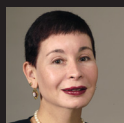


## Letter From the Editor



Fashion Week has come and gone, and while there was plenty of glitz and glamour, we are back to business as usual. This quarter's issue of *Kattwalk* offers insights on cases regarding applications for specific marks, what constitutes generics, and a decision raising significant issues that trademark applicants must consider when determining whether to appeal a refusal by a US Patent Trademark Office examiner. We hope you enjoy this issue, and as always, please feel free to contact me or anyone else at Katten to guide you through any of these issues.

Karen Artz Ash

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## Undue Prejudice in an Acquiescence Defense

by Karen Artz Ash and Bret J. Danow

When faced with a claim of trademark infringement, a defendant might avoid or minimize liability if it can establish the equitable defense of acquiescence. A defensive claim of acquiescence may be available where the trademark owner has affirmatively represented to the defendant that the mark at issue may be used and the defendant relies on that representation to its prejudice. In general, an acquiescence defense requires that a defendant satisfy three elements, namely: (1) it received assurances from the plaintiff that the defendant could use the mark; (2) it relied on such assurances; and (3) it would experience undue prejudice if it now had to cease use of the mark.

Recently, in *Pennzoil-Quaker State Co v Miller Oil and Gas Operations et al*, the US Court of Appeals for the Fifth Circuit clarified the role that "undue prejudice" plays in the determination of whether a defendant can establish a claim of acquiescence. In *Pennzoil*, the district court had ruled that the defendant successfully asserted an acquiescence defense based on its reliance on Pennzoil's representations. The Court of Appeals, however, reversed, holding that the defendant's reliance on representations alone was not sufficient to satisfy the test for acquiescence; and finding that there had been no evidence that Miller Oil had suffered undue prejudice because of its reliance on statements made by Pennzoil regarding the use of its trademark.

In doing so, the Court of Appeals provided a definition of when a defendant has demonstrated undue prejudice. Specifically, the Court ruled that "undue prejudice means that the defendant has taken steps such as making significant investment decisions or building the bulk of its business based on the reasonable assumption that it had permission to use the plaintiff's mark, and that such investment or capital would be lost if the defendant could no longer use the mark." The ruling emphasized that it was not sufficient that the defendant incur expenses in removing the mark at issue such that the costs of producing infringing products or the incidental effects arising from the creation of such products did not constitute undue prejudice. Moreover, the Court noted that the key component





to a finding of prejudice was that there be some form or realized economic investment rather than potential investment made in reliance on the representations of the trademark owner. In effect, the Court equated undue prejudice with some form of “business building.”

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The Court closed its opinion by providing a significant qualification on its definition of undue prejudice. Specifically, the Court noted that although a defendant may be prejudiced if it relies on a trademark owners’ assurance to expand its business, it will not be deemed to be prejudiced simply because the defendant has used the mark at issue in commerce or spent money on products bearing the mark. As a practical matter, if prejudice could consist merely of incurring expenses in promoting an allegedly infringing mark, then a claim for relief would need to be denied in practically every case where an equitable defense was raised.

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The *Pennzoil* case is instructive in that it gives potential defendants guidance on what they will need to demonstrate in order to avail themselves of the equitable defense of acquiescence.





## Once Generic, Always Generic

by **Karen Artz Ash** and **Bret J. Danow**

In *Solid 21 v Hublot of America, et al*, the US District Court for the Central District of California issued a ruling holding that once a term has become generic, it is always generic and cannot be the subject of trademark protection under any circumstances even if the purported owner can demonstrate secondary meaning in that term.

Solid 21 owned a US trademark registration for the mark Red Gold covering a range of fine jewelry products made of a special alloying of gold with a distinct color, which had become incontestable in 2009. Solid 21 filed a complaint alleging that the defendants' use of the term "Red Gold" in connection with gold watches constituted an infringement of Solid 21's trademark rights. The defendants countered by filing a motion for summary judgment claiming that the term "Red Gold" was generic and, therefore, not entitled to trademark protection.

