The Laws of Fashion: What's Trending in 2022

MARCH 2022

PREPARED BY THE FOLEY & LARDNER TEAM IN THE AREA OF:
FASHION, APPAREL & BEAUTY

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TABLE OF CONTENTS

04 | **2022 M&A Outlook**

06 | **NFT's & Trademark Matters in the Metaverse**

08 | **Supply Chains for Fashion and Beauty**

10 | **SMART Fabrics**

12 | **Sustainability in the Fashion Industry**

14 | **Top 5 Insights for Cosmetic Manufacturers for 2022**

16 | **Cases to Watch in 2022**

18 | **Copyright Events & Developments**

Summary

The fashion industry has certainly seen its fair share of change over the last year given consumer trends, geopolitical & public health issues, innovation in technology and legal developments and we don't anticipate that stopping any time soon. The Fashion, Apparel & Beauty industry team at Foley & Lardner invites you to dive into the hot topics facing the industry as brands continue to collaborate and innovate so that they remain on the cutting edge in 2022. In this summary, our Foley FAB team examines case law, as well as cases to watch, and shares insights on issues such as SMART fabrics, NFTs, supply chain, and sustainability.

We hope you find this information helpful and encourage you to contact a member of our team if we can discuss any of these issues in greater detail or assist you with any of your business needs.

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2022 M&A Outlook

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Despite the challenges presented by COVID-19 over the last two years, including its significant impact on supply chains and the economy, 2021 was a banner and record-setting year for M&A and fundraising transactions. In general, M&A activity in 2021 was strong across many industries, and the fashion and beauty industry was no exception. In 2021 we saw combinations and equity investments into some of the biggest brands in the fashion and beauty industry, including:

- LVMH Moët Hennessy Louis Vuitton's acquisition of Tiffany & Co. for $16 billion;
- A $1.1 billion investment in Farfetch by Alibaba Group and Richemont;
- Louboutin's sale of 24% of its equity interests to Exor Group (the largest shareholder in Ferrari); and
- GOAT Group's $195 million equity financing that pushed its valuation to $3.7 billion.

Now the question is whether 2022 can keep the same energy? Early results in 2022 indicate the answer is yes! We have already witnessed Kim Kardashian's SKIMS raise $240 million (pushing its valuation to $3.2 billion), Farfetch's entry into beauty with its acquisition of LA-based Violet Grey, and the highly anticipated IPO of Rihanna's Savage X Fenty lingerie brand.

So how did we get here? One reason is that prior to the global pandemic there was a shift towards online shopping, particularly from new entrants. However, some retailers had anticipated a resurgence of in store shopping and made investments in brick and mortar locations. As you could imagine, physical retail has been upended and continues to struggle as a result of the pandemic, while online/digital shopping rebounded and increased significantly during 2021. The growing gap in success between digital vs. physical shopping has led to acquisition opportunities and increased M&A activity that is expected to continue through 2022 for a variety of reasons.

One explanation for increased M&A activity is that a number of strategic retailers and financial sponsors have been sitting on cash that can be used to acquire distressed brands and assets with attractive specialties, customers and/or digital capabilities. For example, in early 2021 Nike acquired Datalogue to assist Nike's direct-to-consumer and digital efforts. So in addition to brand consolidation, many industry participants are engaging in M&A activity to boost their e-commerce and digital capabilities.

In addition, there is an expectation that many industry participants will reassess their overall strategy as we recover from COVID-19, ultimately resulting in the disposition of certain non-core assets with proceeds reinvested in high-growth sectors. Such a strategy makes sense given the increase in valuations in 2021 resulting from competition for assets and efforts to grow by acquisition. Also, valuation levels increased significantly as a result of the improved equity markets starting the second half of 2020 and through all of 2021. Although there appears to be an initial break in the equity markets during the first quarter of 2022, the expectation is that valuations should stay generally high, thus attracting the attention of many potential sellers.

As we emerge from the pandemic, M&A activity (on the buy side and sell side) will be top of mind as companies reassess their overall strategy. Opportunistic buyers will continue to evaluate opportunities to strengthen their e-commerce and direct-to-consumer channels and strategic sellers will look for opportunities to maximize value for underperforming assets, brands and divisions. In order to catch this wave, companies should pay close attention to their acquisition and disposition strategies so that opportunities are not missed. Without a proactive and detailed M&A strategy, including the engagement of knowledgeable internal and external advisors, certain brands may be caught with their pants down.

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NFTs and Trademark Matters in the Metaverse

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French Fashion House Defends its Trademark Rights in Connection with Artist's NFT Minting

In January 2022, the heritage fashion house Hermès lodged a complaint in New York federal court against California artist Mason Rothschild for his use of its BIRKIN bag name and design. Unlike with the typical recipient of a BIRKIN bag infringement claim – such as a counterfeit producer or competing handbag designer – Rothschild's allegedly infringing works cannot be held, opened, or worn. The case, *Hermès International, et al. v. Mason Rothschild*, represents one of multiple recent disputes between fashion house and non-fungible token (**"NFTs"**) creator attempting to implement a brand's trademarks into a new digital frontier – the metaverse. Rothschild's NFT works in the present case, coined the "MetaBirkins," represent a series of 100 NFT images featuring the iconic BIRKIN bag design covered in a variety of colorful furs.

In its complaint, Hermès asserts that Rothschild's MetaBirkins infringe upon and dilute its federally registered BIRKIN trademarks as well as its trade dress rights in the BIRKIN bag form. At the heart of its argument, Hermès focuses on the fact that the MetaBirkins are being commercialized in a manner akin to the valuable "in-real-life" products for which they represent. The MetaBirkins are marketed and offered for sale just like the real thing, all the while incorporating and exploiting the famous BIRKIN marks in connection therewith. Hermès claims that the MetaBirkins "falsely create the impression that the goods sold by [Rothschild] are authorized, sponsored, or approved by Hermès when, in fact, they are not." In an attempt to cue the case up as a classic example of trademark infringement, Hermès conceptualizes the MetaBirkin NFTs as valuable assets able to be marketed and sold no differently than the actual BIRKIN bag.

