SEMI-ANNUAL REPORT

A Summary of Recent Case Law Developments

by

The Committee on Trademarks and Unfair Competition of the New York City Bar Association

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Editor's Note: Thank you for reading the inaugural semi-annual report of the Committee on Trademarks and Unfair Competition of the New York City Bar Association. We have endeavored to provide to committee members, other trademark practitioners, and the NYC Bar at large, a summary of significant developments in the practice area over the last six months. If you are interested in participating in the discussion by contributing a case summary to upcoming issues, please contact Nick Barnhorst at barnhorstlaw@gmail.com or Rachel Weiss at weiss@leasonellis.com.

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Already, LLC v. Nike Inc.

133 S. Ct. 721 (Jan. 9, 2013)

In January, in a unanimous decision delivered by Chief Justice John Roberts, the Supreme Court held Nike's trademark infringement suit moot when Nike showed it "could not reasonably be expected" to resume its enforcement efforts against Already, LLC.

Nike had sued Already in July 2009, alleging infringement of Nike's AIR FORCE 1 trademark in Already's SOULJABOY and SUGAR shoes. Already denied the allegations and counterclaimed, challenging the validity of Nike's mark. Presumably, Nike did not wish to defend the validity of its mark in federal court, so it deployed an unorthodox strategy. In March 2010, while the infringement suit and counterclaims were pending, Nike unilaterally issued a "Covenant Not to Sue," promising not to raise any state or federal trademark, dilution, or unfair competition claims against Already or any of its affiliates, distributors, or customers based on Already's existing footwear designs or any future designs which would constitute a "colorable imitation" of Already's current products. Nike then moved to dismiss its own claims with prejudice, and the counterclaim without prejudice, on the grounds that the covenant had extinguished the case or controversy required for Article III standing.

Already opposed the dismissal of its counterclaim, contending that Nike had not sufficiently established that its covenant had mooted the case. Already raised concerns that its potential investors would be chilled from investing, and that large companies would be encouraged to bully smaller enterprises (alleging that in this case, Nike had intimidated retailers into refusing to carry Already's shoes).

The District Court dismissed Already's counterclaim, finding that there was no longer a justiciable controversy. The Second Circuit affirmed, reasoning that the covenant was broadly drafted, it could not conceive of a shoe that would infringe Nike's trademark yet not fall within the covenant, and Already had not asserted any intent to market such a shoe.

In a unanimous opinion, the Supreme Court held that Already's Counterclaim was mooted by the Covenant Not to Sue. Although the lower courts had neglected to identify by name the "voluntary cessation doctrine"—the proper test for Article III standing in such situations—the courts ostensibly had applied the analysis of that test and applied it correctly, negating any justification for remand.

The Court explained that the covenant sufficed to meet the burden of the voluntary cessation doctrine—to show that Nike could not reasonably be expected to resume its enforcement efforts—because it was unconditional and irrevocable, protected both Already and its distributors and customers, and covered not just current or previous designs, but also future colorable imitations. Once Nike demonstrated that the covenant encompassed all of the present and potentially unlawful conduct, it became incumbent on Already to show that it was engaging in or had sufficiently concrete plans to engage in activities that would infringe on Nike's mark and yet somehow fall outside the terms of the covenant.

At each stage of the case, however, Already failed to identify any activities or plans that would fit the bill As the Court noted, "[i]f such a shoe exists, the parties have not pointed to it, there is no evidence that Already has dreamt of it, and we cannot conceive of it. It sits, as far as we can tell, on a shelf between Dorothy's ruby slippers and Perseus's winged sandals."