The fact that a certificate of a registration had issued for the Red Gold mark meant that the mark was entitled to a presumption of validity. The burden of proving that a registered mark is generic rests on the defendant and the court noted that such burden is "heavy." In deciding the motion for summary judgment, the District Court applied the Ninth Circuit's "Who are you / what are you" test in determining whether a term is generic; namely, that a trademark answers the "who are you" question and a generic term answers the "what are you" question.

The defendants were able to provide evidence demonstrating that the term "red gold" had been used generically for an extensive period of time before Solid 21 entered the market. Viewing such evidence in a light most favorable to Solid 21, the Court found that it was clear that the term "red gold" relates to the type of product rather the source of the product and, consequently, falls on the "what-are-you side" of the Ninth Circuit's generic-ness test.

As to Solid 21's use of the term "Red Gold," the Court held that a generic term cannot become protectable "no matter how much money and effort the user of a generic term has poured into promoting the sale of merchandise and what success it has achieved in securing public identification." In short, the Court adhered to the rule that if a term is generic at the time it was adopted, it cannot become distinctive and, in turn, protectable, even if consumers associate the term with the plaintiff. Accordingly, the Court granted the motion for summary judgment declaring Solid 21's Red Gold mark invalid and ordered the cancellation of the certificate of registration which had issued therefor.

This case is instructive as it serves as a warning for entities interested in adopting a previously generic term as a brand name. Similarly, it serves as a caution that even an incontestable trademark registration can be invalidated on a claim of genericness.

## Spotlight on

### Katten's Trade Secret Protection and Litigation Team



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### How is technology impacting trade secret litigation in the fashion industry?

Trade secrets are, at the very core, information that gives a company a competitive advantage because it is kept secret. In the fashion industry, trade secrets include both commercial and technical know-how, ranging from the composition of a new fabric, to cost and pricing data, to customer and supplier lists, to the most sensitive strategic plans and proprietary design and manufacturing processes. Consistent features of trade secrets in the industry today are that almost all trade secret information is kept in digital form, and, more often in the past decade, trade secrets are in the form of proprietary software programs or information technology (IT) systems. For instance, proprietary IT systems are increasingly used to shorten production time, manage distribution and even customize products in response to individual customer requests. As a result, trade secret litigation regularly involves scenarios such as employees who have downloaded confidential information—including advertising plans or client, pricing and sourcing information—from their employer's database and taken it with them when they became employed by a competitor, or other fact patterns involving unauthorized access and transfer of proprietary technical information.

### What can fashion companies and others in the industry proactively do to protect themselves from trade secret misappropriation?

Fashion designers, retailers, manufacturers and others in the industry should adopt and enforce rigorous confidentiality protocols to guard their trade secrets. Not only is it good common practice, but if there is litigation involving claims of trade secret misappropriation,

continued on back page.





## Karen Artz Ash Quoted in Law360 Article on Sixth Circuit Decision Regarding Copyright Protection for Cheerleading Uniforms

Karen Artz Ash, national co-chair of Katten's Intellectual Property department and co-head of the Trademarks and Trademark Litigation practice, was quoted in this article on the Sixth Circuit's decision declaring decorative designs on cheerleading uniforms eligible for copyright protection. The court considered whether visual elements on the front of cheerleading outfits sold by Varsity Brands Inc. were eligible for copyright protection. Reviving Varsity's infringement case against rival Star Athletica LLC, the ruling overturned a district judge who said the decorative aspects were inextricably intertwined with the underlying piece of clothing, which cannot be protected by copyright law.