In response to the complaint, Rothschild submitted a motion to dismiss on February 9m 2022 with the intent of having the case tossed out in its entirety as a matter of law. Integral to his argument, Rothschild asserts that the MetaBirkins are artworks that provide commentary "on the animal cruelty inherent in Hermès' manufacture of its ultra-expensive leather handbags." The motion to dismiss goes on further to reiterate that the NFTs "are not handbags" and that "they carry nothing but meaning." Of course, Rothschild's argument takes the stance that his MetaBirkins are not commercializable assets in the first instance (as Hermès sees them), but rather Rothschild's speech, art, and expression, all of which are protectable under the First Amendment. To back up this argument, Rothschild relies on the precedent set forth in *Rogers v. Grimaldi*, which permits the use of trademarks in artistic works provided that the trademarks have no artistic relevance or otherwise overtly create a false designation of origin. Rothschild also cites *Dastar Corp. v. Twentieth Century Fox Film Corp.*, which holds that only tangible, physical goods are actionable under the Lanham Act. Of course, given the amorphous and quickly-evolving nature of NFTs, it is unclear whether the *Dastar* case applies to the present facts, or whether it is distinguishable.

Leaning on free speech and artistic expression, Rothschild has now presented a countering position to that of Hermès for the court to consider – namely, does the highly commercial nature of NFT works fall closer to artworks and speech or commercial goods.

Nike and Stock X Clash over Sales of NFTs Depicting Nike Trademarks

Athletics giant Nike filed suit against online sneaker marketplace StockX on February 3, 2022 alleging trademark infringement and dilution in response to the sneaker marketplace's recent NFT venture. Like many instances of NFT integration in businesses that deal in tangible goods, StockX's use of NFTs is marketed as a utility to its members. Specifically, the new NFT initiative serves the purpose of allowing for customers to purchase a shoe through an authenticated NFT, which evidences such ownership without having the need to physically possess and store the shoe itself. Shoes subject to the NFTs are said to be "stored in [StockX's] brand new, climate-controlled, high-security vaults inside StockX facilities." Customers, who use the StockX platform more like an exchange (treating sneakers like stock rather than wearables), are likely to utilize the new service in order to buy and sell (or "flip") shoes at a quicker rate. In StockX's words, "You take possession of the NFT immediately after the transaction is complete, meaning it is the fastest way to flip. And with no shipping costs, and market-leading low seller fees at a fraction of the cost, there's a lower hurdle for profitability."

Despite the apparent utility of StockX's NFT integration, Nike identified in its complaint that this functionality is not yet active, and may otherwise be flawed. According to Nike, StockX has not activated the redemption process for NFT owners, meaning the purchase of a sneaker NFT today would not entitle the owner to the physical shoe it allegedly represents. Separately, Nike points to what it calls "murky terms" which permit StockX to unilaterally redeem an NFT for an "experiential component," which would deprive the NFT owner of ever possessing the corresponding shoe. These inconsistencies could support the notion that StockX's NFT business is predominantly focused on selling sneaker NFTs as yet another collectible asset, and not as a functional extension of its platform.

This is the narrative that Nike has set forth in order to support its argument that StockX's NFT practices are misappropriating Nike's trademarks in an effort to economically gain from the goodwill of the NIKE brand. Further to this point, Nike emphasized that in October 2021 it filed for NIKE trademarks for use in connection with "digital sneaker NFTs" – goods that it claims are directly conflicting with StockX's NFTs and therefore Nike's exclusive right to pursue. If StockX's NFT program is not found to conform to its stated business function, Nike will likely zero in on this fact and exert its rights in the NIKE brand. Although StockX has not yet filed a response, their approach is expected to emphasize the utility of their NFT initiative as a natural extension of the First Sale Doctrine, which entitles them to resell authentic Nike products and otherwise use Nike's related trademarks in connection with the marketing and sale of such goods.

Supply Chains for Fashion & Beauty

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To blockchain or not to blockchain; that is the question.

The world of supply chain manufacturing has seen massive disruptions: two years of the COVID pandemic; geopolitical unrest; limited availability of raw materials; disruption of the transportation of goods; shortages of workers; plus increased theft and fraud. A variety of high-tech solutions to improve the supply chain and reduce theft and fraud have been tested and implemented with different degrees of success.

One high-tech solution to this problem involves the use of blockchains and smart contracts. Blockchains are distributed ledgers typically used with cryptocurrency applications because of their ultra-high security performing financial transactions through the use of automated transaction consensus verification. With supply chain management such consensus processing is not "mission critical" as there are other reliability safety measures, such as encrypted communications, verifiable RFID markings, multi-step authentication protocols for users, and so on.

Blockchains provide several practical and legal advantages over conventional supply chain tracking. Every supply chain participant, from the raw material producer to the final product manufacturer, and even the end buyer may access the blockchain for product supply chain tracking, allowing better coordination along the entire chain.

Smart contracts are programs stored on a blockchain that execute when conditions are met. The conditions are typically a set of negotiated terms between two parties stored in a data object, and are automatically executed when a transaction or other event condition occurs. Smart contracts can be used for the manufacturing of physical goods in an integrated manner. For example, in producing a garment, such as jeans, raw materials may be contracted from suppliers, and each supplier may log and record their operations, which may trigger a smart contract. Once these conditions are met, the product is automatically shipped and payments are processed. Authentication can be set up so the smart contract can automate payments. By allowing the suppliers, sellers and/or buyers to create conditions in which one step in the process won't be fulfilled until the one before it has been verified, there is less room for fraud, disputes over obligations and performance and removes the need for a third party/middle-man, such as an escrow agent. Such autonomy may lower business and legal costs to help keep budgets on track.