The Court went on to explain that Already's alternative theories of Article III injuries did not save the case from being mooted because the alternative theories did not support Article III standing in the first place. Already's arguments revolved around fears that as long as Nike remained free to assert rights in its mark, investors would hesitate to invest in the small company, retailers would hesitate to carry its shoes, and the underlying suit itself would create an expectation of future suits. Already also argued that it inherently had standing as one of Nike's competitors. Already's fears were deemed insufficiently concrete (or not actual harms) to establish standing under *Lujan*, and its worries of future suit or enforcement activity against retailers were found to be addressed by the covenant and therefore unfounded. Already's competitor standing theory was not accepted as completely boundless, opening the door to suits every time a competitor benefited from a trademark or contract award. In response to Already's stated concerns about bullying, the Court determined that Already's proposed solution would open the gates for small and large companies alike, allowing those with more resources to challenge every IP portfolio of smaller rivals simply to elbow them out of competition.

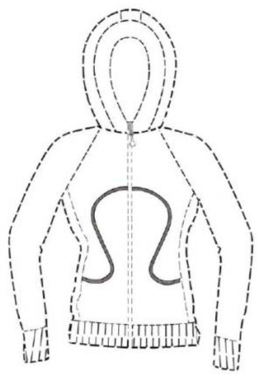
<u>What This Case Means For Practitioners and Brand Owners</u>: It is important to bear in mind that an infringement action may be an invitation to an invalidity counterclaim. If a registration may be vulnerable to cancellation, due consideration should be given before filing the complaint. The Supreme Court has authorized an "out" for plaintiffs who fear losing their registration(s), but a covenant not to sue after several years of litigation is an expensive proposition.

---Dani Nolan, Benjamin N. Cardozo School of Law J.D. Candidate, 2014

In re Lululemon Athletica Canada Inc.

Serial No. 77/455,710 (TTAB Jan. 11, 2013) (precedential)

Lululemon Athletica Canada Inc. (hereinafter "Lululemon") filed a trademark application with the United States Patent and Trademark Office (USPTO) for a mark that "consists of a single line in a wave design that is applied to the front of a garment" for use in connection with "hooded sweat shirts; jackets; and coats" (hereinafter, "the wave design") in International Class 25.



Pursuant to Trademark Act Sections 1, 2 and 45, the examining attorney refused registration of the wave design after finding it "merely ornamental," rather than a trademark that served to indicate source. Lululemon's attempts to convince the examining attorney that the wave design was registrable were unavailing, and the final denial was appealed to the Trademark Trial and Appeal Board (TTAB).

On appeal, the TTAB was asked to determine whether the public would perceive the wave design as a trademark indicating source or mere ornamentation/decoration. A design deemed ornamental can nevertheless receive trademark protection if (1) it is inherently distinctive or has acquired distinctiveness as to the goods applied or (2) the applicant can show that it has used or registered the design in a non-ornamental manner for other goods or services (Trademark Manual Examining Procedure (TMEP) §1202.03(c). "An ornamental design can be inherently distinctive if it is arbitrary and distinctive and if its principal function is to identify and distinguish the source of the goods to which it is applied, ornamentation being merely incidental."

Lululemon argued that the wave design is inherently distinctive because (1) the commercial impression is of a distinctive design, and (2) use by competitors of similarly large marks on their clothing shows consumers would perceive "the wave design" as being a mark rather than as merely ornamental. Lululemon also submitted evidence of prior use of a similar "wave design" on related goods and services.

In the Appeal, the Examining Attorney countered that the wave design was merely ornamental because (1) due to its large size, consumers would not perceive it as a mark, and (2) third-party registrations showed that similar shapes and designs are registered on the Supplemental Register with a claim of acquired distinctiveness.

In determining whether a design is ornamental, relevant considerations include "the commercial impression made by the design, the relevant practices of the trade, and evidence of distinctiveness, if applicable." In particular, the TTAB considers size, location, and dominance of the design. In making its determination, the TTAB rejected "a per se rule regarding registrability based on the size of a mark on clothing" and instead focused its decision on the overall commercial impression of the mark, noting that size is just one factor to be considered.

