SchiffHardin LLP
in Fashion

David Jacoby
212.745.0876
djacoby@schiffhardin.com

Judith S. Roth
212.745.0878
jroth@schiffhardin.com

Maxim H. Waldbaum
212.745.0815
mwaldbaum@schiffhardin.com

Stacie R. Hartman
312.258.5607
shartman@schiffhardin.com

Chris L. Bollinger
312.258.5724
cbollinger@schiffhardin.com

Amy M. Rubenstein
312.258.5625
arubenstein@schiffhardin.com

Marc Silverman
212.745.0872
msilverman@schiffhardin.com

Harold S. Nathan
212.745.0813
hnathan@schiffhardin.com

Hans F. Kaeser
212.745.0818
hkaeser@schiffhardin.com

"Morals Clauses"

PROTECTING THE BRAND FROM CELEBRITIES GONE WILD

The maxim that it doesn't matter what they print about you as long as they spell your name right probably doesn't cover celebrity spokespersons and creators — and it certainly doesn't in the view of the folks whose products they represent. With the negative press attracted by John Galliano and Charlie Sheen (among many others) fresh in everyone's mind, it seems a good moment to discuss the rights and obligations that exist or can be structured between celebrities and the brands they represent to deal with such situations.

When it comes to contemporary branding and advertising, celebrities are often the name and the face of the game. When a product or a brand puts a famous individual forward as its spokesperson, it not only invests a lot of money to obtain the celebrity's endorsement, it also merges some of the product's identity with the celebrity's. This is known as "meaning transference." If the celebrity is the coolest ever, the brand hopes that aura will transfer to its product.

In the United States, a good place to start the story of legal steps to deal with the negative effects of a famous face is with Fatty Arbuckle. He was a popular silent movie comedian until he was accused in 1921 of sexually assaulting a young woman who later died. Arbuckle ultimately was acquitted, but the event prompted Hollywood studios to introduce new contractual provisions, termed "morals clauses." In the years since, such provisions have been invoked to end contracts in a variety of situations. Morals clauses have been invoked where celebrities have refused to testify before the House Un-American Activities Committee, and wound up being held in contempt of Congress; were said to be homosexual; appeared in pornographic films; underwent treatment for alcoholism; and used drugs.

The Morals Clause

Prospectively, a brand that plans to use a celebrity as its face or voice should do due

> ‘Morals clause’ is a misnomer, because these clauses encompass much more than morals.

diligence about the celebrity. It may want to obtain the celebrity’s representation in the contract that he or she has done nothing (or done nothing except disclosed acts) that would embarrass the brand. Then it should include a morals clause in its agreement with the celebrity. “Morals clause” is a misnomer, because these clauses encompass much more than morals. Here’s a typical one:

> The artist agrees to conduct himself with due regard to public conventions and morals and agrees that he will not do or commit any act or thing that will tend to degrade him in society or bring him into public hatred, contempt, scorn or ridicule, or that will tend to shock, insult or offend the community or ridicule public morals or decency or prejudice the brand or product in general.

Courts in New York and California — where these issues most often arise — have upheld such clauses as enforceable, despite their breadth.

Of course, a good contract is tailored to the specific situation. If you’ve hired a celebrity precisely because he or she lives at the edge, you may have trouble invoking the morals clause to cover the same edgy conduct. There’s also a tension between making the clause so broad it takes in everything and making sure the talent knows what’s off limits.

If you’re the celebrity and have the negotiating clout, you will want to rein in the clause, perhaps limiting it to conviction of a crime involving moral turpitude. If you’re the brand, perhaps you want the decision to rest in your sole discretion, with any dispute to be resolved through confidential arbitration.

Generally speaking, an enforceable morals clause only lets the brand walk away from its endorsement contract. It does nothing to heal any reputational wound. Is there any way to have the celebrity reimburse the brand for the damage? It may be possible in some situations where the off-limits conduct can be specified clearly enough. The celebrity might be required to post a bond, to be forfeited in specified circumstances. The celebrity also might be required to repay some of the endorsement fees. The celebrity, in turn, might seek a provision requiring some further payment in the event of termination, even if for cause.

After the Fact

What if you didn’t include a morals clause?

In some circumstances, courts have been willing to *imply* a morals clause where none was written. The theory is that an employee has a common-law duty not to do things that hurt the employer’s interests or diminish the value of the employee’s services. Such an argument may allow the brand to escape the contract, but it is unlikely to afford a foundation for any other relief.

