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NEWSLETTER

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info@fisherbroyles.com
www.fisherbroyles.com

Contributors:

Kimberly Booher
Direct: (650) 636-5958
kimberly.booher@fisherbroyles.com

Lisa Carroll
Direct: (312) 919-9479
lisa.carroll@fisherbroyles.com

Hollace Cohen
Direct: (917) 365-4871
hollace.cohen@fisherbroyles.com

Tom Lundin
Direct: (678) 778-8857
tom.lundin@fisherbroyles.com

Andrea Mealey
Direct: (617) 447-1655
andrea.mealey@fisherbroyles.com

Marty Robins
Direct: (847) 277-2580
martin.robins@fisherbroyles.com

Intellectual Property Law Update

Fall: time for baseball playoffs, NFL season in high gear … and IP-related profit opportunities such as:

- Considerations when addressing requests for assumption of IP licenses by bankrupt companies;
- Ramifications of US Supreme Court case allowing 'disparaging' trademarks;
- How a Privacy Shield filing can help you meet your GDPR obligations;
- Uber and privacy policies!!
- Your IP being infringed? Think twice about tone of response.

Issues Around IP License Assumption by Bankrupt Companies

In its recent decision in *In re Rupari Holding Corp.* ("*Rupari*"), the bankruptcy court for the District of Delaware held that a Chapter 11 debtor could not assign a non-exclusive trademark license without the licensor's consent based on federal trademark law and a provision in the trademark license agreement that precluded assignment without consent so long as the consent was not unreasonably withheld. The decision illustrates that careful drafting of trademark licenses is key in preserving the right of a trademark licensor to withhold consent to assumption and assignment of the trademark license to third parties.

Retaining the ability to vet proposed licensees for technical and financial wherewithal and integrity is often a key element of companies' brand protection strategies.

Prior to Rupari's commencement of Chapter 11 proceedings, the trademark licensor had sent notice to Rupari alleging defaults by the licensee under the license agreement, followed by notice that licensor was terminating the license agreement. Shortly after the filing, Rupari sought court approval of the sale of substantially all of its assets, which included assumption and assignment of the trademark license agreement as a condition to closing of the sale. The licensor objected that the license was terminated and assumption and assignment could not occur without its consent. Rupari removed the condition from the sale. After the sale, the licensor entered into a trademark license agreement with a third party. Rupari demanded the licensor rescind the new license agreement and sued seeking a determination that the licensor violated the automatic stay by entering into the new license.

The bankruptcy court noted that, while a debtor may assign an executory contract such as the license agreement, if the requirements of section 365(f) of the Bankruptcy Code are met, the debtor may not assign an executory contract without the consent of the licensor if assignment is prohibited under applicable non-bankruptcy law under section 365(c)(1). The bankruptcy court rejected the debtors' argument that language in the license agreement which permitted assignment under circumstances not present in the Rupari case removed the license agreement from the protection of section 365(c)(1) and the court annulled the automatic stay for cause to allow the new license to go forward.

The holding in the *Rupari* case follows the rationale applied by several other courts in deciding that debtors may not assume, or assume and assign to a third party, licenses of intellectual property, including trademarks, patents and copyrights, without the consent of the licensor. In *Catapult Entertainment, Inc. v. Perlman*, a 1999 decision, the United States Court of Appeals for the Ninth Circuit held that a debtor was unable to assume the non-exclusive patent license because federal patent law prohibited the assignment of such license without the consent of the licensor, applying the "hypothetical test" to section 365(c)(1). The Third, Fourth, Ninth and Eleventh Circuit Courts of Appeal have applied the hypothetical test in determining whether an executory contract may be assumed and assigned where non-bankruptcy law prohibits assignment without the non-debtor party's consent.

However, the First Circuit, in *Institut Pasteur v. Cambridge Biotech Corp.*, applied the "actual test" to permit assumption of a patent license where there was no assignment or proof that the licensor was actually being forced to accept performance under its contract from a third party. Several bankruptcy courts in Circuits that have not ruled on the subject have followed the *Pasteur* actual test, including the bankruptcy court for the Southern District of New York.

