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Peering into the Future TEN TRENDS FOR 2012

As 2011 drew to a close, we gathered our sages to read the entrails¹ and venture some thoughts about what the major trends for 2012 will be. Here's what we came up with.

1. The role of the Internet will keep getting bigger. This is a prediction already borne out by early holiday season sales results: Black Friday store sales were up by 6.6% over 2010; online sales (through December 6) soared 15%, according to *The New York Times*. While the online portion is still smaller, there's every reason to think it will continue to grow. The effect ripples beyond how the sale is made. Online marketing of goods and services will continue to grow in 2012, so the competition will continue to be at the top of the (sponsored or other) online search results and to use social media effectively. Consumers also will use mobile devices increasingly to comparison shop in the moment and check inventory. All in all, it's unsurprising that a poll *WWD* took in November showed that **95%** of retail CEOs surveyed in the United States and Canada said they were likely or somewhat likely to increase their use of e-commerce.

2. Privacy problems. As more and more people shop and interact online, businesses wind up with more and more personal data. What they do with it will remain a controversial subject. There's already been lots of litigation. Congress is looking at legislation. Google and Facebook both just entered into settlement agreements with the Federal Trade Commission that require decades-long monitoring. Businesses should expect more regulation of customer data, domestically and across borders. Expect to see more headlines about businesses hauled into court over data lapses.

3. Fashionable Art. 2011 was a strong year for recognition of fashion as artistic work. The Alexander McQueen exhibition at the Metropolitan Museum of Art was an unprecedented success and it took place in the regular museum galleries, not the

¹ No chickens were harmed in the preparation of this article.

Costume Institute. Valentino has just launched a virtual museum [valentino-garavani-archives.org] with galleries containing his fashion designs. In cities the world over, from Moscow's Pushkin Museum (Dior) to the Dallas Museum of Art (Jean-Paul Gaultier) and many places in between, fashion exhibits were cultural highpoints. (It's ironic that under the current U.S. legal regime, the exhibit catalogues are copyrightable but the original fashion designs are not.) This happy synergy will continue.

4. Attacks on Fakes. The year closed with the shutdown by federal law enforcement agencies of 150 domain names of Web sites selling millions of dollars of counterfeit goods, announced on Cyber Monday. Meanwhile, a Nevada federal judge in a civil suit granted remarkable preliminary injunctive relief, seizing the domain names of hundreds of sites allegedly selling Chanel counterfeits. Various international efforts also continue. On December 6, 2011, the Information Technology and Innovation Foundation announced after study that it saw no support for the proposition that Congress' efforts to attack online pirates would destroy the Internet or constitute censorship. This may strengthen the hand of legislators supporting the proposed PROTECT IP Act and the proposed Stop Online Piracy Act (SOPA) in 2012.

5. Foreign Flavors. We expect to see both more efforts by U.S. firms to sell products in markets such as Latin America, India and Africa, and more influence from those markets on trends and styles in major fashion centers. In Modern Language Monitor's 2011 count of references to fashion capitals, the top 50 included five in Latin America and two each in India and Africa.

6. Claims of Sexual Abuse. More specifically, we worry about the possible follow-on to recent widely publicized allegations of sexual abuse involving students in the United States and continuing stories about sexual abuse and clergy globally. You already have appropriate standards in place for current conduct (you do, right?); but many of 2011's sex abuse suits involved long-past events and cover-up claims.

7. Celebrity Sells. The public is unlikely to lose its taste for celebrities in 2012, so brands are unlikely to stop trying to create linkages to them in the popular mind. If the Pope is considering a right of publicity claim over the use of his image in a Benetton "Unhate" advertisement, can the rest of the world be far behind?

8. Rumors and Reputation. The flap over Kenneth Cole's jesting online comment about demonstrators in Cairo underscores how fragile a reputation can be. Brands will need to take steps before and after a posting to preserve their reputations particularly when they become subject to anonymous or unsourced rumors.

9. Fashion Finds New Fields. The idea of the fashion designer associated with a hotel has become well-established, as has the haute couture designer creating a limited line for mass-market stores. There's every reason to expect this trend of fashion overflowing traditional product boundaries to continue.

10. Everything Old is New. In uncertain times, there's special appeal to reviving established brands, psychologically and economically. Expect that yet more dormant brands will return to life.

More Internet Domain Names Coming **THE NINE BILLION NAMES OF THE WEB²**

Shakespeare memorably wrote that "a rose by any other name would smell as sweet." We soon may see whether that observation from *Romeo and Juliet* in the 16th century transfers to the 21st century Internet, as the folks who run the World Wide Web prepare to make the biggest-ever change to its domain name system.