On January 11, 2013, the TTAB affirmed the denial of the application for registration of the wave design. The TTAB determined that because the wave design was relatively simple and resembled piping (a decorative line across a garment), it created an overriding commercial impression of ornamentation and thus, was not entitled to registration. The TTAB also rejected Lululemon's argument regarding prior use of the wave design, concluding that Lululemon's prior use depicts a different and highly stylized wave design "confined in and highlighted by a contrasting-hued circle." Because the wave design for which Lululemon was seeking registration was deemed a uniform thin line, the TTAB concluded that it would not create the same overall impression as the previously used wave design and consumers would not consider them the same mark or view the wave design as an indication of the same source (i.e., Lululemon).

What It Means For Practitioners and Brand Owners: This case highlights the problems that can arise when a trademark owner begins to use variations on its trademarks on related goods and services. In particular, it illustrates the challenges involved in defeating a claim of mere ornamentation when trying to register a large-scale version of a mark or logo. To ensure adequate trademark protection, mark owners should do their best to use and advertise a consistent design to create an overall impression as an indicator of source.

---Ariel Tacher, Benjamin N. Cardozo School of Law J.D. Candidate, 2014

Stephen Slesinger, Inc. v. Disney Enterprises, Inc.

C.A.F.C., Docket No. 2011-1593

For decades, Stephen Slesinger, Inc. and Disney Enterprises, Inc. have fought bitterly in state and federal courts, as well as at the Trademark Trial and Appeal Board ("Board"), over certain rights to Winnie-the-Pooh. In December 2012, the Court of Appeals for the Federal Circuit upheld a decision by the Board to dismiss with prejudice Slesinger's challenge to Disney's trademark rights related to Winnie-the-Pooh (*Stephen Slesinger, Inc. v. Disney Enter., Inc.,* 702 F.3d 640 (Fed Cir. 2012)). The Federal Circuit found that the Board had properly barred Slesinger's attempt to cancel Disney's Pooh-related marks and dismissed the case based on collateral estoppel.

The dispute relates to a series of agreements that transferred rights to Winnie-the-Pooh. In 1930, A.A. Milne, creator the fictional Pooh Bear, transferred to Stephen Slesinger certain rights to use Winnie-the-Pooh works in the U.S. and Canada. In 1961, Slesinger transferred the exclusive rights under the 1930 agreement with A.A. Milne to Walt Disney Productions. In 1983, a new agreement between Slesinger and Disney revoked the prior agreements and gave Slesinger Inc. all the rights that were transferred to Slesinger in the 1930s and thereafter amended. The agreement also transferred Slesinger's rights back to Disney. While the agreement was an attempt to clarify the parties' rights, they interpreted the agreement differently: Slesinger claimed the 1983 agreement with Disney was a license, and did not grant Disney the right to register marks for Winnie-the-Pooh; Disney alleged the agreement was an assignment, which transferred all rights in Winnie-the-Pooh to Disney.

Slesinger sued in the Central District of California in 2006, claiming that Disney's use of Winnie-the-Pooh infringed certain trademarks and copyrights. The district court ruled in favor of Disney, finding that the parties' conduct supplemented the "clear terms" of the agreement to demonstrate that Slesinger had wholly assigned the rights in the Pooh works to Disney (*Milne ex rel. Coyne v. Slesinger*, No. 2:02–cv–0858, 2009 WL 3140439 (C.D. Cal. Sept. 25, 2009)). The district court then applied the doctrine of collateral estoppel, based on Slesinger's inconsistent and contradicting arguments from a California state court case between the parties. Thereafter, Slesinger attempted to cancel Disney's federally registered trademarks related to Winnie-the-Pooh works. The Board dismissed the case, applying collateral estoppel based on the California district court's order (*Stephen Slesinger Inc. v. Disney Enter., Inc.*, 91179064, 2011 WL 2698198 (T.T.A.B. 2011), *aff'd sub nom. Stephen Slesinger, Inc. v. Disney Enter., Inc.*, 702 F.3d 640 (Fed. Cir. 2012).