How do smart contracts work where multiple layers and multiple parallel processes of production are required? Not all blockchains and smart contracts are created equal. Ethereum is a blockchain platform most known for cryptocurrencies and non-fungible tokens (NFTs). The Ethereum blockchain is enormous, currently over four terabytes and doubling yearly, making it impractical for many applications. Other blockchain platforms may be tailored for supply chain uses, but many are limited to the use of a single smart contract per transaction.

There's a blockchain platform that supports sequential smart contracts; multiple levels of contractors may be compensated, for example, upstream of one another. In the garment example, once a smart contract is satisfied by the raw material producer, payment may be made to that producer and a down payment may be made to the fabric production facility automatically by

the first smart contract being successfully completed. As the smart contracts along the supply chain are satisfied, the end buyer has a transparent view of the supply chain. Each step may be coded, verified, and time stamped along with any other information (e.g., truck ID, personnel IDs, etc.) to provide end-to-end traceability, thereby avoiding fraud and theft.

EvergreeNFT is a blockchain solution that supports sequential smart contracts for supply chains. EvergreeNFT President Andrew Hopkins stated that "although other solutions exist for the supply chain industry, none are as elegant and simple to use as blockchains. Our solution supports sequential smart contracts and can incorporate any encryption protocol desired by a customer for security purposes. Moreover, because of the inherent redundancy of blockchains, the potential of cyber-ransom or other cybercrimes to become a disruption for our supply chain system is eliminated."

Other smart contract uses include pattern owners licensing to a licensee with rights to sub-license. Payments are then made in a sequential, automatic manner because of the nature of the smart contracts. Another smart contract use allows limiting production of a pattern, such as a tee-shirt, by the smart contract preventing a printer from printing more than a certain number of prints (e.g., 200 tee-shirts).

Blockchains have become a valuable supply chain tool for manufacturing scheduling, reducing fraud, maximizing security, managing budgets, and reducing legal conflicts. Blockchains with sequential smart contracts further support supply chains in ways that have historically been time consuming and logistically challenging.

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SMART Fabrics

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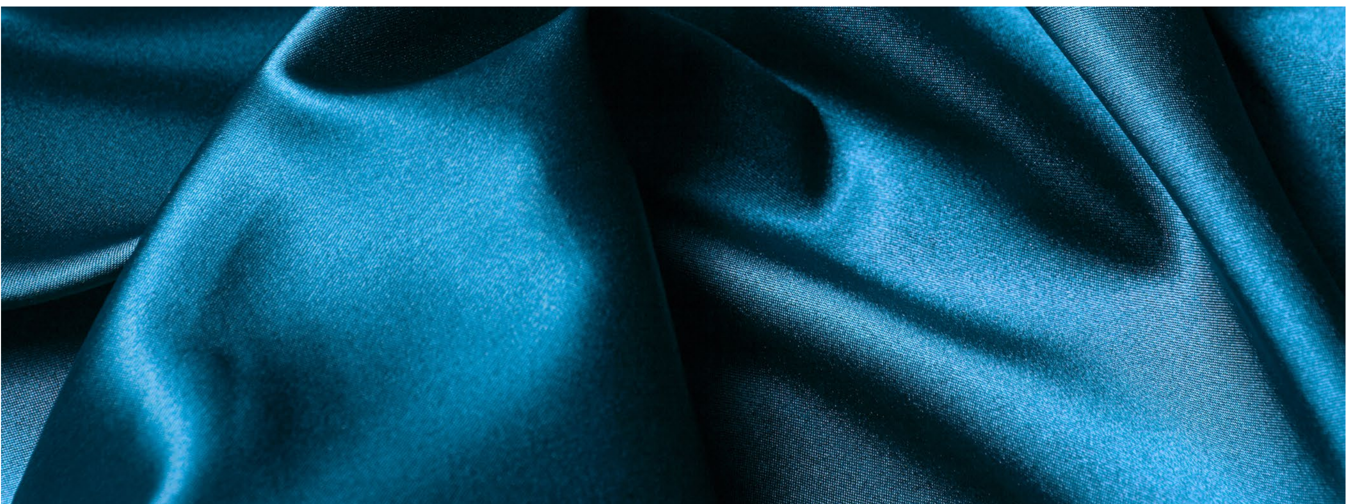
Smart fabrics can be manufactured from a wide range of materials and aim to provide added value with regards to safety, comfort, or performance, especially enhancing athletic performance. Smart fabrics can include electrical conductivity, which ensures the technology can be powered while allowing them to be washed in the same manner as traditional fabrics. Smart fabrics are already being used in a broad range of potential medical, military, biomedical and athletic applications.

Smart fabrics can include materials and structures that respond to chemical, mechanical, electrical, optical, and magnetic stimuli and may also include digital components such as a battery, a sensor, an LED, or an embedded electronic chip. Smart fabrics can, therefore, focus on enhancing performance, such as regulating body temperature and perspiration, monitoring breathing and heart rate, and controlling muscle vibration. Some simpler versions of these types of fabrics already exist, from compression materials to speed athletic recovery to materials that help wick perspiration from an athlete or reduce wind resistance. The importance of the development and protection of smart fabric technology is no more apparent than in the recent case between Peloton and Lululemon, discussed in these materials and related to design patents and trade dress rights.