These decisions indicate the importance of good drafting of intellectual property licenses in preserving licensors' rights to withhold consent to assumption of intellectual property licenses by a distressed debtor and assignment of the licenses to a third party under applicable patent, trademark and copyright laws. The split in the Circuits also calls for advice by knowledgeable bankruptcy lawyers as to hurdles that a licensor may face if the licensee were to file for bankruptcy.

Supreme Court Disparaging Trademark Decision Opens Marketing Opportunities

In *Matal v. Tam*, the Supreme Court held that Section 2(a) of the Federal Lanham Act, 15 U.S.C. § 1052(a), is unconstitutional under the Free Speech Clause of the First Amendment. Until the Court's decision, the US Patent and Trademark Office ("USPTO") relied on Section 2(a), known as "the disparagement clause," to deny federal registration to marks that may "disparage" any "persons . . . institutions, beliefs, or national symbols." Although the case generated three opinions, all of the participating Justices were unanimous that the statute constituted "viewpoint discrimination" and offended the constitutional principle that "[s]peech may not be banned on the ground that it expresses ideas that offend."

The case arose from the application to register the trademark "THE SLANTS" by Simon Tam, a member of a band by the same name (and thus had become widely known as "the Slants Case" on its progress through the courts). The parties agreed that "Slants" is a derogatory term for persons of Asian descent. As the Court noted, "members of the band are Asian-Americans" who believe that "by taking the slur as the name of their group, they will help to 'reclaim' the term and drain its denigrating form."

In an opinion joined by all of the participating Justices, the Court rejected two arguments that would have brought the analysis outside the heightened scrutiny applicable to First Amendment free speech cases. Noting that "[t]he Free Speech Clause . . . does not regulate government speech," the Court found that trademarks, and the USPTO's registration system, do not bear any of the earmarks of government speech nor of a government subsidy. Indeed, noting that there are more than two million federally registered marks, the Court stated that "[i]f the federal registration of a trademark makes the mark government speech, the Federal Government is babbling prodigiously and incoherently."

Tam's immediate practical effect is likely to be on federal applications to register trademarks that might be deemed disparaging or offensive. Persons or companies that previously may have avoided using or attempting to register such marks should now feel less restricted in their branding choices or in pursuing the "important legal rights and benefits" that the Court noted arise with federal registration. Two footnotes in the opinions also may be of practical note. Four Justices noted that two questions were left open: whether the "government-program" analysis and the "commercial speech" analysis rejected here might be an "appropriate framework" for analyzing free speech challenges to other provisions of the federal Lanham Act governing trademark registration and enforcement.

Whether you are a trademark holder concerned about protecting your registered or unregistered trademark rights or wish to ensure that you are taking steps to properly create or acquire enforceable trademark rights, our IP partners can discuss the potential ramifications of this case for your particular situation.

Privacy and Information Security – "Shield" Yourself from GDPR Liability?

With increasing discussion about the EU's General Data Protection Regulation ("GDPR"), which goes into effect in May 2018, discussed here, there is reason to also revisit the Privacy Shield, as it is one mechanism allowing compliant EU-to- US transfers of personally identifiable information ("PII") of EU citizens. The GDPR requires prompt action by many companies with a material connection to the EU, even absent a physical presence there. In addition to the steps we recommend to facilitate compliance, companies should seriously consider a Privacy Shield certification. Apart from legal benefits, in our view, this is likely to be beneficial in the marketplace as well.

The EU Data Directive, which remains effective until May 2018, prescribes that transfers of PII of EU residents are not allowed to countries outside the European Economic Area ("EEA") that do not provide an adequate level of data protection, i.e., a level that is not "essentially equivalent" to that applicable to data transfers within the EEA.

Under both the EU Data Directive and the GDPR, EU-U.S. data transfers may occur only if special frameworks are in place to guarantee "essentially equivalent" protection of the data. These include, among other things, adopting EU-approved Standard Contractual Clauses and enacting Binding Corporate Rules for intra-company transfers.

Another accepted framework permitting EU-US data transfers had been the EU-US 'Safe Harbor' program. US companies that self-certified under the Safe Harbor program were deemed to be adequate transferees of PII. This long-established framework was invalidated, however, by the Court of Justice of the European Union in the fall of 2015 and in the wake of the Snowden revelations. The EU Court of Justice found that the Safe Harbor program was unable to adequately protect EU-derived PII due to the unrestricted surveillance by intelligence organizations and law enforcement in the US.