Karen observed that there may be many issues warranting evaluation when announcing a new design. "When making an evaluation of a client's proposed item of apparel, a full evaluation should take into account third-party copyright rights as well as trademark and trade dress rights," she said. ("[Four Takeaways From Sixth Circuit's Cheerleader Copyright Ruling](#)," August 20, 2015)



## Appealing Refusals to Register Marks

by Karen Artz Ash and Bret J. Danow

In *Shammas v Focarino*, the US Court of Appeals for the Fourth Circuit issued a decision that raises significant issues for trademark applicants to consider when determining whether to appeal a refusal by a PTO examiner.

Shammas had filed a federal trademark application for the mark Probiotic for use in connection with fertilizer products. The PTO examiner refused to register the applied-for mark on the grounds that it was generic and descriptive. Shammas appealed the refusal to the Trademark Trial and Appeal Board, which affirmed the refusal to register.

The Lanham Act provides that a trademark applicant who is dissatisfied with the PTO's review of an application has two options to seek a review of an adverse ruling. The first option is to appeal the ruling to the Court of Appeals for the Federal Circuit. The second option is to commence a *de novo* action in a federal district court, naming the PTO's director as defendant. Shammas elected to pursue the second option and when the district court upheld the refusal to register, it granted the PTO's motion to direct Shammas to pay all of the PTO's expenses in the proceeding, which included the salary expenses of the PTO attorneys and a paralegal who were required to defend the Director, totaling more than \$36,000.

In making its ruling, the district court applied the statute which requires that if the dissatisfied applicant commences a *de novo* action in a federal district court, "all of the expenses of the proceeding shall be paid by the party bringing the case, whether the final decision is in favor of such party or not." Shammas then took the appeal to the Fourth Circuit challenging the lower court's authority to award attorneys' fees and paralegal fees. Shammas argued that the award of expenses amounted to fee-shifting which was not permitted unless the statute makes Congress's intention clear by expressly referring to attorney's fees.

A divided Fourth Circuit panel affirmed the District Court's ruling requiring Shammas to pay the PTO's fees. The Fourth Circuit held that the term "expenses" is sufficiently broad to include attorneys' fees and that the inclusion of the term "all" before "expenses" in the statute indicated that Congress intended the payment requirement to include attorneys' fees. The Fourth Circuit further noted that this holding was supported by its reading of the Lanham Act's structure and legislative history.

In view of the decision in *Shammas*, trademark applicants should be cognizant of the potential additional costs it may incur when appealing a refusal to register an applied-for mark. Since a *de novo* action in district court allows for the parties to conduct additional discovery and submit further evidence, the applicant could be faced with significant costs in pursuing an appeal. As per the holding in *Shammas*, those costs can apply regardless of whether the applicant is successful.



## Laches Defense in a Cancellation Proceeding

by Karen Artz Ash and Bret J. Danow

In *Ava Ruha Corp d/b/a Mother's Market & Kitchen v Mother's Nutritional Center Inc*, the US Patent and Trademark Office's Trademark Trial and Appeal Board (TTAB) issued a precedential decision regarding a registrant's ability to assert a laches defense in a cancellation proceeding. The petitioner Ava Ruha, which owned a trademark registration for the stylized mark, Mother's Market & Kitchen, had filed petitions to cancel trademark registrations owned by the respondent for the marks, Mother's (stylized) and Mother's Nutritional Center, on the grounds of likelihood of confusion, fraud and dilution. In its answer, the respondent asserted the affirmative defense of laches; and the parties subsequently filed cross-motions for summary judgment on the laches issue.

The TTAB noted that a laches defense is an available defense for claims of likelihood of confusion and dilution, but not for fraud. In order to prevail on the affirmative defense of laches, a respondent is required "to establish that there was undue or unreasonable delay [by petitioner] in asserting its rights, and prejudice to [respondent] resulting from the delay." In its analysis, the TTAB evaluated how to calculate the length of time between when a petitioner first has notice of a defendant's use of the mark at issue and when the petitioner files the cancellation action. In this connection, the TTAB held that when a petitioner does not have actual notice of a respondent's use of a mark prior to the close of the opposition period, then the date that the certificate of registration issued is the operative date for calculating the period of time relating to the laches claim. However, if there is actual knowledge of the defendant's use of the mark, then the date of publication is the operative date for calculating laches.