Starting in January, 2012, you can apply to invent and use your very own top-level domain instead of .com or .org.³ For a small number of very large fashion and luxury firms, it may make sense to go through the intricate and costly process to do this, and we provide below a necessarily abbreviated overview of what that will entail. For others, such an undertaking will be about as appealing as trying to get a territorial exclusive for Mars. Nonetheless, most brands will want to take some steps to combat new knock-off opportunities the process may create. We offer some thoughts on that, too.

Start at the Top

First, some background. An important part of an Internet address is the bit at the end after the last period — for instance, the ".com" in our law firm's Web address, www.schiffhardin.com. ".Com" — short for commerce — is one of the original generic top-level domains (or, in a strong bid for world's least user-friendly acronym, gTLDs).⁴ There also are after-the-last-dot abbreviations for countries — ".ca" for Canada, for example. There are over 250 of these ccTLDs, or country code top-level domains.

Up until now, the main Internet legal concern for most fashion and luxe brands has been when someone uses the brand's name or trademark (or a close misspelling) to confuse consumers into thinking a knock-off site or knock-off product is the real thing. So a knock-off law firm might sign up for www.shiffharden.com (a secondary domain name within the .com gTLD). Over time, however, national and international mechanisms have developed to help brands fight such actions, including anti-cybersquatting legislation in the United States and the relatively streamlined domain name dispute resolution processes available through the World Intellectual Property Organization and others.

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² With apologies to Arthur C. Clarke, author of the science fiction story "The Nine Billion Names of God."

³ As this issue went to press, several Congressional committees held hearings on the new gTLD process and the FTC also has expressed concern, but it seems unlikely any action to delay it will result.

⁴ We reported in the Fall, 2011 **InFashion** that the International Corporation for Assigned Names and Numbers ("ICANN"), the folks who maintain the global right of way for the Internet, recently approved ".xxx" as a gTLD for adult entertainment.

What ICANN is about to implement is much bolder. It will let virtually any word, in any language, become a generic top-level domain. For a multi-brand colossus with a global profile, the chance to use its name as a gTLD, gathering in all its Web sites to that gTLD and at one swoop barring registration of its name for Web sites in other generic or country code top-level domains, may be attractive. For many brands, however, the primary concern will remain to deflect and defeat targeted online rip-offs by knock-off operators. These brands won't care if someone registers ".fourinchheels" as a gTLD, but they will worry if someone uses their brand name in a secondary domain name to set up a knock-off Web site on ".fourinchheels".

Going for the gTLD

Because first class usually boards first, let's first consider the brand that can afford to establish its own gTLD. Canon and Hitachi are said to be considering this option.



Beginning at a minute after midnight Greenwich Mean Time on January 12, 2012, such a brand can pay ICANN an application fee of US\$185,000. The window to apply to register, say, ".swisswatch" closes on March 29, 2012. (If you also want to register ".swisswatches", though, you'll have to make another application — and pay another \$185,000 fee.) Paying the fee gets you the right to complete an application, in which you'll have to provide general information and show financial capability as well as both the technical and operational capability to run the gTLD you seek. You'll also have to pay fees to defray ICANN's cost of evaluating your application — starting with a US\$5,000 deposit per application.

ICANN will post gTLD applications for public comment. Anyone — competitors, counterfeiters, jilted boyfriends — can make public comments. Evaluation panels will assess these comments (including verifying their accuracy). If the comments impact the evaluators' scoring of an application, they may ask the applicant to comment, but this is wholly at the discretion of the evaluation panel.

There also will be a period for the submission of formal objections to the application. Only certain participants will have standing to lodge formal objections, and there will be only four kinds to make: a string confusion objection; a legal rights objection; a limited public interest objection; and a community objection. For the most part, only the first two are relevant to our discussion.⁵

Within the first eight weeks, ICANN will perform a check for the "administrative completeness" of applications. Once ICANN clears gTLD applications as administratively complete, would-be objectors will have two weeks to go to an approved dispute resolution service provider to file formal objections after paying a fee. (The applicant will get to pay fees, too.) One commentator has estimated the range for these dispute

⁵ A very edgy brand seeking a gTLD potentially could face a limited public interest objection if perceived to be inciting child sexual abuse or child pornography. Brands which have had issues with allegations of using involuntary workers also might face such objections.

resolution fees at from \$20,000 to \$100,000. Applicants met with objections will have the right to reply. ICANN figures the formal objection stage will last seven months.