Even with a morals clause, however, there are other legal issues. In the Galliano case, for example, Dior will have to comply with the complicated requirements of French labor law for discharging an employee. In the United States, firing someone may violate the law — for example, if the basis is a discriminatory one. One of the court claims Charlie Sheen has made is that because Warner Bros. accused him of having physical and mental disabilities, his termination was a failure reasonably to accommodate an alleged illness and need for medical care and treatment, in violation of California Government Code §12940(a). Beyond that, California, Illinois and New York[1], among other states, have so-called lifestyle discrimination statutes that may come into play. A union or guild contract also may be involved. If your product (and your spokesperson) cross global borders, you may have to consider carefully how to take into account different mores and attitudes. For instance, if your product will be sold in China, will you require your endorsers to refrain from commenting on Tibet? Would they find this contrary to their own morals?

Famous Mark Dilution

NINTH CIRCUIT HOLDS 2006 TRADEMARK DILUTION STATUTE AMENDMENT EASED STANDARD ON SIMILARITY

Long-time readers of ***InFashion*** will remember the trademark dilution fight between Victoria's Secret and a Kentucky store called Victor's Little Secret, which went all the way to the U.S. Supreme Court (*Moseley v. Secret Catalogue, Inc.*, 537 U.S. 418 (2003), discussed in the November 2006 and Summer 2010 issues). In response to the High Court decision throwing out Victoria's Secret's claim, Congress in 2006 amended the trademark dilution statute to eliminate the need to show actual dilution. Now, just a month after the Supreme Court refused to hear the *Moseley* case for a second time, the U.S. Court of Appeals for the Ninth Circuit has construed the 2006 amendment in a way easing the burden of making out a dilution claim.

At issue in *Levi Strauss & Co. v. Abercrombie & Fitch Trading Co.*, 2011 WL 383972 (9th Cir. February 8, 2011), were jeans and, more particularly, the stitching on the back pockets of those jeans. Since 1873, Levi Strauss has stitched the "Arcuate" design onto the vast majority of its jeans' back pockets. It consists of two arches of equal length which meet neatly in the middle of the pocket. Levi Strauss has a trademark registration for the design. In 2006, A&F began using what it called the "Ruehl" design on the stitching of its back pockets, which the Ninth Circuit described as consisting of "two less-pronounced arches that are connected by a 'dipsy doodle,' which resembles the mathematical sign for infinity." Because this really is a case where a picture is worth a thousand words, we reproduce the Levi's pocket stitch (right) and the A&F one (left). (The infinity sign looks decidedly squashed to us, but we leave that for you to judge.)

Levi's sued A&F for trademark infringement, unfair competition and trademark dilution

[1] The New York Lawful Off-Duty Conduct Law, N.Y. Labor Law §201-d.

under both federal and California law, but the decision turns only on federal trademark dilution. The trial court had dismissed that claim, concluding that the law required A&F to have used "an identical or nearly identical trademark" and that "Ruehl" did not bear that degree of similarity to "Arcuate."

The Ninth Circuit, however, searched the Federal Trademark Dilution Act, 15 U.S.C. § 1125(c), in vain for that phrase "identical or nearly identical." Instead, the court traced the language back through a number of its precedents to a decision involving New York's trademark dilution statute. Then it turned to the post-*Moseley* amendment, specifically, 15 U.S.C. § 1125(c)(2)(B), which defines "dilution by blurring" as the "association arising from the *similarity* between a mark and a trade name and a famous mark that impairs the distinctiveness of the famous mark." [emphasis in original] Again, no mention of identical marks; similarity is enough. Indeed, while listed first, similarity is but one of multiple factors set out in the 2006 revision. Accordingly, the court of appeals reversed the decision, upholding Levi's right to proceed, and remanded the case to the district court for further proceedings.

It's worth noting that the *Levi Strauss* case pointed to a recent decision by the U.S. Court of Appeals for the Second Circuit, which covers New York, Connecticut, Vermont and Puerto Rico, that also applied the lesser similarity standard. In *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009), the defendant had been using the mark "Charbucks." Thus, on both coasts, whether you are dealing with jeans or a jolt of java, not being identical will no longer shelter a defendant's mark from a claim of trademark dilution.

SaferProducts.gov

CPSC ONLINE CONSUMER COMPLAINT SITE GOES LIVE

One of the controversial features of the Consumer Product Safety Improvement Act of 2008 (see Winter 2008-09 ***InFashion***) was its requirement that the U.S. Consumer Product Safety Commission create an online, searchable database of public complaints about harm or possible harm from products. That database, dubbed SaferProducts.gov, went live on March 11.

A major concern about the site was that anyone could post anything about a product, accurate or not, in good faith or not, and an affected product maker would have little recourse. The CPSC has put in place a limited sort of safeguard. It will review all gripes submitted online and, within five business days, transmit "qualifying" reports to the manufacturer for comment. The manufacturer then has a ten-business-day period in which to respond and provide comments or claims.

