Ability to prevent others from using and registering a confusingly similar mark.
 - Creation of a tangible asset of your trademark rights

Obtaining Protection – Federal Rights (cont'd)



- Advantages of a Principal Registraton (cont'd)
 - Preservation of the ability to expand use of your mark nationwide
 - Provides access to federal courts
 - Greater damage recovery (e.g., statutory damages)
 - Ability to stop the importation of infringing goods at U.S. Customs
 - Incontestable after 5 years upon filing of Sections 8 and 15 Affidavits

Obtaining Protection - Federal Rights (cont'd)



- Supplemental Registration –
 - Does not provide presumptive evidence of validity and ownership of mark
 - Provides actual notice of the claimed trademark rights
 - Citation of registration by USPTO

Obtaining Protection – Even more



- Be aware of national vs. international rights. If a name is available in the US, may not be available in another country if company has plans to expand.
- Cost associated with changing a mark due to infringement is usually much greater than proper clearance of mark.
- Invest upfront.

Enforcement



- Give notice of trademark rights.
- R, TM, SM
- Set up a formal watch to keep an eye on the marketplace, new applications, etc.

Trademark Infringement



- What happens if you notice someone else using mark?
- Trademark infringement: The use of a trademark in connection with the sale of goods or services constitutes infringement if it is likely to cause **consumer confusion** as to the source of those goods or services or as to the sponsorship or approval of such goods or services

Trademark Infringement – Likelihood of Confusion



- Polaroid Factors – 2d Circuit
 - Strength of mark
 - Degree of similarity between marks
 - Proximity of products
 - Likelihood of senior user bridging the gap
 - Evidence of actual confusion
 - Defendant’s bad faith
 - Quality of defendant’s product
 - Sophistication of purchasers and degree of care

Polaroid Corp. v. Polaroid Electronics Corp., 287 F.2d 492 (2d Circ. 1961)

Likelihood of Confusion – Financial Services Companies



- Most relevant factors
 - Proximity of products/services
 - Sophistication of consumers
 - Strength of mark

Likelihood of Confusion – Financial Services Companies



- Warning: 2d Circuit is reluctant to distinguish between different types of financial/investment services.
 - SDNY: “Both parties ... seek out wealthy individuals and institutions desiring investment opportunities.”
 - Exception: One company’s services are highly specialized.

Likelihood of Confusion – Financial Services Companies (cont'd)



- Strength of mark is also relevant.
 - It is harder to protect a weak mark and more will be able to use without issue.
 - STERLING: *Sterling Acceptance Corporation v. Tommark, Inc.*, d/b/a Sterling Associates 227 F.Supp.2d 454 (D. Md. 2002)
 - CITIZEN: *Citizens National Bank of Meridian v. Citizens Bank of Philadelphia*, 35 Fed. Appx. 391 (5th Cir. 2002)

Likelihood of Confusion – Initial Interest Confusion



- Initial Interest Confusion – particularly relevant in financial industry.
 - Allows a trademark owner to take action against third party using similar mark even if further dealings of investor with company clarify that the companies are not related.

Likelihood of Confusion – Relevant Cases



- *K2 Advisors, LLC v. K2 Volatility Fund, LP and K2 Capital Management, LLC*, 2002 U.S. Dist LEXIS 18801
 - SDNY found likelihood of confusion between Plaintiff fund of funds and Defendant hedge fund and enjoined hedge fund:
 - Strength of plaintiff's mark (arbitrary)
 - Degree of similarity between marks (same overall impression)
 - Proximity of products/target market
 - Likelihood plaintiff will bridge the gap
 - Actual confusion
 - Sophistication of buyers – not a shield from liability

Likelihood of Confusion



- *Lexington Management Corporation v. Lexington Capital Partners, Lexington Capital Company and Lexington Capital Assets*, 10 F. Supp. 2d 271 (SDNY 1998)
 - Plaintiff investment management group successfully enjoined Defendant retail investment broker:
 - Plaintiff's mark is arbitrary despite suggestions that Lexington calls to mind independence.
 - Third party use does not render Plaintiff's mark weak.
 - Marks are similar because LEXINGTON term dominates each party's marks.
 - Services and target markets are sufficiently related.
 - Sophistication of consumers does not negate likelihood of confusion

Likelihood of Confusion (cont'd)



- *Morningside Group Limited v. Morningside Capital Group*, 182 F.3d 133 (2d Cir 1999).
 - Second Circuit reversed and remanded with directions to enter permanent injunction against Defendant:
 - Morningside is strong arbitrary mark
 - Services are related and proximate.
 - Good faith of defendant and sophistication of consumers do not change result.

No Likelihood of Confusion



- *Omicron Capital, LLC v. Omicron Capital, LLC*, 433 F. Supp.2d 382 (SDNY 2006)
 - SDNY found no likelihood of confusion between hedge fund investment advisors and commercial lending broker using same mark:
 - OMICRON mark not considered strong
 - Companies compete in different markets
 - Consumers are sophisticated
 - No actual confusion

No Likelihood of Confusion (cont'd)



- *Haven Capital Management, Inc. v. Havens Advisors, LLC*, 965 F.Supp. 525 (SDNY 1997).
 - Second Circuit affirmed and found no likelihood of confusion:
 - Proximity of products: “[It] would be almost impossible that you could confuse someone doing risk arbitrage with someone doing traditional investments. . . These are vastly different asset classes.” *Id.* at 532.
 - Sophistication of buyers

No Likelihood of Confusion (cont'd)