String objections Adding large numbers of gTLDs is new territory, and no one is entirely certain how it will affect the stability of the Internet domain name system. Beyond that, some proposed gTLDs may interfere with others — imagine if both the car company and the Presidential Library applied for “.ford”. An ICANN panel will create groupings of “strings” which present such issues and assess them together. These string issues will stay on hold until each application that has been gathered into a given string grouping has made it through both evaluation and other dispute resolution. If nothing else works, who wins among competing strings will be determined by an auction among the competing applicants, with the proceeds going to ICANN.

ICANN thinks the string contention resolution process could take from two and a half to six months. For some technical issues that go to the security or stability of the DNS, ICANN will permit an extended evaluation period, expected to last up to five months.

Legal rights objections If someone applies for a gTLD that is the same as your trademark, you will have standing to make a legal rights objection. The objection will be resolved by one of the ICANN-approved dispute resolution services providers. The test will be whether the applied-for gTLD “takes unfair advantage of the distinctive character or the reputation of the objector’s registered or unregistered trademark or service mark . . . or unjustifiably impairs the distinctive character or the reputation of the objector’s mark . . . or otherwise creates an impermissible likelihood of confusion between the applied-for gTLD and the objector’s mark.”

Government gripes In addition to public comments and formal objections, governments also can communicate concerns about how gTLD applications relate to “national laws.” ICANN says applicants should consider any government comments they receive carefully and try to address the concerns raised. If a government is worried enough by an application, it can try to get ICANN’s Government Advisory Committee (“GAC”) to issue a GAC Early Warning Notice about an application.⁶ These should be taken seriously because they can lead to a formal objection or the even-weightier GAC Advice of New gTLDs. Indeed, ICANN deems a GAC Early Warning Notice so serious that if the applicant thereafter wants to abandon its application, ICANN will refund part of the applicant’s deposit fee. Certain proposed gTLDs involving geographic names (“.nyc”) also may require approval from the relevant national government. If the

⁶ The potential scope of these Early Warning Notices is breathtaking. ICANN’s 352-page not-yet-final September 19, 2011 applicant guide quotes GAC as saying that strings “that could raise sensitivities include those that ‘purport to represent or that embody a particular group of people or interests based on historical, cultural or social components of identity, such as nationality, race or ethnicity, religion, belief, culture or particular social origin or group, political opinion, membership of a national minority, disability, age and/or a language or linguistic group’ and ‘those strings that refer to particular sectors, such as those subject to national regulation (such as .bank, .pharmacy) or those that describe or are targeted to a population or industry that is vulnerable to online fraud or abuse.’” Query if ICANN will regard that last category as including counterfeiting and knock-offs.

governments gang up on you, and submit the dreaded GAC Advice on New gTLDs, you will get no opportunity to respond, and there will be a “strong presumption” that your application should be rejected—in fact, an explanation will be required if it isn't.

Evaluation Once the application clears ICANN’s administrative completeness check, it moves to initial evaluation. The two major components of evaluation are string similarity review and vetting the applicant entity’s *bona fides*. String similarity addresses visual similarities between the applied-for gTLD and existing TLDs, reserved names, applied-for gTLDs and ccTLDs, among others, which could affect security or stability of the DNS. So a broadcaster’s application for “.tv” will lose out to the existing ccTLD for the Pacific island nation of Tuvalu. If an application fails string similarity review because it is too similar to an existing gTLD, that’s the end of the story. If it is found to be too similar to another applied-for gTLD, the two will be placed in a string contention set to work or bid it out. An important consequence is that any gTLD granted based on applying in early 2012 will not be subject to string contention challenges from any gTLD application made thereafter.

As part of the vetting process, ICANN will do background screening on the applying entity (sorry – no individuals or entities not yet formed will be allowed as applicants) as well as the people named in the application. For background checks, ICANN can consider information it gets from any source; applicants have no opportunity to challenge the information or to confront the source.

Are we there yet? Almost. Before “delegation of the applied-for gTLD into the root zone” (ICANN speak for activating the new gTLD), you’ll have to execute a (non-negotiable) registry agreement with ICANN and undergo a technical test to validate the application information about your technological qualifications. This testing is conducted in ICANN’s sole discretion, so there’s no recourse if you flunk. ICANN thinks this last stage will take about two months.

So, after up to 22-28 months, at most, and spending US\$190,000 in fees — at least, but possibly much more (and that doesn’t count your IT or legal costs) — you may have a new gTLD. If you do, you’ll have all the responsibilities that come with being the registrar of an existing gTLD. You also will be responsible for additional fees to ICANN, at a minimum rate of \$25,000 annually for ten years — more, if your gTLD attracts lots of secondary domain name registrations.

For the Rest of Us?

