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How Green Was My Inventory?

Federal Trade Commission Targets Clothing Manufacturers' and Retailers' "Green" Claims

You may recall a television commercial with the tag line, "It's not nice to fool Mother Nature." The Federal Trade Commission takes a similar view when it comes to "green" claims about clothing products.

Last summer, the FTC brought false marketing claims against four manufacturers that allegedly made unsupported claims that rayon clothing was made of "100% bamboo fiber," was "antimicrobial," or was "environmentally friendly." The FTC now has expanded this enforcement initiative to retailers. On January 27, 2010, the FTC sent letters to 78 retailers — including Amazon.com, Barney's New York, Macy's, Nordstrom, Saks Fifth Avenue, Target and Wal-Mart — warning them that selling textile products made from rayon but labeled or advertised as bamboo constituted a violation of the agency's Textile Rules and the FTC Act. The FTC further warned that any claim that bamboo textiles have a variety of environmental benefits would be subject to the FTC's Environmental Marketing Guides (also known as The Green Guide).

Since at least the first publication of its Green Guide in 1992, the FTC has regulated green environmental claims such as "environmentally friendly," "recyclable" and "biodegradable." The Green Guide requires that the marketer — and that includes manufacturers and retailers — possess reliable scientific evidence substantiating that any green claim meets FTC standards. But it is only under the Obama Administration that the FTC has pursued enforcement of these standards aggressively.





The FTC's action in August 2009 addressed green claims regarding processed bamboo contained in rayon clothes. The FTC charged four manufacturers with making deceptive claims because they asserted that their rayon clothes were made of "100% bamboo fiber," retained bamboo's "antimicrobial" properties, were "biodegradable," or were made from an "environmentally friendly" manufacturing process. The FTC contended these claims were false because rayon is a man-made fiber created from the cellulose found in plants and trees and dissolved with a harsh chemical that releases hazardous air pollution. While bamboo could be used as the cellulose source, the fiber that is created is rayon. Further, the clothing products were not considered biodegradable because the companies possessed no evidence that the clothes would completely decompose within a reasonably short period when disposed of in landfills, incinerators or recycling facilities. The FTC challenged claims that the manufacturing process was "environmentally friendly," arguing that hazardous air pollutants were released. The FTC also alleged that the manufacturers had violated the Textile Fiber Production Identification Act (Textile Act) and the FTC's Textile Rules by falsely labeling and advertising clothing and textile products as bamboo, when they should have been labeled and advertised as rayon.

The four manufacturers have settled with the FTC. They have agreed not to make any representation in any label, advertisement, promotion or product name that the products were made of bamboo or were antimicrobial or biodegradable unless the company has in its possession competent and reliable scientific evidence that substantiates such a representation. Moreover, the settlements impose burdensome recordkeeping and notification obligations on the companies, which run for the next 20 years.

In light of this flurry of enforcement by the FTC, companies should take extra care to mind their environmental P's & Q's when making green claims in their promotional materials.¹

[Mary Ann Mullin, a lawyer in Schiff Hardin's Environmental Group based in the firm's Lake Forest office, contributed this article.]

¹ The green claims discussed above raise different issues from trying to register trademarks which convey environmentally friendly connotations. In that context, the U.S. Patent and Trademark Office may be inclined to treat a trademark component such as "green" as merely descriptive and therefore not protectable. This calls for your creative and legal advisors to work together to seek a more distinctive way to convey the same message. Where "green" is part of a title, name or mark, a coined phrase incorporating other elements – say, the logo "GREENIE BEANIE" in a cap-like circle in green, leaf-like lettering – may win protection.

Patent Woes

THE NEXT BIG (BAD) THING?

A little like kudzu in the South or Asian carp in the Mississippi, there's an invasive new species popping up around the country. In this instance, it's an outbreak of the Marking Troll, a distant relative of the Patent Troll, and it thrives by bringing claims of false marking when a product still lists a patent number when the patent in fact has expired.

