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Update: First Circuit Holds That Rejection of a Trademark License by a Bankrupt Licensor Extinguishes the Licensee's Right to Further Use of the Licensed Marks

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In an article in the May 2017 issue of *The Licensing Journal*, we reported on the decision of the Bankruptcy Appellate Panel for the First Circuit (the BAP) in *In re Tempnology LLC*.[1] A key issue in that case was whether the rejection under Section 365 of the Bankruptcy Code[2] in a licensor's bankruptcy case of an executory contract that includes a trademark license extinguishes the non-debtor licensee's right to continue to use the licensed marks for the period prescribed in the contract. The BAP, adopting the rationale articulated a few years earlier by Judge Easterbrook in *Sunbeam Products, Inc. v. Chicago American Mfg., LLC*,[3] concluded that: (1) Under Section 365(g) of the Bankruptcy Code, the debtor-licensor's rejection of the executory contract at issue simply constituted a breach by the licensor of that contract, which, under applicable non-bankruptcy law, did not terminate the license or otherwise eliminate the licensee's right to continue to use the licensed marks in accordance with the terms of the license, and (2) reversed the bankruptcy court's decision to the contrary.

In a two to one decision issued on January 12, 2018, the US Court of Appeals for the First Circuit reversed the BAP.[4] In our previous article, we identified the *Sunbeam* rationale (followed by the BAP in *Tempnology*) as the apparent emerging trend in the case law, at least at the court of appeals level. That observation must now be tempered, as the First Circuit rejected the premise underlying the Seventh Circuit's *Sunbeam* rationale and held that the BAP had erred in concluding that rejection of a trademark license in a bankruptcy case of a debtor-licensor does not extinguish the licensee's right to continued use of the licensed marks.

The First Circuit panel considered the effect of rejection against the backdrop of the Fourth Circuit's 1985 decision in the *Lubrizol* case[5] and the legislative response to that case. In *Lubrizol*, the Court held that the rejection in a debtor-licensor's bankruptcy case of a license of intellectual property deprived the licensee of the right of continued use of the licensed property, relegating the licensee to a pre-petition unsecured claim in the bankruptcy case for damages for breach of contract. The *Lubrizol* case, which involved intellectual property other than trademarks, attracted formidable scholarly criticism.[6]

The Congressional response to *Lubrizol* was the enactment three years later of Section 365(n) of the Bankruptcy Code.[7] That provision affords licensees of most types of intellectual property the right to elect to continue to use intellectual property that has been licensed to them for the term specified in the license, when the license is rejected in the licensor's bankruptcy case. As explained in our previous article, however, trademarks are not included in the Bankruptcy Code's definition of "intellectual property," and Section 365(n), accordingly, does not expressly apply to trademark licenses. Congress opted not to include trademark licenses under the umbrella of Section 365(n) rather than resolve concerns about the possible effect on quality control maintenance of extending Section 365(n)'s protections to trademark licensees and left it to the bankruptcy courts to develop "equitable treatment" in situations involving trademark licenses.[8]

Against this backdrop, the majority in the *Tempnology* case concluded that rejection is intended to free a debtor from its performance obligations under an executory contract in exchange for the imposition of an unsecured damages claim for breach of contract and that goal cannot be accomplished if a trademark licensee is permitted to use the licensed marks after rejection. The majority reasoned that, if post-rejection use of the licensed marks by the licensee were permitted, the debtor-licensor or its assignee would continue to have a duty imposed by trademark law—a "residual enforcement burden"—to monitor and control the licensee's use of the marks for purposes of quality maintenance or risk the permanent loss of the trademarks.[9] Thus, recognizing a right of continued use of licensed marks by the licensee after rejection of the license by a debtor-licensor would, in the majority's view, deny the debtor-licensor the benefit rejection was intended to bestow.

The dissenting panel member found this reasoning unconvincing, endorsed the *Sunbeam* rationale, and would have affirmed the BAP's ruling.

The *Tempnology* case illustrates that bankruptcies of trademark licensors continue to pose significant legal risks for licensees whose businesses are heavily reliant on the continued ability to use licensed marks for the stated duration of the licenses. In our May 2017 article, we suggested some structuring techniques for licensees when entering into trademark license agreements that may mitigate the risk of rejection if the licensor becomes bankrupt. The reader is referred to that article if he or she has an interest in that subject.

1. In re Tempnology LLC, 559 B.R. 809 (1st Cir. B.A.P. 2016).
2. 11 U.S.C. § 365.
3. Sunbeam Prods., Inc. v. Chicago Am. Mfg., LLC, 686 F.3d 372 (7th Cir. 2012).
4. Mission Product Holdings, Inc. v. Tempnology, LLC (In re Tempnology, LLC), 879 F.3d 389 (1st Cir. 2018).
5. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985).
6. *See* commentary referenced in *Sunbeam*, 686 F.3d at 377.
7. 11 U.S.C. § 365(n).
8. *See Tempnology*, 879 F.3d at 401, 406.
9. *Id*. at 402-404.