The lesson for the much larger group of brand owners who do not aspire to operate a gTLD of their very own, but merely to prevent exploitation by knock-offs, is to be alert to gTLD and secondary domain name filings. For the former, remember the legal rights objection, which can prevent your brand from becoming someone else’s gTLD.

For secondary domain names, an important source of protection is the registry

agreement the operators of new gTLDs must sign with ICANN. As matters stand, it will require the gTLD operator to run certain tests for any proposed secondary domain name. This will be done by comparing proposed secondary domain name registrations with a master Trademark Clearinghouse, to be populated by the mark owners.

A weakness of the approach ICANN takes is that there must be an “Identical Match” between the trademark and the proposed secondary domain name, with some minor exceptions. If your trademark is for Coca-Cola, and the proposed secondary domain name is cocacola.sodas, the knock-out comparison will ignore the hyphen and treat the two as identical; but if your trademark is for Dorito and the proposed domain name is doritos.snacks, apparently it won’t be flagged as a problem. This may be a particularly acute issue where the gTLD is in a language not using a Roman alphabet (such as Chinese, Cyrillic, Japanese or Arabic) and translation gets less literal.

Although unregistered trademarks can be raised in a legal rights objection, the Trademark Clearinghouse will include only registered word marks and word marks validated or protected by a court, statute or treaty, among others. Here, we suggest that clever brand owners may have the means to expand the automatic protection they get by compiling and submitting existing court decisions validating or upholding their trademarks to have them included in the Clearinghouse.

The first batch of new gTLD applicants in early 2012 will be kept to 500 in number, and ICANN expects the first batch evaluation process to take five months. Subsequent batches will be kept to 400. ICANN says it does not expect to activate more than 200 to 300 gTLDs annually, with a flat cap of 1,000 a year. If you miss the first round, ICANN says it hopes to begin the next gTLD application round within a year of the close of initial applications in 2012 – that is, by late March, 2013.

Eva's Bridal

TRADEMARK LICENSORS MUST KEEP CONTROL

A recent case from Chicago offers a cautionary tale about the importance of keeping control of licensee quality when a trademark owner enters into a licensing agreement. The upshot of ignoring the lesson was that the mark was deemed abandoned. *Eva's Bridal Ltd. v. Halanick Enterprises, Inc.*, 639 F.3d 788 (7th Cir. 2011).

In the mid-1960s, Eva Sweis started a Chicago shop called Eva's Bridal. The store prospered, and Eva let her children open similar shops of their own using the “Eva's Bridal” name. The business passed to Eva's daughter Nancy and her husband, Said, who operated an “Eva's Bridal” shop in Oak Lawn. They also continued to license relatives to operate other Eva's Bridal shops. Said and Nancy ran an “Eva's Bridal” shop in another Chicago suburb, Orland Park, for a while, and then sold it to a relative of Said's for \$10 and a promise to pay a \$75,000 annual fee. The license ran out in 2002,



but the Orland Park store stayed in business and paid no license fee. After five years, the Oak Lawn entity sued the Orland Park store for trademark infringement – and lost not only the suit, but its trademark, too.

It was undisputed that there had been no effort by the Oak Lawn group to exercise reasonable control over the nature and quality of the goods, services, or businesses on which the Orland Park store used “Eva’s Bridal.” This is known as “naked licensing” and can kill a mark.

The Oak Lawn entity argued it had no reason to doubt that high standards were being observed in the Orland Park store, particularly because the designer bridal gowns being sold were of high quality. That misses the point, the Seventh Circuit Court of Appeals explains, discussing familiar licensed trademarks such as Kentucky Fried Chicken and Burger King. The trademark licensor’s supervision isn’t about high quality vs. mass market; it’s about consistent quality, and the decision-making authority about that quality has to be the licensor’s. “How much authority is enough can’t be answered generally; the nature of the business, and customers’ expectations, both matter,” the court said, but the takeaway is that you must retain some control over use of your trademarks by any other party. In *Eva’s Bridal*, there was none.

SHORT TAKES: California Supply Chain Disclosure Law Effective January 1, 2012, retailers and manufacturers who do over \$100 million in sales and also do business in California must make disclosures on their Web sites about steps they take to combat slavery and human trafficking. **What Becomes A Legendary Small Town?** Banning the sale of fur apparel, if it’s West Hollywood, California. Under local legislation approved in November, it will be illegal after September 21, 2013 to sell an article with animal skins with hair (leather is exempted). Also carved out is furniture, as well as fur apparel sold by vintage shops, private parties and non-for-profits. As the sheriff’s beat in West Hollywood takes in a host of high-end retailers along Melrose Avenue and Robertson and Sunset Boulevards, however, litigation to challenge the local law has been threatened. Surely, the fur will fly.

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