Future performance-enhancing smart fabrics and electronically integrated textiles (e-textiles) may, through integrated sensors, interact with the wearer's body to sense current conditions and respond accordingly. For example, first responders may be outfitted with clothing made from fabrics that allows their vital signs to be tracked during deployment, allowing a command center to monitor the physical status of the responder. First responders showing signs of fatigue or reduced response time may be recalled from the theater of operations before a negative event occurs. These innovations could revolutionize the way that first responders, from firefighters to law enforcement to emergency medical service personnel handle any situation they may encounter. Given the nature and timing of decisions that need to be made,

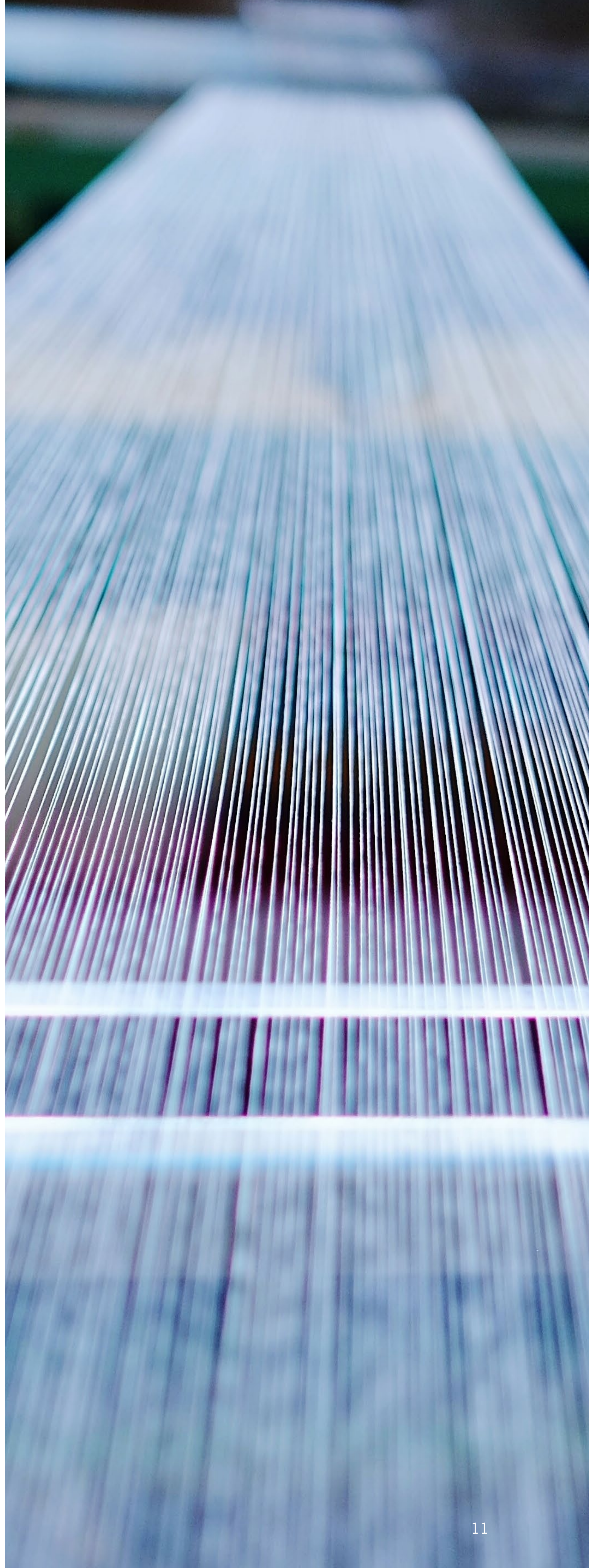


having reliable technologies and gear will not only keep first responders safer, but may also allow them to be able to focus more on saving lives.

The additional utility provided by a smart fabric, however, is not limited to practical concerns. It is said that style is a way to say who you are without having to speak. Smart fabrics increasingly provide fashion designers with an expanded vocabulary to help you say who you are without speaking. As an example, researchers at Fudan University in Shanghai wove electrically conductive, transparent fibers and luminescent threads together with cotton yarn to create a flexible fabric capable of serving as a durable, flexible display that is about as bright as a flat-panel television. Clothing made from such a fabric could change its color or pattern as desired by the wearer, posing novel questions for the brand owners.

It is estimated that the global market for smart fabrics was US$1.46 billion in 2020 and is forecasted to grow at rates exceeding 20% for the decade. Increasing investment to accelerate production of smart fabrics and e-textiles, rapid advancements in sensor technology, and rising adoption of these in the healthcare and defense sectors are some key factors expected to drive market revenue growth over the forecast period. But this growth will certainly come with new legal issues for this market. In addition to manufacturing regulations, fashion designers will need to be compliant with regulatory requirements such as labelling, recycling, health and product safety. Smart fabrics may also be the subject of not just brand identity and logos, but also patent and copyright protection. And for those smart fabrics that are designed to process personal data, designers and manufacturers alike will need to be mindful of data protection issues and the regulations that affect target markets, e.g. GDPR in Europe.

It's an exciting time for designers and fashion houses as they look to innovate and respond to market desires – be fashionable and smart.



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Sustainability in the Fashion Industry

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2022 will continue to bring increased focus on sustainability and social accountability requirements and practices for the fashion, apparel and beauty sector up-and-down the supply chain.

Some of this increased focus will undoubtedly come from state and federal lawmakers and governmental agencies, as new or proposed legislation and regulations are being actively considered or are planned to be rolled out in the coming year. For example, the Environmental Protection Agency, the Food and Drug Administration, and various state agencies and legislatures are pursuing or considering measures such as additional chemical use restrictions and prohibitions, new notification and reporting requirements on chemical use and imports, limitations on product disposal options, and extended producer responsibility obligations.