Using Copyright to Protect Unregistered Marks in China against Online Counterfeiters

Dr. Paolo Beconcini

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Unlike the United States, China has adopted a first-to-file system to protect trademark rights. That means that the first to file a mark with the trademark office in China becomes the mark's owner. Use in commerce alone is not a sufficient ground to claim trademark ownership in China, except for well-known trademarks. This system has been viewed as one of the major causes of the widespread theft of trademark rights of foreign companies by Chinese competitors and professional trademark squatters.

Trademark theft deprives foreign brand owners of the ability to instigate take-down procedures against illicit e-shops advertising and selling counterfeit merchandise on Chinese e-commerce platforms, such as Alibaba, Taobao, or JD.com, to name the most famous ones. These e-commerce retailers will take counterfeiter's e-shops down from their platforms *only* if the right holder can prove he has a registered mark in China, or it has at least received a well-known mark recognition decision from a Chinese court or the Trademark Office for an unregistered mark. Aside from the fact that only a few foreign unregistered brands have been recognized as well-known in China, the vast majority of brands will have to rely on a registered Chinese trademark to implement such take-downs. However, if that trademark has been stolen by a Chinese competitor or a squatter, no take-downs will be granted until the stolen mark is recovered.

What alternatives do right holders have to enforce online take-downs while their legitimate trademarks are in the hands of hijackers and pirates? One option that could partially solve this problem is the use of a copyright. E-commerce platforms do recognize other IP rights, including copyright, and grant the same protection as they give to trademarks, as long as the right holder can provide founded evidence of the right of ownership. Therefore, the use of copyright to cover the logos or words that make a stolen mark can be a substitute for the mark itself for the purpose of removing counterfeits from online merchants and retailers.

However, there is still one challenge for the right holder to overcome before a copyright can be used as a substitute for a trademark in actions with most Chinese platforms: The copyright must be registered, as proof of ownership is a necessary precondition to any take-down. Unregistered copyrights will pose the same problem as unregistered trademarks, *i.e.*, their ownership may be disputable. On the positive side, copyrights are registered more easily than trademarks and in a shorter time in China. In particular, there is no risk that a registration will be rejected because of a prior similar right, as is the case with trademarks in China.

Still, the registration of words, fonts, and logos for copyright protection in China may still pose challenges. One of these challenges is determining whether the words, fonts, and logos that make up a brand fulfill the basic legal requirements for copyright protection. Once they are determined to be registered as copyrights, the challenge then becomes preparing and filing a successful take-down complaint with the e-commerce platform (for example, Alibaba). This article analyzes the unique challenges in removing improper goods from e-commerce sites in China.

Copyright Protection of Unregistered Logos and/or Word Marks in China

How Can Logos or Word Marks Be Protected as Copyright in China?

In order to enjoy copyright protection in China, logos, fonts and words must fit in the class of "works of literature" (writings), art or science works with originality and fixed in a tangible form (Article 2 of Implementing Regulations of Copyright Law). Chinese law and practice recognize in fact that logos (devices) and fonts (stylized words, for example) and words can indeed be classified as writings and/or art works susceptible of copyright protection. The fact that writings can be fixed on a medium, such as a fabric label (label used here as the frame for a canvas painting, for example), satisfies the requirement of fixation. The question here is whether the logos and words/fonts can achieve a sufficient degree of originality. In this respect, a logo or a stylized word mark is used on utilitarian goods, while copyright protection does extend only to intellectual work. Therefore, a logo or a stylized word mark will be original and copyrightable if it will withstand the objections that it is united to a typically utilitarian product.

In China, the requirement of originality in the copyright can be divided into the requirement of independent creation and the requirement of creativity (same as in the United States). Assuming the logos and the phrases are all independently created by the author (*i.e.*, they are not public domain or substantially similar to a writing or artwork of someone else), they will be considered original to that author. As to creativity, and as in the United States, the law and Chinese courts require but a minimum amount. Therefore, logos and stylized words generally are sufficiently creative to be recognized copyright protection.

If the logos and word marks have sufficient originality, then the word marks can be protected as a literary work, while the logos can be protected as a work of fine art under Article 3 Clause (4) of the Copyright Law (which includes drawings, paintings, sculptures, engravings, and lithographs in Article 2 of the Berne Convention, excluding architecture), under the condition that they are "separable" from the utilitarian products on which they are affixed.

How Does Copyright Protection Apply on Elements of Goods/ Utilitarian Goods?

