NEWSLETTER

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Intellectual Property Law Update

We hope everyone is having an excellent holiday season and wish a Happy New Year to all of our friends and clients! To enhance your 2017 prospects, please consider these topics that are of great current significance.

- Need to use Trademarks in Commerce;
- Dealing with Financially Troubled IP Licensors – Bankruptcy Code Section 365(n);
- Friend of the Court Briefs in Patent Cases;
- New Procedures for Appointment of Copyright Agents – Essential if You Have a Website!
- Major FTC Privacy Pronouncement.

Federal Trademark Registration: Use in Commerce: What does it Mean?

You want to apply to register a trademark. One of the first questions your lawyer will ask you is if you have used the mark in commerce yet. Seems like a simple question right? Think again. The Court of Appeals for the Federal Circuit ("CAFC") released a decision in November in the case *Christian Faith Fellowship Church v. Adidas AG*, that addresses what is "use in commerce". The case suggests that almost any genuine use of a mark in any way that touches on more than one state is use in commerce.

Christian Faith Fellowship Church (the "Church") is located in Zion, Illinois, near the Wisconsin border. The Church began using the mark ADD A ZERO on t-shirts and hats in 2005 and registered the mark for these goods. In 2009, Adidas AG ("Adidas") applied to register the mark "ADIZERO" for apparel, and the application was blocked by the Church's "ADD A ZERO" registrations. Adidas filed an action before the Trademark Trial and Appeal Board ("TTAB") to cancel the Church's registrations on several grounds including the Church's failure to use the marks in commerce as of the date claimed in the registrations. As evidence of use of the mark in commerce, the Church offered a canceled check that a Wisconsin resident, whose Wisconsin address was on the check, used to buy two ADD A ZERO caps from the Church's Illinois location.

The question posed to the CAFC was whether the sale of two caps with the mark ADD A ZERO by the Church in Illinois to a Wisconsin resident (who was in Illinois when buying the caps) was enough to be use of the mark in commerce that could lawfully be regulated by Congress.

To answer the question, one needs to first look at federal trademark law. The Lanham Act governs federal trademarks and states that, "[t]he owner of a trademark used in commerce may request registration of its trademark." (emphasis added). When it comes to goods, the term "use in commerce" means the bona fide use of the mark on tags, labels or affixed to goods that are sold or transported in commerce. The Lanham Act goes on to define "commerce" as "all commerce which may lawfully be regulated by Congress."

The CAFC court held that the Church's in-state sale to an out-of-state resident fell within Congress's power to regulate under the Commerce Clause, and that this sale was use in commerce under the Lanham Act. The CAFC reversed the TTAB's cancellation of the Church's registrations.

Given the low bar set by the CAFC on what constitutes "use in commerce," brand owners will be well advised to explore with counsel all reasonable business resolutions when faced with third party issues that center on whether a mark has been used in commerce. For brand owners, this case may mean that their marks were in use earlier than once thought and rights may reach back to earlier dates. It may also mean that it will be more difficult to cancel third party registrations for lack of use of a mark in commerce. In either case, factual assessment and strategy will be important.

Our Trademark and IP partners are pleased to discuss the implications of this case in your specific circumstances. In some cases, one may pursue federal registration prior to actual use based upon a bona fide intent to use.

IP Licensing: No Matter What Type of IP, Parties Need to Consider Impact of Bankruptcy Code

<u>Key Tool for Non-Bankrupt Licensees</u>

In 1988 Congress amended the Bankruptcy Code to add section 365(n) and a definition of "intellectual property" in order to protect the rights of licensees of intellectual property in response to the decision of the Fourth Circuit Court of Appeals in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers Inc.* which allowed termination of an IP license by a bankrupt licensor, even where doing so drastically disrupted the licensee's operations. To mitigate this risk, section 365(n) provides that licensees of "intellectual property" have two options when a debtor or trustee seeks to reject an intellectual property license: the licensee may either (i) treat the agreement as terminated and assert a claim for damages; or (ii) retain the right to use the licensed intellectual property for the duration of the license subject to certain limitations (including that the licensee pay all royalty payments under the terms of the contract and that the licensee will be deemed to waive certain rights of setoff and any allowable post-petition claim arising from the performance of the contract.) However, the term "intellectual property" does not include trademarks, tradenames, logos and certain other intellectual property and as a result the rights of trademark licensees in the case of rejection of a trademark license agreement have remained unclear.

The recent decision of the Bankruptcy Appellate Panel for the First Circuit (the "BAP") in *Mission Products Holdings, Inc. v. Tempnology, LLC (In re Tempnology, LLC)* appears to have found a middle ground for licensees of trademarks from bankrupt licensors. On appeal, the BAP agreed with the bankruptcy court that section 365(n) does not apply to trademarks, but also held that notwithstanding the debtor's rejection of the distribution agreement, the licensee's rights in trademarks and logos continued under the license agreement and applicable non-bankruptcy law.

In *In Re Crumbs Bake Shop* the bankruptcy court for the District of New Jersey held that, based on the equities of a case, a court may hold that section 365(n) applies to trademark licenses. In *Crumbs* the purchaser of substantially all of the debtor's assets, including its trademarks but not its trademark licenses, maintained that the licensees' rights under section 365(n) were extinguished in connection with the free and clear sale because the licensees failed to object to the sale. The court found that the notice of the sale was inadequate with respect to the treatment of trademarks and licenses and therefore held that in the absence of the licensees' consent, a sale under section 363 of the Bankruptcy Code does not trump the licensees' rights under section 365(n).