In addition, the Federal Trade Commission (the "FTC"), indicated in summer of 2021 that the agency would initiate a review in 2022 of its *Guides for the Use of Environmental Marketing Claims*, colloquially known as the "Green Guides." The Green Guides are a resource the FTC originally created in 1992 to help businesses avoid making unfair and deceptive environmental advertising claims and to assist the public in understanding and appreciating the statements included in such claims. The Green Guides have not been revised since 2012 and, as currently written, may no longer provide comprehensive guidance for businesses and consumers alike given the current sustainability-focused advertising landscape, especially because the Green Guides currently do not cover "sustainability," "organic," or "natural" environmental claims. While the FTC did not expressly indicate a specific focus area for its planned revisions to the Green Guides, some suspect that the agency's revisions will address claims related to sustainability, organic, and natural, as well as climate-related claims, which are top-of-mind for consumers when making purchasing decisions. Brands should be on the lookout for the revisions to the Green Guides and understand them as they may significantly affect the types of environmental advertising claims that are available.

Legislators from the Empire State have their own ideas on how to increase focus on sustainability and social accountability in the fashion industry. In January 2022, the New York state legislature unveiled the *Fashion Sustainability and Social Accountability Act* (the "Fashion Act"), which is a bill that attempts to make New York the first state in the United States to effectively "hold the biggest brands in fashion to account for their role in climate change." As currently proposed, the Fashion Act would apply to global apparel and footwear companies with more than $100 million in revenue who do business in New York (so, in other words, a majority of multinational fashion brands). The law would require, *inter alia*, qualifying brands to map a minimum of 50% of their supply chain and disclose whether in that chain the brands have a significant real or potentially adverse social and environmental impact when it comes to issues such as fair wages, energy, greenhouse gas emissions, etc. and then disclose targets for preventing and improving those impacts. Failure to comply could result in fines of up to 2% of a brand's annual revenues over $450 million. Brands should keep tabs on the Fashion Act, which is currently making its way through New York legislative committees with an aim towards a vote in late Spring 2022, and the new local requirements that may follow therefrom.

Notwithstanding these planned governmental actions and the impact they may have, the greatest increased focus on sustainability and social accountability in the industry may be driven by non-governmental stakeholders, starting—as most initiatives usually do—with consumers and trickling down to investors, shareholders, and lenders. Now more than ever, there is high consumer demand for goods to meet certain environmental, social and governance, or "ESG," criteria. Sustainably sourced materials, organically produced fibers, zero-carbon footprint, not tested on animals, no child labor, fair trade, all natural ingredients, plastic-free, environmentally-friendly packaging – these are just some examples of consumers' expectations that are driving purchasing, investing, and commercial decisions. And, as companies commit to these certifications and practices to meet consumer expectations, this in turn drives sustainability obligations up-and-down the supply chain, impacting producers and providers of ingredients, components, packaging, and labor.

Failure to comply with these sustainability and social accountability commitments and requirements can have broad ramifications – such as governmental agency enforcement (e.g., enforcement actions brought by the FTC or National Advertising Division for making unfair and deceptive environmental advertising claims), lawsuits (e.g., for failure to comply with New York's proposed Fashion Act), loss of customers and licensing rights due to breach of contract claims, and other negative impacts to overall brand reputation, to name a few. So regardless of where you are in the supply chain, it will be challenging but important to have robust programs to keep up with the changing regulatory, contractual, and market requirements. In addition to monitoring and ensuring compliance with your reported sustainability and ESG commitments and existing laws and regulatory requirements, some other measures companies should consider:

- Stay abreast of upcoming relevant legislation and regulatory requirements and restrictions and consider and plan for how they may affect your business;
- Ensure robust processes to inventory all chemicals used in products and identify those chemicals to limit, phase out or prohibit in advance of regulations;
- Inventory relevant contractual requirements and commitments and track execution of such obligations;
- Assess supply chain contracts to ensure relevant requirements and commitments are passed through to suppliers;
- Confirm compliance with commitments, both internally and within supply chain; conduct periodic auditing of operations and contract performance; require routine verification; and confirm execution of corrective measures to address non-conformances.

Those companies who monitor and plan ahead, including by implementing strong compliance programs, will be best suited to ride the ever-expanding sustainability wave, bolster market strength, and ultimately grow and protect brand reputation.

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Top 5 Insights for Cosmetic Manufacturers for 2022

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1. "A Cosmetic By Any Other Name"—Situations When Marketed Cosmetics Products are Considered Drugs

The FDA regulates drugs and cosmetics differently, with the latter being subject to significantly less regulatory requirements. Cosmetic manufacturers can sometimes violate the law by marketing a cosmetic product with a drug claim or marketing a drug product as a cosmetic, failing to comply with regulatory requirements for drugs. When determining whether a product is a "cosmetic" or a "drug", the U.S. Food and Drug Administration ("FDA") examines the "intended use" of the product.

Under the Federal Food, Drug, and Cosmetic Act (FD&C Act), cosmetics are defined as "articles intended to be rubbed, poured, sprinkled, or sprayed on, introduced into, or otherwise applied to the human body...for cleansing, beautifying, promoting attractiveness, or altering the appearance."[1] Products recognized as cosmetics under the law include skin moisturizers, perfumes, lipsticks, fingernail polishes, eye and facial makeup preparations, cleansing shampoos, hair colors and deodorants. In contrast, drugs are defined as "articles intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease" and "articles (other than food) intended to affect the structure or any function of the body of man or other animals."[2]

FDA determines the "intended use" of a product by analyzing the claims stated on the product's labeling, its advertisements, and in other promotional materials. FDA also looks to consumer perception and use of certain ingredients that have well-established therapeutic uses to determine whether a product is a "drug" or "cosmetic".