A take-down from an e-commerce platform involves the offer for sale of products bearing a particular mark. Normally such logo is shown in pictures displayed by the e-shop. The pictures will show a product with the mark on it. The mark also can be used in the text of the offer for sale. Therefore, how can such logos or words be protected by copyright as expressions of intellectual work if used on a utilitarian product?

In China, copyright protects expressions in the form of different types of works and works sometimes can be incorporated into industrial goods. This could be the case of a logo or mark imposed on clothing, a fashion item, or any other consumer goods. As in the United States, China adopt a test of separability of the copyrightable elements from the utilitarian product[1] to determine whether a logo or a word is meritorious of copyright protection. In sum, if the label containing the logo or stylized words Golden Goose can be separated from the shoes and can form the object of an independent copyright, then protection will be recognized in case of infringement. For example, if the logo could be abstractedly seen as a painting on a canvas or a poster, separately from the underlining utilitarian goods, then the test requirement has been met.

Therefore, in order to get copyright protection for the mark in China, the claimed work must have originality and satisfy the other requirement of separability.

Copyright Registration Is Important Even If Not a Condition for Receiving Protection

Copyright registration certificates usually constitute strong evidence to prove ownership of a valid copyright in China, and to establish a prior date of publication. Under Article 7 of the *Interpretation by the Supreme People's Court on the Application of Law in Civil Disputes Involving Copyright*, registration constitutes evidence and presumption of copyright validity and ownership (just as Section of the Lanham Act in the United States). In practice, the customs, the trademark office, the courts, and many other authorities also acknowledge copyright registration as the strongest evidence of copyright. Alibaba also specifies that their domestic platforms such as taobao.com and Tmall.com would accept complaints/commodities or information deletion requests based on registered IP rights in China while their international platform normally accepts complaints based on international registered IP rights.

In addition, upon successful recordation of registered copyright at the China customs, the China customs would automatically check the imported and exported goods and seize those that infringe the recorded copyright, which could greatly reduce the importation and exportation of infringing products to and from China.

The Process of Filing a Complaint through Alibaba's Intellectual Property Protection System

The Intellectual Property Protection (IPP) System accepts complaints relating to trademark, copyright, and patent infringement as well as intentional avoidance behavior such as intentionally covering or blurring the marks attached to the products.

Alibaba also specifies the following:

1. Domestic platforms such as taobao.com and Tmall.com, handle complaint/deletion request grounds normally for registered IP rights in China.
2. International platforms such as Alibaba.com and AliExpress.com, handle complaint/deletion request grounds normally for international registered IP rights.

The relevant rules of Alibaba are set forth in Exhibit 1.

Exhibit 1

Platform	Applicable rules	Prohibited improper use and others' rights/ information	Possible liability or consequences upon Alibaba's confirmation of the infringement
Domestic platforms	Implementing Rules for Improper Use of Others' Rights (the Implementing Rules)	According to Article 68 of the Implementing Rules, "improper use of others' rights" refers to one of the following acts: (1) the seller improperly uses others' trademark rights, copyright and/or other rights in the published commodities information or the shop's name and/or domain name; (2) the commodities are suspected of improperly using others' trademark rights, copyright, patent and/or other rights; or (3) the commodities information or other information published by the seller would confuse or mislead the consumers or cause unfair competition	Deletion of the involved commodities or information as well as shutting down the shop, shop supervision, restricted release of commodities, etc.
International platform	Intellectual Property Right Rules (the IPR rules)	The IPR rules divide the IPR infringement into the following: (1) Normal infringement—(a) improperly use others' trademark rights, copyright and/or other rights in the published commodities information or the shop's name and/or domain name; (b) improperly using others' trademark rights, copyright and/or other rights when releasing or selling the commodities; and (c) the released commodities information or other information would confuse or mislead the users. (2) Serious infringement—(a) reproduction of the copyrighted work including books, software, etc., and releasing or selling it without the approval of the copyright owner; and (b) releasing of commodities that were manufactured without the consent of the registered trademark owner or its licensee.	Removal of the infringing contents, reduction of the shop's scores, restriction on the shop's operation (i.e., block the search for the subject shop), etc.
	Rules for Settling Improper Use of Others' Information (the Rules)	Article 1 stipulates that the improper use of others' information including others' trade name*, contact information, company certificate or office photo, etc., are also prohibited. * "improper use of others" includes releasing products descriptions or pictures that contain others' trade name or part of that as well as using the whole or part of the others' trade name as the company/ shop name without authorization.	Deletion of the involved information and the scores of the shop would be reduced if it fails to delete such information within three working days from receipt of the notice of complaint from IPP.