As the result of the Federal Circuit Court of Appeals decision last year in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, members of the public who sue claiming the display of expired patents is a false marking under 35 U.S.C. §292 may be able to collect up to \$500 per expired patent — **per item**. So if the perfume dispenser or the closure on a bag made when a patent was still in force is still being sold and lists the expired patent, you could be sued. While a showing of intent to mislead is required, intent can be inferred from the circumstances. Our colleagues in Chicago report there already have been a number of Marking Troll suits filed in the Northern District of Illinois and we've seen one in the Southern District of New York, too.

ABBOUD REDUX, OR, ALL THAT 'JAZ'

We reported in the Winter issue of *In Fashion* on an appellate court decision about whether designer Joseph Abboud had sold all rights to use his name commercially as part of a \$65 million transaction in 2000. The trial court had ruled "yes," but the Second Circuit said the sale contract was legally ambiguous and that the trial court had erred in not weighing extrinsic evidence — that is, evidence beyond the words of the contract — showing the parties' intent. So back the case went for further consideration of what the extrinsic evidence might show.

Quite a bit, as it turns out, and in a 59-page Opinion and Order, the Hon. Theodore H. Katz, U.S. Magistrate Judge in the Southern District of New York, ruled that Joseph Abboud still had a right, albeit a limited one, to use his name in connection with the "jaz" menswear line he has designed.²

By way of recap, after two decades of prominence in the fashion world, Abboud had sold various trademarks using his name for about \$65 million to JA Apparel Corp. in 2000. Abboud stayed on as Chairman Emeritus until 2005, when he



“...Marking Troll...it thrives by bringing claims of false marking when a product still lists a patent number when the patent in fact has expired.”

² *JA Apparel Corp. v. Abboud*, 2010 WL 103399 (S.D.N.Y. Jan. 12, 2010)(Katz, U.S.M.J.).

and the new owners parted ways, but he remained subject to a non-competition covenant lasting until mid-2007. In 2007, word leaked out to the media that he was planning a new men's line, "jaz," when the non-compete ended. Litigation ensued when word also leaked that the ad campaign for "jaz" would include a statement that it was designed by Joseph Abboud. Foul, cried JA; mere fair use of his name, replied Abboud. The 2000 contract never said in so many words that Abboud promised not to use his name in connection with future ventures, but JA argued that the contract's inclusion of the word "names" in a string of phrases describing what had been sold meant that Abboud had sold the use of his name for any commercial purpose.

“Abboud's name cannot be on any labels, hangtags, product packaging or the clothes themselves...”

In the latest opinion, the District Court notes extensive back and forth correspondence directly between the principals before the deal was signed, most notably, a letter from Abboud, acknowledging he would have no right to use the trademarks, but then saying: "Here is where you must separate Joseph Abboud personally from the Joseph Abboud trademarks." Moreover, the court said, there was no extrinsic evidence to suggest all use of Abboud's name was to be barred, and neither party had been able to explain why the word "names" had crept in only when the lawyers documented the deal. In a considerable understatement, the court notes in a footnote that it is "unfortunate" that the run-up to the deal did not "prompt either party to more clearly delineate the parties' respective rights under the Agreement."

Having concluded Abboud had not surrendered all use of his name, the court then turned to trying to define what use would be fair and permissible under the agreement. If a party has sold his name's trademark use, he is allowed to advertise his affiliation with a new company, provided it is done in a not "overly intrusive manner," and provided customer confusion will not result.

Using some sample potential ads to frame its discussion, the court concluded that, to avoid confusion, Abboud may use his name only with a disclaimer of affiliation with the Joseph Abboud trademark goods he sold in 2000. And so JA Apparel wins an injunction requiring:

Abboud's name must be used descriptively, in the context of a complete sentence or descriptive phrase, and must be no larger or more distinct than the surrounding words in that sentence or phrase. Abboud is to prominently display his trademark "jaz" (or any other trademark) elsewhere in the advertisement

Op. at 49. Moreover, Abboud's name cannot be on any labels, hangtags, product packaging or the clothes themselves, and, if used as an identification that he is the designer, it must be accompanied by the disclaimer.