- *Franklin Resources, Inc. v. Franklin Credit Management Corporation*, 988 F.Supp. 322 (2d Cir. 1997)
 - Financial services company brought action against debt collection service for trademark infringement, common law dilution, infringement and unfair competition.
 - No likelihood of confusion:
 - FRANKLIN mark is suggestive but only moderately strong.
 - Marks are identical but impression is different.
 - Primary business of each company is distinct – proximity is “virtually nil”.
 - Consumers of each are not likely to be confused

Lessons Learned



- Strong mark?
 - In financial industry, lack of advertising does not make a mark weak.
- Do both companies seek individuals who desire investment opportunities and compete for the same investment dollars?
 - Courts take a conservative approach with respect to likelihood of confusion analysis
 - Personal nature of the investment market

Lessons Learned (cont'd)



- Clear distinctions will help
 - *Beneficial Corporation v. Beneficial Management Corporation*, 529 F.Supp. 445 (2d Circ 1982) (no likelihood of confusion because parties serve entirely different markets)
- Other relevant distinctions

Defenses to Trademark Infringement:



- Laches/acquiescence
- Unclean hands/fraud
- Challenge validity and/or ownership of mark
- Fair use

Derivative Products



- Value is based on performance of another instrument/commodity.
- How to describe underlying product:
 - Obtain license from company that prepare the enterprise (Standard & Poor's Corporation S&P500)
 - Fair use defense

Derivative Products – Fair Use



- Two types of fair use:
 - Classic Fair Use: use of a mark in a descriptive manner and not as a reference to a third party's trademark
 - Nominative Fair Use: use of a mark to identify the third party's goods or services without permission for identifying purposes

Classic Fair Use



- Elements of classic fair use:
 - Use of the term is not as a trademark; and
 - Use of the term is made fairly and in good faith; and
 - Use of the term is only to describe one's goods and/or services.



- Elements of nominative fair use
 - Product or service in question must be one not readily identifiable without use of the trademark;
 - Only so much of the mark may be used as is reasonably necessary to identify the products or service; and
 - The user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark owner.
New Kids on the Block v. News Am. Pub., Inc., 971 F.2d 302 (9th Cir. 1992).

Nominative Fair Use - No infringement



- *Golden Nugget, Inc. v. American Stock Exchange, Inc.*, 828 F.2d 586 (9th Cir. 1987)
 - No property interest in common stock owned by its shareholders that would “allow it to control the manner or means of resale of its shares”

Nominative Fair Use (cont'd)



- *The Nasdaq Stock Market, Inc. v. Archipelago Holdings, LLC*, 336 F. Supp.2d 294 (SDNY 2004)
 - Do other exchanges need to obtain a license before investors are able to trade QQQ shares on that exchange?
 - NO. Nasdaq has no protectable interest with respect to resale of QQQ shares on another exchange.



- *Dow Jones & Company, Inc. v. International Securities Exchange, Inc.*, 451 F.3d 295 (2d Cir. June 16, 2006)
 - Does a creator of a financial index have sufficient rights to prevent others from offering options on their exchange traded funds (ETFs) based on the index?
 - Second Circuit said NO.
 - “No property interest of the plaintiff in shares of its stock owned by its shareholders would permit it to control resale of those shares”
 - Recognized nominative fair use



- *Standard & Poor's Corporation v. Commodity Exchange, Inc.*, 683 F.2d 704 (2d Cir. 1982)
 - 2nd Circuit said that Comex 500 Index would “essentially duplicate” the Standard & Poor’s 500 Index

Disclaimer



- Is this useful? Burden is on defendant to prove that it is effective.
- Must be conspicuously placed.

Lessons learned



- Creators of financial indices do not have unlimited right to preclude all uses of the index or references to it.
- If you create an index-linked derivative product or promote secondary market trading of an index-linked derivative product, make sure that any reference to the underlying stock index satisfies the nominative fair use test.

Protecting Your Clients



- Client service is paramount.
- Redundancy
- Internal transparency
- Treat your people with respect and recognize vulnerabilities

Protecting Your Clients (cont'd)



- Covenants not to compete
 - Don't be onerous
 - Consider the brokerage model
- Non-Solicitation Agreements
 - Phantom equity and options as a golden handcuff
 - Be reasonable but firm

Protecting Your Clients (cont'd)



- Don't allow use of personal devices for firm business in order to avoid data downloads
- Make sure there are no "lone wolves"
- Deny track record tacking by making sure the CIO is a member of every team
- Keep eyes and ears open
- Don't be greedy if it "hurts" your team



215.981.4893
212-808-2723
nowakg@pepperlaw.com

Partner in Financial Services Practice Group

- Concentrates his practice in securities law, particularly in representing investment management companies and other clients on matters arising under the Investment Company Act of 1940 and the related Investment Advisers Act of 1940, and broker dealers and commodity futures traders and pool operators
- Represents many hedge funds and other alternative investment funds in fund formation, investment and compliance matters, including compliance audits and preparation work
- Writes and speaks frequently on issues involving investment management, health care and other matters and is the author of four books on hedge funds

Lori E. Harrison



212.808.2750
800.745.7802
harrisonl@pepperlaw.com

- Concentrates her practice on intellectual property matters, including trademark, copyright, unfair competition, e-commerce and domain name counseling and dispute resolution
- Advises clients on trademark availability and adoption, as well as the management and enforcement of domestic and international trademark portfolios, including representing clients before the U.S. Patent and Trademark Office's Trademark Trial and Appeal Board. In addition, she counsels clients on licensing and service agreements, as well as intellectual property issues related to secured transactions, acquisitions and litigations.

31471574.1