Simple searches can reveal many cases where Alibaba reacted to notices of copyright infringement of software, fonts, and pictures. We also found a news report that 15 owners of the online shops on Alibaba were arrested for committing the crime of infringing others' copyright by selling infringing software.[2]

Based on the above, your client may also consider making the following complaints through the IPP System:

No.	Platform	Complaint about using the copyrighted logo or stylized word in products description or the pictures posted or as shop's name or other copyright infringement
1	Domestic platform	Filing complaint based on violation of Article 68 of the Implementing Rules
2	International platform	Filing complaint based on violation of the IPR rules and/or the Rules

Conclusions and Recommendations

Logos, fonts, and word marks that were stolen by Chinese squatters or competitors and are under pending recovery actions by their legitimate owners can still be used to obtain take-downs of infringing postings and merchandise on e-commerce platforms in China, if they have been registered in China as copyright. The law and the relevant jurisprudence also are in agreement that copyright registration certificates serve as the best evidence and presumption of copyright ownership and copyright validity. This is the kind of evidence required by e-commerce platforms in China to process take-down claims. Therefore, a successful copyright certificate will be sufficient to replace the still missing trademark registration during the pending of trademark recovery actions (which can take years!). Therefore, do not neglect your copyrights especially if your company logos, fonts, and words are not protectable as trademarks in China due to theft by third parties.

1. In the case *Beijing AVIC Zhicheng v. Shenzhen Feipengda Model Weapon and Gifts*, the court held that there is nothing of aesthetic value after the functional parts of the plane model were removed from the rest of the design, therefore the plane model cannot be identified as a work of fine art under the Copyright law. In our case once the label with the logo is removed, we still have a shoe!
2. See the link: *http://tech.qq.com/a/20150831/012042.htm*.

Ontario Court Upholds That Professional Hockey Player Did Not Breach Morals Clause in Endorsement Contract

Antonio Turco and Ankita Kapur

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Brand owners have leveraged celebrity endorsements for decades, and while they can be valuable, they also can be risky. In the event of a celebrity scandal, a brand owner may wish to terminate its relationship with the celebrity in question. One way that a brand owner may justify termination of an endorsement contract is by relying on a morals clause. Generally speaking, a morals clause is a provision in a contract which stipulates that certain actions or activities undertaken in an individual's private life can be grounds for termination of the contract.

The Court of Appeal for Ontario (Court) recently confirmed the importance of precise and thoughtful drafting of morals clauses in *Zigomanis v. 2156775 Ontario Inc. (D'Angelo Brands)* as the Court refused to overturn the trial judge's decision that a former professional hockey player's endorsement contract was wrongfully terminated because the athlete did not breach the morals clause, among other reasons.

Background

In 2011, D'Angelo Brands entered into a promotional contract with professional hockey player Mike Zigomanis to help market and promote an energy drink. Mr. Zigomanis was party to a "two-way" agreement with his franchise at the time, meaning that he could be demoted to the franchise's minor league team, which occurred shortly thereafter. In addition, nude photographs that Mr. Zigomanis had sent his then-girlfriend prior to signing the contract were published on the Internet. As such, D'Angelo Brands purported to terminate the promotional contract in 2012.

Mr. Zigomanis subsequently sued for wrongful termination of the contract in the Ontario Superior Court of Justice. There were a number of issues raised at trial. However, the only issue dealt with on appeal was whether Mr. Zigomanis had breached the morals clause, which entitled D'Angelo Brands to terminate the agreement upon Mr. Zigomanis committing "any act which shocks, insults, or offends the community, or which has the effect of ridiculing public morals and decency."

In considering the application of the morals clause, the trial judge noted that the clause was concerned with Mr. Zigomanis' actions. As the Internet posting was not an action of Mr. Zigomanis, the trial judge held that the morals clause was not triggered. The trial judge also found that although taking the pictures and sending them to his then-girlfriend were the actions of Mr. Zigomanis, these activities took place before the contract was executed. As the morals clause was not stated to be retrospective, the trial judge concluded that it did not apply to Mr. Zigomanis' conduct.

Notwithstanding these findings, the trial judge held that even if D'Angelo Brands could rely on the past actions of Mr. Zigomanis, the private transmission of nude photographs within a relationship did not constitute an act "which shocks, insults, or offends the community, or which has the effect of ridiculing public morals and decency."

Ultimately, the trial judge concluded that D'Angelo Brands had wrongly terminated the contract and awarded Mr. Zigomanis damages in the amount of the contract.

Court of Appeal's Decision

D'Angelo Brands appealed the trial judge's decision. Although D'Angelo Brands raised several grounds of appeal, given the overlap between issues, the Court noted that D'Angelo Brands' appeal "could not succeed unless the trial judge made a palpable and overriding error in failing to find that sharing nude photographs within an intimate relationship would shock the conscience of the community."