The existence of section 365(n) and its questionable applicability to trademarks mean three things for licensee clients: (i) when negotiating an IP license of any kind, it is essential that it contains requisite language allowing the licensee the full benefits of section 365(n) if the licensor were to become a bankruptcy debtor, (ii) perform appropriate due diligence on your counterparty to reduce the likelihood of financial problems coming into play, including the risk of loss of use of a trademark if the licensor becomes a debtor and rejects the license agreement, and (iii) if the licensor becomes a debtor, consult with knowledgeable counsel who can help the licensee navigate the bankruptcy process.

Protections Available to Trademark Licensors

While section 365(n) only protects the rights of a debtor's licensees, other provisions of the Bankruptcy Code address the rights of licensors of a debtors' trademarks in the case that a debtor seeks to assume or assign a license agreement and the licensor seeks to block such assumption on reputational or other grounds. For example, in *In re Trump Entertainment Resorts, Inc.*, the bankruptcy court for the district of Delaware held that where a licensor did not consent to the assignment of its trademark license, the debtor could not assume the license under section 365(c)(1) of the Bankruptcy Code and accordingly, granted the licensor's motion to lift the automatic stay imposed upon the debtors' filing for bankruptcy, so that the licensor could proceed with an action in state court seeking termination of the trademark license agreement.

The bankruptcy court held that the federal trademark law generally bans assignment of trademark licenses absent the licensor's consent because the identity of the licensee is crucially important to the licensor in order to ensure that all products bearing its trademark are of uniform quality.

Other courts have applied similar analysis in the case of non-exclusive patent licenses.

Patents: Everybody Needs a Friend … of the Court; Benefits of amici curiae Filings

At FisherBroyles, we are always looking for the best ways to serve our clients. Along these lines, some of us have noticed a pattern where clients spend time, money, and energy dealing with the current state of the law, without trying to change the law.

In the field of patent law, many clients have felt massive ramifications from both the introduction of administrative trials in the U.S. Patent and Trademark Office, as well as the 2014 Supreme Court decision in *Alice Corp.* v. *CLS Bank International*. Many clients have observed that these changes, and related reforms, have effectively decreased the value of patents.

Instead of modifying patent procedures in frustration to work around these developments in the law, clients can also engage in efforts to reform the law. The most notable example of these efforts is lobbying Congress to change a statute. Another example, which is more overlooked, is the submission of amicus briefs to the federal courts.

Amicus briefs are "friend of the court" briefs that any citizen or corporation can seek to submit to help the court make its decision, such as by exposing the court to the views, interests, and considerations of third parties. Clients can strengthen the effectiveness of amicus briefs by finding high-profile attorneys to author them (e.g., companies often hire former Solicitors General). Clients can also strengthen the effectiveness of amicus briefs by grouping together to submit a single brief that represents a trade group, professional organization, or a set of corporations with a common interest in the outcome of litigation.

Of course, clients should also be careful when seeking to shape and reform the law through amicus brief filings. For example, clients that benefit from strong patent rights to protect their investments can also be potentially harmed by infringement lawsuits from competitors. As a specific example, about 40 years ago, IBM submitted a notable amicus brief in the original Supreme Court decision that created the legal doctrine on which the subsequent *Alice* decision is

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based. In that brief, IBM argued for weaker patent protection for software. In the *Alice* decision, after IBM's business model had evolved, IBM reversed course and submitted an amicus brief arguing for stronger patent protection. Clients may want to keep in mind examples like this when actively seeking to shape and reform the law, whether through lobbying efforts or through the filing of amicus briefs.

Depending on the nature of the particular issue(s) addressed in the brief, and your desired scope of argument, fees for such a brief range from minimal to substantial. We are happy to provide an estimate (and sometimes a fixed fee) at inception of the project.

New Copyright Agent Procedures

As we have advised, those hosting or maintaining interactive websites need to include on such sites a designation of an agent to receive third party notices of copyright infringement (and other objectionable material, such as that which is obscene or defamatory). Doing so, along with avoiding involvement in editorial content decisions and related financial consequences, and several other procedural steps, will reduce your exposure to claims for infringement. The US Copyright Office has recently promulgated various new procedures for designation and renewal of agent status, which represent a major change in practice and necessitate consideration by those operating websites. These procedures necessitate re-designation of existing agents and refiling every three years. If you have a website which allows visitor posts, you should speak with us to ensure that you comply with the new rules and reduce your exposure to third party claims. Please speak with your FisherBroyles lead to ensure prompt referral to an IP partner.

New FTC Security and Privacy Guidebook is Required Reading

Those collecting (directly or indirectly) consumer information for e-commerce or other purposes and seeking to avoid being the subject of FTC proceedings need to review and heed the agency's most recent guidance on the topic: "*Data Breach Response: A Guide for Business*". This book is full of detailed guidance and forms for such situations and, to some extent, their prevention.

The fact that the FTC has spoken at all is most noteworthy, as the absence of traditional authority in this area makes its 'informal' pronouncements quite important and causes us to suggest that they be viewed as 'law' or at least statements of when the FTC will pursue enforcement action, in the same sense as comparable communications from the SEC or IRS. In this regard, the term 'response' is a bit of a misnomer in that the volume contains many useful suggestions pertaining to avoidance of problems as well as their aftermath, such as a form of breach notice letter.

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