In some instances, a product can be considered both a drug and a cosmetic. This occurs when a product has two intended uses. For example, a moisturizer with sun protection factor (SPF) claims is considered both a drug and a cosmetic. The moisturizer is a cosmetic because its use is to beautify skin while the SPF component is a drug because its use it to protect the skin from ultraviolet A and B rays. As a result, the product must comply with both cosmetic and drug regulatory requirements.

It is important for cosmetic manufacturers to understand the distinction between cosmetic and drug claims. Furthermore, it is critical for these companies to consider the claims on their products' labeling, advertising (including on the Internet), and any other promotional materials. This is especially the case when they are marketing sunscreen products that are regulated differently by the FDA than they are in Europe by European authorities.

2. There are Two Sheriffs in Town—Cosmetic Product Labels are Subject to Both FDA and FTC Requirements

The FDA and the Federal Trade Commission (FTC) are both authorized by federal laws to regulate product labeling. Pursuant to the FD&C Act, FDA has the authority to regulate cosmetic labeling claims while the FTC has the authority to regulate advertising claims of cosmetic products under the Federal Trade Commission Act ("FTC Act").

Although the FD&C Act does not require cosmetic product labeling to be reviewed or approved by the

1. See FDCA §201(i); 21 U.S.C. §321(i).

2. See FDCA §201(g)(1); 21 U.S.C. §321(g)(1).

FDA, the FDA can take enforcement actions against companies whose cosmetic products are misbranded. As mentioned earlier, this generally occurs when a cosmetic product is marketed with "drug" claims such as treating or preventing a disease. FDA often issues warning letters to these companies, stating that these marketed cosmetic products are "new drugs" that need prior approval from FDA to market these products as drugs.

The FTC regulates the advertising claims of cosmetic products, and requires that these claims be truth and not misleading. The FTC generally issues administrative complaints to companies that engage in deceptive advertising. The FTC often issues complaints to cosmetic companies after FDA has issued warning letters to these companies.

Cosmetic manufacturers should be aware of both FDA and FTC's regulations and enforcement actions (e.g., warning letters, seizures, and injunctions) related to cosmetics, and develop compliance programs to ensure their labeling and advertising claims align with both agencies' regulations.

3. Be Aware of State Requirements Related to Cosmetic Products

In addition to the FDA and FTC regulations, almost every state has laws and regulations that apply to cosmetic products. Most of these states have their own Food, Drug, and Cosmetic Act that closely mirrors the federal FD&C Act. Some states such as Florida and Louisiana have additional requirements for cosmetic manufacturers such as facility registration, product registration, licensing/permitting, and/or inspections. For example, Florida requires in-state cosmetic manufacturers to obtain a cosmetic manufacturer permit from the state.

In 2005, California passed the California Safe Cosmetic Act. This law applies to all cosmetic products sold in California. This Act requires cosmetic manufacturer, packer, and/or distributor named on the product label to provide to the California Safe Cosmetics Program (CSCP) a list of all cosmetic products that contain any ingredients known or suspected to cause cancer or developmental or other reproductive harm.

Cosmetic manufacturers should be aware of the applicable state requirements for their products in additional to the federal regulatory requirements.

4. What's New About Talc

Recently, FDA released a white paper titled IWGACP Scientific Opinions on Testing Methods for Asbestos in Cosmetic Products Containing Talc (including Talc Intended for Use in Cosmetics). The white paper outlined scientific opinions on the testing of talc-containing cosmetic products for asbestos. The IWGACP white paper follows the February 2020 FDA public meeting on asbestos testing.

Any cosmetic manufacturing using talc as an ingredient should be aware of FDA's recent guidance on product testing.

5. Proposed Legislation Could Change the Makeup of the Current Cosmetics Regulations

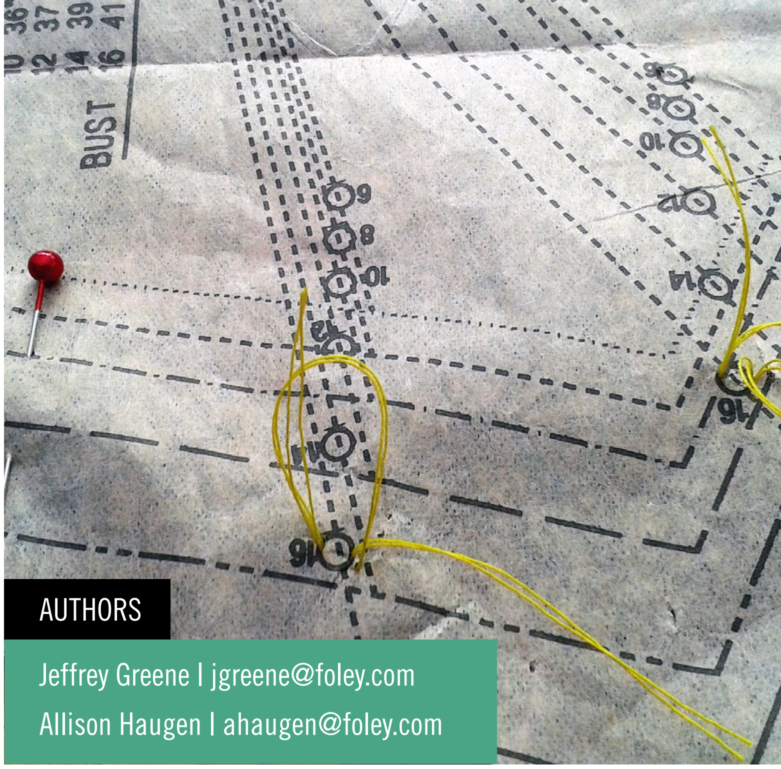
Since the passage of the Federal Food, Drug, and Cosmetic Act ("FD&C Act") in 1938, FDA's oversight of cosmetics has generally remained unchanged.