So did Joseph Abboud lose? Not really. He wanted to be able to let the public know that he was involved with “jaz” as its designer, and he’ll be able to do so, as long as he observes some conditions. He gets to tap into some of the value of his name.

What lessons might be drawn from the Abboud name saga? We suggest these:

1. If you are seeking what seems like extensive or extreme relief — such as completely barring someone from using his real name — it’s best to say so unequivocally in your agreement to purchase the trademark and other rights.
2. In selecting a trademark or logo for a line, think well down the road. Should you wish to sell the line one day, will you be able to carve out and still use your actual name?
3. And one for the lawyers: make sure you know what your clients have been saying and writing in the run-up to any deal. It could come back to haunt everyone.

Watch That Laptop!

TOUGH NEW MASSACHUSETTS DATA SECURITY RULES NOW IN FORCE, AND THEY REACH ACROSS THE COUNTRY

Massachusetts got plenty of national attention earlier this year when it elected a Republican to fill the late Ted Kennedy’s seat in the Senate. Massachusetts should get national attention, too, for its strict new standards protecting personal information, which took effect March 1, 2010. The effective date for the “Standards for the Protection of Personal Information of Residents of the Commonwealth” (201 CMR 17.00 to the lawyers) (“Standards”) was postponed from the original January 2009 because it was thought that too few businesses understood them well enough — and there was too much to be done — to implement the new rules that soon.

Like the Senate election result, the impact of these new standards reaches beyond the Bay State, because they apply to personal information of any Massachusetts resident, wherever held. So it can apply to your company not just if it has locations in Massachusetts, but also if it has employees, anywhere,



who are Massachusetts residents or if it has customers from Massachusetts — even if they are buying from your shop while on vacation in Florida or Hawaii.

What They Require

The Standards deal with “personal information,” defined as the combination of a Massachusetts resident’s (a) first name and last name or first initial and last name, and (b) one or more of a Social Security number; a driver’s license number or state-issued identification card number; or a financial account number, credit card account number or debit card account number. Firms which receive, maintain, process or otherwise have access to such information either in connection with the sale of goods or services or in connection with employment must develop and maintain a comprehensive information security program. The program must address a number of topics, including physical access to records containing personal information, compliance monitoring and review of the plan scope at least annually and whenever there is a material change in business practices which may impact record integrity or security. Access to personal information must be limited to those whose jobs require them to have it and there must be reasonable monitoring of systems for indications of unauthorized access to or use of personal information. The Standards specifically require encryption of personal information transmitted over public networks (i.e., the Internet) or sent wirelessly. Moreover, encryption is required for all such data stored on laptops or other portable devices.

The Standards were modified to let the obligation they impose vary in light of a business’ size, resources, scope of business, the nature and quantity of data stored and the need for security. The Standards incorporate a technical feasibility standard, but as to devices like cell phones and BlackBerries, for which little encryption may be done, Massachusetts’ answer is simple: “personal information should not be placed at risk in the use of such devices.”

Although some effort was made to harmonize aspects of the Standards with federal law, you may need to consider not only federal law, but rules in other states (or, perhaps, even other countries). Information security is a complicated field, both legally and technically. The Standards do not spell out penalties for violation. But if you remember instances of security breaches like those which hit TJ Maxx (see **In Fashion**, December 2007 and May 2008 issues), you already know you don’t want to go there. Better to be heads-up in dealing with data security than to end up in the headlines.