On appeal, the majority of the Federal Circuit affirmed the Board's dismissal, finding that the parties' long history, along with other evidence of the parties' conduct, indicated that the 1983 agreement was an assignment, even though the 2009 district court opinion did not use the word "assignment." The dissent, however, argued that the district court deliberately had not used the word "assignment" in its decision. The dissent explained that the district court did not have to decide whether the 1983 agreement was an assignment or a license, and that because the nature of the agreement was not "necessary" to the district court's decision, the Board should not have found that Slesinger was collaterally estopped.

<u>What It Means For Practitioners and Brand Owners</u>: The Slesinger-Disney case illustrates the importance of using clear language to establish the nature of the transfer being made (*i.e.*, whether it is an assignment or a license), what rights, if any, are retained by the transferor (*e.g.*, by including a carve-out clause listing specific retained uses of a mark), and the scope of the respective rights. This case also illustrates the importance of the parties' conduct in supplementing the actual language of the agreement when determining whether a transfer was an assignment or a license. The district court relied on the parties' 50 year relationship, and the fact that Slesinger never objected to registrations made by Disney until 2006, when the California state court dismissed Slesinger's claims for breach of the royalty agreement. Although this case is unusual in that Slesinger had made conflicting assertions as to his interest in Winnie-the-Pooh in different legal proceedings, it demonstrates the importance of parties' conduct in relation to the at-issue marks in determining what rights a party owns with respect to those marks.

---Francesca Montalvo, Benjamin N. Cardozo School of Law J.D. Candidate, 2014

Monster, Inc. v. Dolby Laboratories Licensing Corp.

N.D. Cal., Case No. 12-cv-2488-YGR (pending)

(Monster, Inc's trademark, left; Dolby's trademark, right)

In *Monster, Inc. v. Dolby Laboratories Licensing Corp.,* plaintiff Monster, Inc. ("Monster") sought a declaration that its headphone mark does not infringe any rights of defendant Dolby Laboratories Licensing Corp.'s ("Dolby") in its headphone trademark. Dolby filed a counterclaim for infringement and unfair competition. In January 2013, the court ruled on the parties' cross-motions for summary judgment. Monster's motion as to likelihood of confusion was denied because of the existence of triable issues of fact. Dolby's motion was partially granted, resulting in the dismissal of Monster's naked licensing defense.

Relying on the *Sleekcraft* factors, the court found that a reasonable trier of fact could conclude that confusion between the two marks was "probable." The likelihood of confusion determination was based on the court's findings, inter alia, that: (i) the Dolby composite mark is not generic, nor merely descriptive, even if some of its individual elements (such as headphones) might be; (ii) the Monster mark and the Dolby mark have several similar elements; and (iii) a sufficient amount of evidence existed to enable a jury to conclude that Monster had intentionally adopted a mark similar to Dolby's.

The court then turned to the naked licensing defense. Monster alleged that Dolby abandoned its trademark rights in the headphone mark because Dolby failed to exercise adequate control over its licensees. If a trademark owner fails to control the quality of the goods being produced by its licensees, the trademark may no longer function as a symbol of quality and source, and may be considered to be abandoned by the mark owner. *Barcamerica Intern. USA Trust v. Tyfield Importers, Inc.,* 289 F.3d 589, 595-96 (9th Cir. 2002). Although the Ninth Circuit has not settled on an exact standard of proof to establish a claim of naked licensing by a trademark infringement defendant, many courts have described the standard as "stringent" in terms of the proof required. Monster failed to present sufficient evidence to meet that standard.

Dolby, in contrast, offered evidence showing that it sufficiently polices its mark, including agreements with its licensees requiring them to abide by Dolby's guidelines for use of the mark and the company's technology, and protocols for prototype products and testing to ensure licensees' products meet Dolby's quality standards before they are manufactured. Dolby also offered evidence demonstrating the company's monitoring program with respect to use of its marks, along with evidence of Dolby's partnerships with customs officials. Monster countered that Dolby's efforts are sporadic and inconsistent, but the Court concluded that Monster's evidence was insufficient.