Last summer, Senators Dianne Feinstein (D-Cal.) and Susan Collins (R-Me.) reintroduced the Personal Care Safety Act (S. 2100). This bill would substantially expand FDA's authority over cosmetics. Under the proposed legislation, FDA could issue mandatory recalls in certain instances that involve cosmetic products that would likely cause serious adverse health consequences and the companies has refused to voluntarily recall these products. As of now, the FDA lacks this authority. The bill also would require companies to register with FDA and disclose the ingredients they use in their products. Additionally, under the proposed bill, companies must report serious adverse events including death and inpatient hospitalization to FDA within 15 days. Furthermore, companies must report an annual summary of all adverse events including nonserious adverse events such as rashes.

This legislation would require FDA to promulgate regulations for cosmetic good manufacturing practices. FDA would also be allowed to seize counterfeit cosmetic products. Lastly, similar to drugs and medical devices, the bill would authorize FDA to collect user fees from manufacturers.

Currently, there has been no action since the introduction of the bill and we do not expect passage of the bill this year. Nevertheless, there continues to be some support for this proposed legislation and we will continue to monitor for changes.

Cases to Watch in 2022



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In 2022, we look forward to decisions and developments on the following pending federal district court cases that will shed light on important issues in the fashion, apparel, and beauty space. These issues include: the resale of branded products; the scope of design patent and trade dress protection in clothing; and the application of trademark and copyright principles to non-fungible tokens (NFTs), a blockchain technology providing tokens representing ownership of digitized items.

Chanel, Inc. v. What Goes Around Comes Around LLC; *Chanel, Inc. v. The RealReal, Inc.*

The standards for evaluating trademark use, false advertising, and intellectual property policing may be implicated should decisions be rendered in litigation initiated by Chanel against The RealReal and What Goes Around Comes Around ("WGACA"), companies in the online luxury consignment market. Chanel brought claims for trademark infringement, unfair competition, trademark counterfeiting and deceptive and false advertising against WGACA and The RealReal, arguing that consumers would falsely believe that Chanel authorized the sale of its Chanel-branded luxury items or was otherwise associated with The RealReal and WGACA. Chanel's case against WGACA has outstanding motions for summary judgment, with Chanel seeking a finding that WGACA engaged in false association and false advertising. In response, WGACA argues that Chanel has not been injured or otherwise suffered reputational harm; that its use of the CHANEL mark constitutes nominative fair use; and it had not engaged in counterfeiting. In the other pending case, Chanel has taken issue with the RealReal's advertising of its authentication processes and the RealReal has raised antitrust concerns, claiming that Chanel has engaged in anti-competitive activities through seeking to exclude or overly limit resellers from using the CHANEL trademark. The implications of these cases could be broad-reaching, providing guidance to resellers on the parameters of a fair use defense to trademark infringement claims through a decision in the *Chanel v. WGACA* case and insights into the validity of antitrust-type claims in instances of claimed interference with the resale market in *Chanel v. The RealReal* as well as how resellers ought to describe the authenticity of the goods they sell. Whether and to what extent The Shop Safe Act — a proposed act to reduce the availability of counterfeit items by incentivizing online platforms to thoroughly vet sellers — is able to assuage fears of counterfeit sales such as those claimed against The RealReal remains to be seen, as the Act remains pending.

Lululemon Athletica Canada, Inc. v. Peloton Interactive, Inc.; *Peloton Interactive, Inc. v. Lululemon Athletica Canada, Inc.*

Peloton and Lululemon entered into a co-branding partnership for athletic clothing that lasted until September 2021. Upon termination of that partnership, Peloton launched its own private label clothing line. In November 2021, Lululemon sent a cease and desist letter to Peloton, alleging that items in its clothing line infringed its design patents and trade dress rights. Peloton responded by filing a declaratory judgment action of non-infringement and claiming that Lululemon's design patents were invalid. The case raises interesting questions as to the scope of design patent and trade dress protections for clothing items, particularly athleisure, areas long subject to inconsistencies regarding the forms and

bounds of intellectual property protection. A decision in this case may provide valuable guidance to designers in carefully selecting intellectual property protections to pursue and enforce, weighing in favor of, or against, pursuing trade dress, copyright, and/or design patent protection for clothing items.

Hermès International v. Mason Rothschild

Given its meteoric growth, discussions regarding NFTs are likely to remain a common topic in 2022. In *Hermès v. Rothschild*, Hermès objected to Rothschild's sale of "Metabirkins" NFTs featuring furry renderings of Hermes's iconic Birkin handbag. Hermès sent Rothschild a cease and desist letter and filed a lawsuit in the SDNY in January 2022 alleging trademark infringement, false designation of origin, trademark dilution and cybersquatting. In his Motion to Dismiss for Failure to State a Claim, Rothschild relies on First Amendment and artistic expression to claim his actions are not infringing. In particular, Rothschild argues that his depictions of fur-covered Birkin bags and use of "Metabirkins" is artistically relevant and not explicitly misleading such that Hermès cannot state a claim for trademark infringement. As of publication, the Motion to Dismiss remains pending. Without question, the intersectionality of NFTs, the First Amendment, and trademark as well as trade dress rights could provide valuable guidance to brand owners on how best to protect their branding in the ever-evolving digital age.