But there are no guarantees about what will happen as a result of a manufacturer response. While CPSC warned consumers in a press release that "information in a

report of harm determined to be materially inaccurate" during the ten-day period will not be published, and that potentially confidential information will be deleted, perhaps much more is said by the disclaimer CPSC has on the Web site:

> CPSC does not guarantee the accuracy, completeness, or adequacy of the contents of the Publicly Available Consumer Product Safety Information Database on SaferProducts.gov, particularly with respect to information submitted by people outside of CPSC.

Moreover, the CPSC's Final Rule regarding the database sets a high standard for something to be materially inaccurate: it has to be false or misleading **and** so substantial and important as to affect a reasonable consumer's decision-making about the product. In a test period before the site went live, only 13 of 1,500 complaints submitted from January to March 11 were deemed to be materially inaccurate.

Owing to the screening process, consumer complaints were only starting to appear on the Web site and be searchable as this issue went to press. Some include responses by businesses; many do not. The CPSC has created a "Business Portal" through which companies can sign up to receive notifications of any complaint about their products received at SaferProducts.gov. About 1,400 companies had done so by March 11. In addition to signing up, companies should make sure procedures are in place to route complaints received to the right office internally so that they can be reviewed and a response made, if appropriate, within the ten-day window. The CPSC is supposed to pull materially inaccurate complaints or duplicative complaints within seven business days of so determining, so the internal procedure also should include a "tickler" for follow-up on whether the CPSC has done so.

It's Getting Better All The Time

DECISIONS HELP PATENT OWNERS AGAINST FALSE MARKING CLAIMS

We warned you about false marking litigation (Spring 2010 ***InFashion***) and, sad to say, the warnings came true. Recently, there have been some important developments.

By way of background, the false patent marking statute, 35 U.S.C. § 292, is a *qui tam* statute (a Latin shorthand meaning one who sues on behalf of the king and individually) that lets anyone bring a claim to enforce it on behalf of the United States. The statute prohibits placing a patent marking on an unpatented article with intent to deceive the public. That can include leaving a patent marking on a product previously manufactured after the patent expires. A fine of up to $500 is available for each offense. Any settlement or judgment is shared 50/50 between the United States and the *qui tam* plaintiff.

While the statute has been in effect for a number of years, it received new attention in

2009 when the Federal Circuit Court of Appeals, the appellate court that hears patent claims, decided that the up-to-$500 fine applied to each article sold. *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009). Thus, a company that sold a million products at a dollar apiece faced potential liability of $500 million. Following the *Bon Ton* decision, hundreds of false marking claims against manufacturers and retailers have flooded the courts. We're defending a number of those claims.

Now the tide may be turning in favor of defendant manufacturers and retailers sued for false marking. The U.S. Senate voted 95-5 on March 8, 2011 to approve a patent reform bill, S. 23, which, among other things, would limit those who could seek to enforce the false marking statute to competitors. The House of Representatives is considering a similar bill.

As for the courts, the Federal Circuit determined in March 2011 that a false marking claimant must meet a heightened pleading standard, similar to that required to plead a fraud claim, in order to avoid dismissal. *In re BP Lubricants USA Inc.*, 2011 WL 873147 (Fed. Cir. Mar. 15, 2011). In addition, a U.S. district court in Ohio recently held the false marking statute unconstitutional under Article II of the U.S. Constitution. The basis was that there are insufficient statutory controls by the executive branch of the U.S. government over the commencement and prosecution of false marking claims by third parties seeking to enforce the statute on behalf of the United States. *Unique Product Solutions v. Hy-Grade Valve, Inc.*, 5:10-cv-01912-DAP (N.D. Ohio March 14, 2011). Other district courts have held the false marking statute to be constitutional under Article II. *Luka v. Procter and Gamble Co.*, 2011 WL 1118689 (N.D.Ill. March 28, 2011); *Public Patent Foundation, Inc. v. GlaxoSmithKline Consumer Healthcare, L.P.*, 2011 WL 1142917 (S.D.N.Y. March 22, 2011).

Stay tuned.

Data Privacy

CALIFORNIA LAW BANS REQUESTING CUSTOMER ZIP CODES FOR CREDIT CARD TRANSACTIONS

As our Winter 2010 - 2011 issue closed, the California Supreme Court handed down the decision discussed below. We provided a link to our online discussion in that issue. The following is an updated version of the online item.

Asking customers paying by credit card to disclose their zip codes is against the law, the California Supreme Court ruled on February 10. The state's highest court unanimously found that a zip code is "personally identifiable information" within the meaning of the Song-Beverly Credit Card Act, California Civil Code §1747.08 (*Pineda v. Williams-Sonoma Stores, Inc.*, 2011 Cal. LEXIS 1355), and cannot be requested and recorded without invading the privacy rights of consumers. Because the wording of the

underlying statute appears in other states as well, it remains to be seen whether the *Pineda* reasoning will apply in other jurisdictions.