D'Angelo Brands argued that, based on the evidence put forward, the trial judge should have concluded that the conscience of the community was shocked by Mr. Zigomanis' actions. However, the Court found that Mr. Zigomanis' desire to suppress publication and distance himself from the nude photographs was evidence of his desire for privacy. The Court also found that the widespread public interest in the photographs said nothing about the community's reaction to Mr. Zigomanis sharing photographs with an intimate party.

The Court concluded that the trial judge's decision was "rooted, appropriately, in the timeless human practice of sharing intimate information within relationships, the inherent expectation of privacy when doing so, and the public policy reflected in recent legislation protecting the privacy of such communications in the Internet age." Accordingly, the Court refused to interfere with the trial judge's findings, dismissed the appeal and ordered D'Angelo Brands to pay costs.

Conclusion

While a brand owner may rely on a morals clause to justify termination of an endorsement contract with a celebrity involved in a scandal, this case confirms that such clauses must be clear and specific. If the morals clause that a brand owner intends to rely on does not clearly capture the specific objectionable nature of the conduct that would give the brand owner the right to terminate or repudiate the contract, the brand owner runs the risk of wrongly terminating the contract.

An expansive clause may be preferable to one that itemizes specific infringement, such as being charged with a criminal offense. However, as highlighted by the findings in this case, such clauses may be more difficult to enforce since they require a qualitative, and arguably somewhat subjective, assessment of whether a particular activity or incident is "offensive," "insulting" or "shocking" enough that it triggers the termination right in the particular facts of a given case.

A party may therefore wish to combine an expansive clause (*e.g.*, conduct that "shocks, insults or offends the community") with specific types of activities that, although may not reach the threshold of the more expansive clause, would nonetheless be behavior that a brand owner may not want to be associated with. Setting out specific violations allows the party engaging the endorser to tailor the agreement to address any particular sensitivities of the brand owner, its products, and its target market. This may be particularly relevant where, for example, the product is targeted to children or youth and the endorser's conduct is important to the maintenance of the brand's reputation and image.

Finally, parties should consider how past unknown conduct, which may later come to light, will be dealt with. If a brand owner wishes to afford itself termination remedies for conduct of the endorser that occurred before the signing of the contract, this must be clearly stated in the provisions of the contract and cannot be "read-in" after the fact.

Good IP Governance: Managing Intellectual Property Assets and Management's Duties

Scott Buchanan

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Placing IP front and center on a company's Board of Directors' agenda maximizes the potential for favorable commercial outcomes and helps to ensure company directors comply with their director duties. As a simple proposition, practicing Good IP Governance in relation to a company's intellectual property assets (IP Assets) will ensure increased enterprise value. Good IP Governance is the author's term for referencing a framework for the effective management of a company's intellectual assets to help ensure directors' compliance with their legal and statutory duties. "Management" for the purposes of this article refers to a company's policies and processes for capturing, protecting, commercializing, and enforcing its intellectual assets, and ensuring risks associated with the infringement of third party IP rights are safely navigated.

The competitive advantage of nearly any business can be tied to its IP Assets; be it their brands, goodwill, trade secrets, corporate knowledge, patented processes, software applications, copyrighted processes and systems or their product designs, etc. Executive Boards, therefore, must take responsibility for incorporating IP management issues into their broader governance systems to ensure all key IP Assets are captured, protected, and managed for the benefit of shareholders.

While companies may have traditionally focused on leveraging tangible assets and achieving a return on financial capital, today's innovation economy requires a different directors' mindset, to leverage intellectual capital for sustainable profits.

Diligently Care for Your IP: After All, It's Your Duty

Failing to manage IP Assets and IP risks in accordance with principles of Good IP Governance may result in a breach of the directors' duty to discharge their duties with the requisite degree of care and diligence, for example, the legal duty required by Section 180 of the Australian *Corporations Act*. Further, company officers can be personally liable for the actual acts of IP infringement if they are held to have directed the company to commit certain infringing acts.

Just as directors cannot abdicate responsibility for financial matters, individual directors must inform themselves of matters relating to IP to ensure they can make an informed contribution to matters of risk and strategy.

Good IP Governance in Practice

These common commercial scenarios will help contextualize the importance of Boards proactively managing their IP Assets. Risks and benefits of Good IP Governance will be readily identifiable from these scenarios.

IP Due Diligence and M&A Activities

- Strong IP awareness at the Board level enables directors to properly consider IP risks and opportunities associated with any prospective merger, acquisition, or sale.
- IP savvy Boards are empowered to ask the right questions and ascertain the level of IP sophistication of a prospective target rather than limiting their investigations to public registers.
- The strength or otherwise of a target's IP position can helpfully guide negotiations on value and warranties.