In *Ava Ruha Corp*, the petitioner had actual knowledge of defendant's use of the mark. Therefore, the date to begin calculating laches was the publication date, June 16, 2009. The petitioner did not file the petition for cancellation action until August 21, 2012, making the length of the delay a little more than three years and two months. Relying on past precedent, the TTAB noted that shorter time periods than the one involved in the case had previously supported a laches defense. Having determined that the length of delay was sufficient to support a claim of laches, the TTAB then turned to whether the delay was undue or unreasonable.

To support its position, the petitioner asserted the doctrine of progressive encroachment, namely, that its delay was justified because it did not have a reason to seek cancellation of the respondent's mark until after the respondent's business was redirected in a way that more directly competed with the petitioner. However, since the services offered by the respondent were specified in its certificates of registration, the TTAB held that "for purposes of an attack on a registration, there can be no progressive encroachment where the alleged encroachment is within the scope of registration."

Finally, because the respondent changed its economic position during the period of delay, having expended millions of dollars growing its business and investing in stores, the TTAB found, as a matter of law, that the respondent would be subject to economic prejudice if its registrations were to be cancelled. Therefore, the TTAB held that the petitioner's delay (1) was unreasonable; and (2) prejudiced the respondent, such that the laches defense was shown and the dilution claim barred. Further, since there was laches, the TTAB held that the petitioner cannot prevail on a claim of likelihood of confusion and, instead, will have to proffer evidence that shows confusion to be inevitable, a standard "which is an increment higher than that required for a finding of likelihood of confusion."

This case is instructive because it demonstrates that even what seems like a relatively short period of time—three years and two months—can be deemed to be an unreasonable delay and prevent a party from being able to cancel what it believes to be an objectionable third-party registration.



## Spotlight on

### Katten's Trade Secret Protection and Litigation Team continued from page 3.

the court will consider whether the secrecy of the information was sufficiently protected. If the policies and procedures for protecting the stolen information appear insufficient, the court very well may find that it is not deserving of trade secret protection. Among other things, companies should:

- have in place a formal, written confidentiality policy;
- train employees regarding the protection of trade secret information;
- require that suppliers, new employees and others sign non-disclosure agreements that specify the information to be protected;
- require that new employees and perhaps certain manufacturers who have access to trade secret information sign non-compete agreements;
- conduct exit interviews to emphasize the ongoing obligations that even former employees have to protect the trade secrets from disclosure;
- restrict and control the ability of employees to download software and information from company computers;
- label all physical and electronic documents and things that contain confidential information with a designation indicating that they contain trade secrets and must be protected from distribution; and

- use strong passwords and encrypt electronic information.

Perhaps the single most important rule to follow is: only share confidential information on a stringent need-to-know basis.

#### **What is the most important first step when a breach occurs?**

If a fashion company's highly confidential business information, proprietary technology or know-how becomes known in the industry, it loses its value and may lose its status as a protectable trade secret. However, the extent of the damage is directly proportionate to the extent of its distribution. For instance, if the information has been unlawfully downloaded and not yet shared with a competitor, then the breach and damage can be contained. Therefore, the first thing that we attempt to do is help our clients identify how the breach occurred and the scope of the dissemination. We have found that the best initial tactical responses to a breach are inevitably fact and circumstance dependent. Among other things, we have assisted our clients in searching an employee's office, computer and phone records; sending a warning letter; seeking a preliminary injunction or temporary restraining order from a court; and contacting and working with the FBI. Regardless of the strategy that we ultimately pursue, the goals are always the same: reduce the scope of the breach, minimize the scope of publicity surrounding a breach, and ensure that our clients get past the ordeal as unscathed as possible and with proactive policies in place to prevent any future breaches.

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