One thing that's already been seen, however, is that the decision has sparked the filing of numerous class action claims against retailers in California. Because the California Supreme Court's decision was not given only prospective effect, claims based on conduct within the year preceeding it can still be asserted. Over 100 proposed class actions were filed in the six weeks following the decision.

Ms. Pineda claimed, for herself and on behalf of a proposed class, that Williams-Sonoma violated the Credit Card Act by asking for and recording her zip code when it processed her credit card purchase at its retail store. The plaintiff alleged that Williams-Sonoma then fed her name and zip code into reverse-search computer software in order to learn her street address, for marketing purposes. The claimant complained that her address was then subject to use for distribution of catalogs or advertisements, or might be sold or rented to others.

The Credit Card Act specifically prohibits retailers from requesting or requiring "personally identifying information" in a credit card transaction, "including but not limited to the cardholder's address and telephone number." The Court discussed ways in which a zip code is part of an address, and rejected arguments that a zip code is not particular to a specific individual. More importantly, the Court observed that a zip code is "information unnecessary to the sales transaction that, alone or together with other data such as a cardholder's name or credit card number, can be used for the retailer's business purposes." The Court also found the statute gave clear enough warning of what it prohibited, rejecting Williams-Sonoma's argument that the plaintiff's interpretation would render the statute unconstitutional for vagueness or violate due process.

The *Pineda* case will return to the lower courts for further consideration, but businesses should not await that outcome to evaluate their check-out practices, in California and other jurisdictions. In some situations, asking for the zip code may be permissible, because there will be times when the data is needed for a purpose incidental to the transaction, such as shipping. But *Pineda* underscores the continuing attention of courts and legislatures to the ongoing issue of consumer privacy.

SHORT TAKES: Online media and FTC enforcement actions: The Federal Trade Commission continued to pursue companies over online activities. Meantime, the Commercial Privacy Bill of Rights Act of 2011, a bipartisan Senate bill introduced on April 13, would reinforce the FTC's role in the area. Far and away the most significant development was a proposed settlement between the agency and Google over data privacy issues associated with the roll-out of Google's Buzz networking feature. Many commentators said it forces Google to adopt the "privacy by design" concept for new features. According to the FTC, Google users invited to sign up for Buzz had been offered the choice of clicking buttons labeled either "Sweet! Check out Buzz" or "Nah,

go to my inbox." The FTC asserted that those who clicked the "Sweet" button were not adequately alerted to the fact that, by default, Buzz would make public their most frequent e-mail contacts. This violated Google's general privacy policy, which promised that any use of personal information different from the purpose for which it was collected would occur only with prior user consent. Moreover, some people who clicked the "Nah" button found themselves enrolled in parts of Buzz anyway. Additionally, and for the first time, the FTC asserted substantive violations of the "safe harbor" privacy framework with the European Union. The agency claimed Google had misrepresented how personal data from the European Union was being handled by stating it was in compliance with the "safe harbor" framework. The proposed order would require Google to do some heavy lifting. It would have to create a "comprehensive privacy program," which, among other things, would identify reasonably foreseeable, material risks that could lead to unauthorized collection, use or disclosure of personal information, and oblige Google to take adequate preventive steps. Google also would be obliged to obtain an initial assessment from an independent privacy professional as to its compliance, and then to do so biennially for 20 years. .... Legacy Learning Systems signed a consent decree over conduct related to endorsements (the new FTC endorsements rule was discussed in the Winter 2009-10 ***InFashion***). The bad conduct was that of some of its affiliates, whose reviews appeared to be independent because they did not disclose that they received commissions from Legacy. In addition to paying a $250,000 fine, Legacy agreed to beef up its policing of affiliates. Its contracts already required them to abide by FTC rules; now Legacy must monitor whether in fact they do, and ditch them if they don't. .... In another consent decree involving online tracking, Chitika, Inc. had let consumers opt out of receiving targeted advertising. Although the company said the opt-out was good for ten years, it in fact expired after ten days. The company blamed a computer glitch, but now, among other things, loses any right to use data it gathered before March 1, 2011. **Can you say luxury?** Not on a billboard in Beijing after April 15. Worried about the "politically unhealthy" climate created by outdoor advertising promoting hedonistic or high-end lifestyles, China has banned outdoor ads in the capital using "supreme," "royal," "luxury" and "high class," among other words, along with ads which excessively promote "foreign" things.

© 2011 Schiff Hardin LLP
This publication is for the general information of clients and friends of our firm. It does not provide legal advice for any specific matter. Readers should consult a lawyer directly for such advice. This publication, or parts of it, may be considered attorney advertising material under professional conduct rules applicable to lawyers.