Miramax, LLC v. Tarantino

Quentin Tarantino announced a plan to auction exclusive scenes from the 1994 movie Pulp Fiction as NFTs. Miramax sent a cease and desist letter, claiming broad copyright ownership rights in Pulp Fiction and that any rights reserved under the contract between the parties were insufficient to confer an ability to Tarantino to sell exclusive scenes. After Tarantino did not agree to comply with Miramax's demands, Miramax initiated litigation, claiming breach of contract; copyright infringement; trademark infringement; and unfair competition. Tarantino asserted defenses including fair use and that the copyright claims relate to materials not covered by the asserted copyright registrations, among others. In early February, the parties filed their joint Rule 26(f) Report, outlining each party's statement of case. While in the entertainment space, this case may provide fashion brand owners valuable guidance on the scope of copyright claims for materials posted for sale as NFTs, which may assist in developing or defending against claims of copyright infringement and preventing the unauthorized dissemination of items in the metaverse.

All of the above cases, together with the continued evolution of technology allowing users access to items previously more difficult to acquire and creating completely new rights, highlight important intellectual property considerations and protections. 2022 is certainly poised to shed light on and possibly resolve them. Check back as the year progresses for further commentary on these cases, as well as other developments that affect fashion, apparel, and beauty brands.

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Copyright Events & Developments

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Going into 2022, there are a couple of important developments every copyright owner should know. One is based on a brand new Supreme Court decision, and the other is the upcoming implementation of the Copyright Alternative in Small-Claims Enforcement Act (CASE Act). These developments aim to make enforcement actions against copyright infringers more accessible and effective. As a result, these new advances give fashion designers additional legal tools they can use in their arsenal of intellectual property protection. Key takeaways from *Unicolors v. H&M*, and the upcoming CASE Act, are highlighted below.

U.S. Supreme Court Rules That Faulty Copyright Registrations Based on Mistakes of Law Do Not Invalidate Registrations or Prevent Enforcement Actions.

On Thursday, February 24, 2022, the U.S. Supreme Court weighed in on the long-running copyright infringement dispute between Los Angeles fabric designer, Unicolors Inc., and global fast fashion giant, H&M Hennes & Mauritz L.P.

Unicolors's lawsuit against H&M began in 2016 in the Central District of California. Unicolors alleged that H&M was incorporating one of its copyrighted fabric designs, a geometric pattern, without its authorization in connection with jackets and skirts. After a jury trial finding infringement, H&M was ordered to pay almost $800,000 in damages and attorneys' fees and costs. Following that verdict, H&M appealed to the Ninth Circuit, who overturned the decision. The Ninth Circuit held that Unicolors' copyright registration could possibly be void for failing to meet the "single unit of publication" requirement. The appellate court remanded to the district court, instructing it to refer to the Register of Copyright to determine whether such an inaccuracy would have caused registration to be refused. Before the action was remanded, Unicolors appealed to the U.S. Supreme Court.

In its 6-3 decision, the Supreme Court vacated the Ninth Circuit's ruling and held that inadvertent inaccuracies in a copyright registration do not void such registration, nor do they preclude the copyright holder from bringing a valid infringement claim. Essential to the Supreme Court's question was to determine the scope of the phrase "with knowledge that it was inaccurate," as posited under Section 411(b)(1)(A), the safe harbor provision of the statute. Breaking from the Ninth Circuit, the Supreme Court found that Section 411(b) does not distinguish between mistake of law and mistake of fact – in other words, either mistake is justifiable grounds for excusing the inaccuracy of a copyright registration.

In reaching this decision, the Supreme Court cited extensive statutory references and case law which conform to the notion that forgiveness of copyright applicant's legal mistakes were as much intended to be included as were factual mistakes. Perhaps most central to the Supreme Court's position was the fact that, based on commentary records of Congressional reports, the *intention* of Congress in enacting Section 411(b) in the first place was to benefit the non-lawyer in making it copyright registration and enforcement easier, not harder. Thus, voiding a copyright registration due to mistakes of law, especially copyright law that is "often esoteric," would undermine the intention of Congress.

The CASE Act's Small Claims Copyright Court

In December 2020, Congress passed the Copyright Alternative in Small-Claims Enforcement Act of 2020 (the "CASE Act") which established what is colloquially known as a small claims court for litigating infringement claims. As an alternative to bringing suit in federal court which is often prohibitive given the lengthy process and high legal costs, the CASE Act established the Copyright Claims Board (the "**CCB**") as a speedier and more cost-effective alternative to federal litigation for disputes with a monetary value of no more than $30,000. Through the CCB, litigants must mutually opt-in, meaning that if a defendant does not wish to participate in the CCB trial, the claim will not proceed. In this case, the plaintiff may still bring their case in federal court.

The CCB tribunal, which is set to begin operations as soon as Spring 2022, will cap statutory damages to $15,000 and actual damages to $30,000 (excluding attorneys' fees and expenses, which in circumstances of bad faith are available up to a capped fee amount $5,000). It will also offer declaratory relief which may include declarations of infringement/non-infringement.

Unlike traditional copyright litigation in federal district court, CCB rulings will be decided by a three-judge tribunal (requiring consensus between two of the three judges). Additionally, the CCB decisions will not create new law or any form of precedent, and will only operate under the understandings of existing statutes and case law of the applicable federal jurisdiction.

Although the CCB is intended to lessen the burden of entry for claimants to bring copyright infringement suits, paving the way for a new outlet for minor disputes to be resolved, the mutual opt-in procedure will likely result in the CCB hearing cases between small parties. Given that larger defendants have a disproportionate amount of resources compared to small claimants, these defendants will likely refuse to participate in CCB matters, knowing that claimants will not have the resources to file federal suit. Therefore, we suspect that the CCB will primarily serve as an alternative dispute forum for relatively small companies. Nonetheless, it is new and viable option for designers to use to enforce their copyright interests.

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