- A strong portfolio of properly managed IP Assets inevitably will lead to a greater enterprise value than would be the case if the company failed to protect its IP Assets.
- Boards possessing a clear understanding of the strengths and weaknesses of their IP rights can strategically limit their disclosure of relevant assets to guard against the risks inherent in a prospective purchaser's due diligence.

Investor and Market Disclosure

- Boards of private and public companies need to be mindful of IP Assets when assessing obligations of disclosure.
- Overstating the value or status of a company's IP Assets or understating potential IP risks, for example, can have adverse consequences when seeking private investment, satisfying the general disclosure test for a prospectus' content or otherwise managing a public company's continuous disclosure obligations.

Aligning IP with Commercial Strategy

Whether it be the development of a new product, entry into a new market segment, exploring new commercialization avenues or pursuing territorial expansion, IP issues, both *positive* and *negative*, intersect with each of these strategic scenarios.

- "Positive" from the perspective of identifying and creating new IP rights and associated barriers to protect the company's strategic investment.
- "Negative" from the perspective of ensuring third party IP infringement risks are identified and appropriately mitigated.

Leveraging IP Assets for Commercial Gain

- In furtherance of their duties, directors need to demonstrate appropriate efforts to achieve the successful commercialization of the company's IP Assets.
- Boards always should be considering commercialization opportunities whether in the form of direct sales, third party licensing, joint-ventures, strategic alliances, the divestment of relevant IP Assets or even the enforcement of their IP rights against infringers as a means to recover damages or an account of profits.

IP Rights Operating Both As a Shield and As a Sword

- IP rights are legally recognized exclusive rights enabling their owners to create legal barriers to competition and thus deliver value to shareholders.
- A Board that fails to properly manage (*e.g.*, protect, license, and enforce) its company's IP Assets jeopardizes the company's investment into its competitive advantage, for example, through lost commercialization opportunities or even worse, forfeiture of their IP rights.

Keeping IP Inhouse

- A common scenario that Boards must guard against involves the situation where former employees, armed with a company's know-how and trade secrets, emerge as effective but unauthorized competitors.
- Boards should oversee a strategy involving strong contractual rights (*e.g.*, founders and employees being bound by non-compete and confidentiality provisions), secure IT systems and proactive management.

Putting Theory into Practice—What Does Good IP Governance Look Like?

Below I have detailed my generic template strategy to guide directors and business owners to better leverage their IP Assets for growth. The template strategy includes a range of practical measures designed to empower Boards to set the "right tone" for IP management and to add great value to the companies they serve.

IP Audit. An appropriate starting point is to conduct an IP audit to precisely identify, and catalogue, the company's IP Assets (*e.g.*, all of your significant IP rights including trademarks, patents, designs, copyright, and trade secret assets). A professionally conducted audit will inevitably reveal opportunities to strengthen your position, for example, by ensuring the company has all necessary ownership and/or licensed rights to its core IP Assets necessary for the execution of its business plans.

IP Asset Register. Although companies typically maintain a register of tangible assets, they often ignore their intangibles. Rather surprising when you consider a company's core value typically resides in its IP Assets. Once you have undertaken an IP Audit you are well on the road to creating an IP Assets Register. Sharing the IP Assets Register with the Board will empower directors to make better-informed strategic decisions.

Board Agenda. Given its direct linkages to commercial strategy, corporate value and operational risk, the responsibility for Good IP Governance ultimately resides with the Board. IP Governance should then be a standing item on the Board's Agenda to ensure the company's officers regularly "turn their minds" to IP opportunities and risks and to otherwise help foster a culture of Good IP Governance.

IP Policy. With IP now firmly on the agenda, the Board should develop a company-wide policy for the management of its IP Assets. This is an opportunity for the Board to *set the tone and expectations* for management and staff on all matters relating to the creation, protection, commercialization, and enforcement of the company's IP rights and respect for third party IP rights.

An effective IP Policy should encapsulate a protocol for the internal reporting of IP issues to ensure Boards are kept regularly appraised of relevant issues. Then, to really embed Good IP Governance into corporate culture, internal training opportunities should be identified to ensure key personnel are equipped to execute the IP Policy.

IP Strategy. With an assured understanding of the company's Intellectual Property strengths and weaknesses, the Board can give strategic consideration to issues affecting both the defensive and offensive aspects of IP. Strategic decisions can (and should) be made to protect IP in-line with the company's business and investment activities, both domestic and international.

IP Expertise. When it comes to Board composition, ensure IP expertise and experience is included in your skills matrix. Although individual directors cannot abrogate their responsibility to remain informed about IP issues, many technology and IP-centric businesses should ensure the retention of specialist IP counsel.