SHORT TAKES

Fashion Week and Blogs: You could barely read a word about New York Fashion Week without reading about the sudden emergence of blogs as major media players at the event. Of course, for every blogger who won a runway-side seat, there were many, many others left outside the tents. Which leads us to ask a question we haven't seen written up. In light of the FTC's new rules, discussed in our Winter issue, if you are a blogger singled out to attend a few shows, shouldn't you be disclosing that as a material relationship when you write up any brands being shown during the Week? **Un Fois De Plus:** We've reported previously on decisions by French courts holding eBay liable for failing to take adequate steps to prevent sale of counterfeit goods (**In Fashion** Fall 2008 issue). There was another such decision in February, as the Tribunal de Grand Instance in Paris ordered eBay to pay LVMH €230,000 (about \$310,000 at the time). While that pales next to the €38 million award handed down against eBay last June, this latest ruling had an interesting twist: it was based in part on eBay's sale of ad words which involved misspellings of Louis Vuitton-related names. Picky? Not necessarily. A recent study by two Harvard professors estimated Google could earn almost \$500 million yearly from ads seen on "typosquatting" sites. Closer to home, an appeal from the Manhattan federal district court's denial of Tiffany's claims against eBay, argued last July, remains pending. **Amazon Drops Colorado Associates:** News reports say Amazon.com halted use in Colorado of associates who are paid for driving traffic to the site through links after the state adopted a regulation requiring it either to collect sales tax or disclose what residents bought. It's what Overstock.com did when New York adopted a similar rule, but it contrasts with what Amazon.com did then – it just started collecting the tax (**In Fashion** Fall 2008 issue). **Oops, I Did It Again:** That may work as a song title, but it fares less well as an explanation for why prior court orders or settlement agreements protecting intellectual property have been violated, as two recent decisions involving Fendi and Burberry illustrate. The federal district court in Manhattan awarded Fendi treble damages against Burlington Coat Factory Warehouse under U.S. trademark law for again selling counterfeit handbags.³ Burberry Ltd. also triumphed on claims of willful infringement by sale of counterfeits in the same courthouse.⁴ Again, there had been an earlier suit and settlement. Following a bench trial and based on sale of 12 counterfeit items, the court awarded Burberry statutory damages of \$1.5 million (\$100,000 per trademark per variety of item), plus attorneys' fees. Burberry also won an injunction barring the offering of counterfeit Burberry goods.



³ *Fendi Adele S.R.L. v. Burlington Coat Factory Warehouse Corp.*, 2010 WL 431509 (S.D.N.Y. Feb. 8, 2010).

⁴ *Burberry Ltd. v. Designers Imports, Inc.*, 2010 WL 199906 (S.D.N.Y. Jan. 19, 2010).

SCHIFF HARDIN
EVENTS, TALKS AND PUBLICATIONS

Schiff Hardin will make a presentation about legal issues affecting artists and designers at the Savannah College of Art and Design's Atlanta campus on April 1, 2010. The Schiff Hardin team will be led by retired Chief Justice of the Georgia Supreme Court **Leah Ward Sears**; she is now a Schiff Hardin partner. The presentation and discussions will cover a variety of legal topics of interest to faculty and students of the college including intellectual property, labor and employment, general business organization and operation and dispute resolution. The presentation will be followed by a reception. Other participating Schiff Hardin attorneys include: **Eric Barnum**, **Brian Gannon** and **BJay Pak** of our Atlanta office and **Judith Roth** of the New York office.

Allan Horwich, "Cleaning the Murky Safe Harbor for Forward-Looking Statements: An Inquiry into Whether Actual Knowledge of Falsity Precludes the Meaningful Cautionary Statement Defense," *Journal of Corporation Law* (Spring 2010)

Maxim H. Waldbaum and **Henry Behnen**, "The Post-Judgment Problem: Core Lessons and Philosophy From *Paice v. Toyota* on Calculating Ongoing Reasonable Royalty Rates after A Court Finds Patent Infringement," *American Intellectual Property Law Association Quarterly Journal* (Summer 2010)

Judith Roth will be a speaker at the Third Annual Quad City Symposium "Pushing the Envelope on IP Reform" on Friday July 16, 2010 in Dayton, Ohio. The Quad City Forum is an annual conference attended by intellectual property attorneys in Columbus, Cincinnati, Dayton and Toledo, Ohio. Ms. Roth will speak on the subject of "Fashion, Copyright and the Proposed Design Piracy Prohibition Act." Other confirmed speakers include the Commissioner for Trademarks of the United States Patent and Trademark Office Lynne Beresford and the Deputy Executive Director of the American Intellectual Property Law Association Vince Garlock.

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