The Privacy Shield Framework has replaced the Safe Harbor program. To join the Privacy Shield Framework, a U.S.-based company is required to self-certify to the US Department of Commerce and to publicly commit to comply with the Framework's requirements, which encompass both substantive and procedural matters. While joining the Privacy Shield Framework is voluntary, once an eligible company makes the public commitment to comply with the Framework's requirements, the commitment will become enforceable under U.S. law. In its recent cases, resulting in 20-year consent orders, the FTC has made clear that it views as a very serious matter, false claims of Privacy Shield certifications.

Our privacy lawyers are able to assist you in determining whether the Privacy Shield makes sense for your situation and with required steps if it does.

Uber and Privacy Policies

In a recent settlement involving Uber – yes, that one! – through its customary insistence on 20-year monitoring of operations, the FTC advised all companies having customer-facing websites that their policies and terms of use are essentially contractual, and not fluff. If one fails to comply with what it posts, it will draw the costly, burdensome ire of the agency (and perhaps the plaintiffs' bar) even if there is no financial loss to anyone.

Uber made all sorts of written promises to its customers regarding limitations on employee access to and general security for customer information … which it apparently ignored. It is now, and for 20 years will be, paying the price for doing so. As the FTC summarized:

> Uber failed consumers in two key ways: First by misrepresenting the extent to which it monitored its employees' access to personal information about users and drivers, and second by misrepresenting that it took reasonable steps to secure that data.

It also made clear that being a venture capital darling or otherwise gaining traction in the marketplace is beside the point:

> This case shows that, even if you're a fast-growing company, you can't leave consumers behind: you must honor your privacy and security promises.

As we have stressed, the easiest way to get in big legal trouble in this area is to not take seriously your promises … or appropriate someone else's policy as your own. Even use of a 'well drafted' document prepared by someone with requisite knowledge, but for someone else, without considering **your** specific circumstances, is useless … or worse!. Certainly, appropriate contractual and technical measures matter, but the most cost-effective way to mitigate your risk is to **customize** your policies to reflect your actual and intended practices, and leave room for their evolution.

Our Privacy partners are pleased to work with you to avoid the same fate as Uber.

Cease and Desist Letter to Alleged Infringer can Result in Turning of Tables

An early stage legal dispute between the iconic brand Gucci and US retailer Forever 21 ("F21") illustrates the potential downside of an aggressive approach to trademark enforcement. F21 began using blue-red-blue and green-red-green striped banding on certain articles of clothing. Expressing concern over F21's use of these stripe color schemes that Gucci contends are similar to its traditional stripe presentations, and evidently in furtherance of its obligation to 'police' its marks and avoid consumer confusion, Gucci sent F21 a number of apparently traditional, strong 'cease and desist' letters.

Rather than being swayed by these forceful letters from an internationally renowned fashion house, F21 launched US legal action in a court of its own selection seeking, among other things, to invalidate the Gucci colored stripe marks and to obtain a declaration that F21's use of certain stipe color schemes did not violate any rights of Gucci.

We are not involved in the proceedings between F21 and Gucci and have no view on the merits of either party's position, which have only been preliminarily stated. However, we believe that the case illustrates an important consideration for all brand owners. The existence of the formal controversy and associated (for both parties) time, expense and reputational jeopardy, stand as reminders that common preliminary trademark (or often, other IP) enforcement efforts (such as a 'cease and desist' or 'demand' letter) sometimes precipitate formal proceedings on the 'home court' of the purported infringer and then put at risk the IP which the owner originally sought to protect.

Although enforcement efforts such as cease and desist letters are often necessary, they should only be undertaken in cases where the IP owner (i) has good reason, based upon its consideration of all the facts and law, to believe that its position is very sound; (ii) has reason to believe that a more subtle entrée than a 'cease and desist' will not work; and (iii) can accept the risk of litigation unfolding in an unanticipated and potentially unfavorable or inconvenient forum.

Our Trademark partners are pleased to counsel those who are or may be involved in such situations.

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