Risk Committee. When a company has a significant IP related risk profile, Boards should consider assigning matters relating to IP protection and infringement to a specialist Board sub-committee, such as the risk committee. On a related issue, consideration also should be given to extending a company's insurance program to IP infringement risks.

Conclusion

While the implications of director liability associated with poor IP governance may seem rather grim, directors should be encouraged by the opportunities associated with Good IP Governance and its direct correlation with the creation of sustainable competitive advantage.

Don't Let Your Brand Go to Pot: Challenges for Brand Owners in Canada's Emerging Cannabis Industry

Kwan Loh, Graham Hood and John Sparks

Kwan Loh, Counsel with Smart & Biggar in Vancouver, has over a decade of experience handling a wide range of matters across the trademark life cycle, including trademark clearance opinions; prosecution, oppositions and cancellation proceedings before the Canadian Intellectual Property Office; and enforcement before Canadian courts. He also advises on IP-related contracts including licenses, assignments, and other commercial agreements. Mr. Loh is known for providing highly practical advice based not only upon the law, but also strategic considerations that are unique to every client's case.

Graham Hood's practice spans all aspects of trademark counselling, prosecution and litigation. He works closely with brand owners to build, protect and leverage their brands and reputations through trademark clearances, prosecution, enforcement and transactions, including licensing and merchandising arrangements to monetize brand owners' portfolios and help them to maximize the value of their trademarks' goodwill. Graham works with clients in a wide variety of industries, and has extensive experience in the apparel, CPG and consumer electronics, food and beverage, information technology and retail fields.

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The Canadian federal government is moving quickly towards legalizing the possession and consumption of cannabis for recreational purposes. However, Canada's cannabis industry is already "overgrown" with many licensed (and unlicensed) producers, all vying for the attention of consumers with different brands and strains of cannabis in a market that is heating up very quickly. In fact, there already are nearly 1,700 trademark applications and registrations on the Canadian trademarks database covering "cannabis" or "marijuana".

In this article, we explore some of the unique challenges faced by brand owners in Canada's cannabis industry and how these brands can take advantage of the exclusive rights afforded producers under Canada's *Plant Breeders' Rights Act*.

Filing with the Canadian Intellectual Property Office

In order to obtain registered trademark rights in Canada, one must file a trademark application with the Canadian Intellectual Property Office (CIPO). Among other things, the application must include a description, in "ordinary commercial terms," of the goods and/or services with which the applicant has used or intends to use the applied-for trademark. In Canada, CIPO will accept descriptions that explicitly refer to cannabis or marijuana, such as "dried cannabis," "live cannabis plants," or "medicinal marijuana for temporary relief of seizures."

However, in the United States, the US Patent and Trademark Office (USPTO) will not allow an application that lists "cannabis" or "marijuana" among the goods associated with an applied-for trademark, because these substances cannot be lawfully distributed or dispensed under US federal law. Indeed, a July 2016 decision of the USPTO Trademark Trial and Appeal Board, *In re Morgan Brown*, Serial No. 86362968, suggests that even a trademark application covering "retail store services featuring herbs" may be refused if the "herbs" in question are "marijuana."

Not so in Canada, where "medical marijuana" may be lawfully distributed or dispensed under Canada's *Controlled Drugs and Substances Act* (*CDSA*) and *Access to Cannabis for Medical Purposes Regulations*. Cannabis brand owners in Canada and abroad therefore should apply to register their trademark rights with CIPO and thus obtain the exclusive right to use their marks in Canada in association with controlled substances such as "cannabis" or "marijuana."

Besides entitling its owner to the *exclusive* use of the subject trademark in Canada in connection with the registered goods and/or services, a trademark registration also entitles its owner to prevent others from using the same mark, or a confusingly similar mark, in Canada in connection with the same or similar goods and/or services. Those seeking to enforce their trademark rights against others would be wise to register those rights with CIPO. Otherwise, a brand owner is limited in its ability to prevent others from using a confusingly similar mark, and instead must rely on its common law rights and earned reputation in Canada, which can be costly and difficult to prove in Court and thus enforce.

Furthermore, a registered rights holder can obtain permanent injunctive relief against an infringer even if the rights holder's mark is not in use in Canada. While the registration of a trademark that is not in use is vulnerable to summary cancellation, it is generally not so vulnerable when the registration itself is less than three years old. Moreover, a nationwide injunction against an infringer can be obtained even if the infringer is carrying on business in areas of Canada in which the rights holder is not currently using its trademark.

Finally, certain applicants already are applying to register what appear to be third-party trademarks, covering all or almost all classes of goods and services. Indeed, one particular entity has filed over 300 applications in the last two years to register trademarks that may in fact be owned by third parties. Thus, brand owners in the cannabis industry that have yet to register their trademarks should consider filing applications as soon as possible, so as to prevent others from attempting to register their marks. In most cases, it is simpler, and less expensive, to be proactive than reactive.