<u>What It Means For Practitioners and Brand Owners</u>**:** This case reinforces the need for a licensor to have a strong program in place to police its brand. Perfect enforcement is not required; indeed Ninth Circuit authority suggests that requiring a licensor to monitor every transaction involving its brand would be "unconscionable." Using a standard license agreement and testing protocols, and having enforcement policies in place, however, can help a brand owner defeat a naked licensing claim, even on summary judgment.

---Lisa Blumenthal, Syracuse University College of Law J.D. Candidate, 2014

Apple, Inc. v. Amazon.com Inc.

N.D. Cal., Case No. C 11-1327 PJH

Apple brought suit against Amazon alleging various trademark-related claims in connection with Amazon's use of the term APP STORE in its Amazon Appstore for Android. The Amazon Appstore, which launched on March 22, 2011, sells apps for Android devices and the Kindle Fire.

Apple had filed an application to register the mark APP STORE on July 17, 2008. (Note that Microsoft had filed an opposition against the APP STORE application in July 2010, asserting that APP STORE was generic and therefore could not be registered. This opposition was suspended pending the outcome of Apple's suit against Amazon.)

In September 2010, Amazon began soliciting software developers to participate in a future mobile software download service. In January 2011, Amazon launched a developer portal in connection with its "Amazon Appstore Developer Program." After learning about the Amazon program, Apple sent three cease and desist letters to Amazon requesting that it stop using the APP STORE mark. Amazon did not stop, instead launching the AMAZON APPSTORE for Android in March 2011.

On March 18, 2011, Apple filed suit. On November 16, 2011, Apple filed a second amended complaint in which it asserted claims for (1) trademark infringement, false designation of origin and false description under the Lanham Act, (2) dilution the Lanham Act, (3) common law trademark infringement, (4) dilution under state and common law, (3) false advertising under the Lanham Act and (6) unfair competition under state law.

Amazon then sought partial summary judgment as to the fifth cause of action for false advertising.

A false advertising claim under § 43(a) has five elements:

(1) a false statement of fact by the defendant in a commercial advertisement about its own or another's product;
(2) that actually deceived or has the tendency to deceive a substantial segment of its audience;
(3) where the deception is material, in that it is likely to influence the purchasing decision;
(4) the defendant caused the false statement to enter interstate commerce; and
(5) the plaintiff has been or is likely to be injured as a result of the false statement, either by direct diversion of sales from itself to defendant or by a lessening of the goodwill associated with its products.

For purposes of Apple's partial summary judgment motion, the only issue in dispute was the first element – that is, whether Amazon made a false statement of fact in a commercial advertisement about its own or another's product. Amazon argued that summary judgment was warranted because Apple had failed to identify any false statements that Amazon made about the nature, characteristics or quality of the Amazon Appstore. Rather, Apple argued that by using the word "Appstore," Amazon implied that its store was affiliated with or sponsored by Apple.

The court concluded that Apple presented no evidence of any Amazon website or advertisement that attempted to mimic Apple's site or advertising. It held that Apple failed to establish that Amazon made any false statement (express or implied) of fact that actually deceived or had the tendency to deceive a substantial segment of its audience. The Court said that the "mere use" of APPSTORE by Amazon to designate a site for reviewing and downloading/purchasing apps cannot be construed as a representation that the "nature, characteristics, or quality" of the Amazon Appstore is the same as that of the Apple APP STORE. The Court held that if an advertisement is not false on its face, the plaintiff must produce evidence (usually in the form of market research or consumer surveys), showing exactly what message was conveyed that was sufficient to constitute false advertising.

Accordingly, the Court granted Amazon's motion for partial summary judgment as to Apple's false advertising claim.

In June 2013, Apple issued a covenant not to sue to Amazon and requested that the Court dismiss the Complaint. An Order dismissing the proceeding was entered on July 8, 2013.

<u>What It Means For Practitioners and Brand Owners</u>: In order to support a claim of false advertising, a party must either present an explicitly false statement made by its adversary or offer evidence – via market research or consumer surveys - to demonstrate that the message conveyed was actually false.

---Rachel Weiss; Courtney Brown, Benjamin N. Cardozo School of Law J.D. Candidate, 2014