Unlicensed Producers' and Distributors' Trademark Applications May Be Susceptible to Third-Party Oppositions

If and when an applicant's trademark application is approved by CIPO, it is advertised in the Canadian *Trademarks Journal* for opposition purposes. Thereafter, third parties have an extendible, two-month opposition period within which to oppose the trademark application on a number of statutory grounds. One of those grounds is that the applicant could not have been satisfied that it was entitled to use the applied-for trademark in Canada in association with the goods or services described in the application as of the filing date. The Trademarks Opposition Board has found that an applicant could not have been so satisfied where the use of the applied-for trademark in Canada in association with those goods or services would violate federal law.

In Canada, unlicensed producers and distributors of cannabis are not legally permitted to produce or distribute cannabis under Canada's *CDSA*. Insofar as these producers or distributors apply to register the trademarks under which they unlawfully produce or distribute cannabis in Canada, their applications are susceptible to third-party oppositions and subsequent refusals.

Notwithstanding the future legalization of cannabis for recreational purposes, and the upcoming changes to Canada's *Trademarks Act*, discussed below, this ground of opposition will remain a significant hurdle for any applicants in the cannabis industry that are operating outside the boundaries of the law.

Changes to the *Trademarks Act* Present Exciting Opportunities for Brand Owners

Recent amendments to the *Trademarks Act* (*TA*) are not expected to come into force until early 2019, when the law will undergo its most significant revision in over 50 years. Among the most important changes to Canada's *TA* is the repeal of the "use requirement." Currently, an applicant's trademark application will not issue to registration until the applied-for trademark is used in Canada or elsewhere in the world. As a result, an applicant must claim that it has in fact made *bona fide* use of the applied-for trademark in association with the goods or services described in the application *before* it obtains the exclusive right to use the mark in Canada. However, once the amendments to the *TA* come into force, an applicant will be permitted to register a trademark without using it anywhere in the world.

The repeal of the use requirement presents a unique opportunity for licensed producers and distributors of cannabis in Canada. The complexion of the cannabis market currently is a source of great speculation among brand owners and investors alike. It is not yet clear which products will fly off the shelves, and which products will crash and burn. Because cannabis may be consumed in different ways, licensed producers are now hedging their bets by investing significant time and capital in the development and production of a wide array of cannabis products, from dried and fresh cannabis to cannabis oils and edibles, to patches and vapors and more.

With the repeal of the use requirement, licensed producers will be able to file extremely broad trademark applications, covering all manner of cannabis products, and subsequently obtain exclusive rights to use those trademarks (and preclude other traders from adopting the same or confusingly similar marks) in Canada in association with all of those products, *regardless* of whether or not they have in fact used the marks in Canada. The scope of a trademark application is therefore only as limited as an applicant's imagination, as licensed producers continue to dream up new ways of consuming cannabis. While the amendments have not yet come into force, cannabis brand owners can file these broad applications now, and leverage the broad protection afforded by them when the use requirement eventually is repealed.

Another notable amendment to the *TA* is that Canada's trademark system will protect a broad range of non-traditional marks previously unregistrable by brand owners. Once the new *TA* comes into force, CIPO will begin to accept applications for non-traditional marks, such as colors (without delineated contours), holograms, moving images, scents, tastes and textures, which have become distinctive of their owners at the time of filing. These amendments will be especially valuable to brand owners in the cannabis industry, where scent and taste are likely to serve as primary distinguishing features of producers' brands.

Indeed, the amendments to the *TA* will present licensed producers with an exciting and invaluable opportunity to register particular scents and tastes as their own indicators of source. For example, a licensed producer may apply to register for its own exclusive use of a brand of cannabis that smells like pine trees, or tastes like peanut butter.

Under the amended *TA*, however, an applicant will be required to furnish evidence to establish that the applied-for scent or taste is distinctive of the applicant as of the filing date. Such evidence may include, for example, sales records, advertising and promotional spends, and sample advertisements and promotional materials that show that the applied-for scent or taste is distinctive of the applicant and no other person.

Using the *Trademarks Act* and the *Plant Breeders' Rights Act* for Protection

Now we turn to the importance of plant breeders' rights for producers in Canada's cannabis industry and explain how they can protect their brands and strains of cannabis under the *TA* and the *Plant Breeders' Rights Act*. Licensed producers in Canada's cannabis industry are uniquely positioned to take advantage of these two complimentary and overlapping intellectual property regimes. Both the *TA* and the *Plant Breeders' Rights Act* afford registrants exclusive rights to use registered trademarks to distinguish their goods and services and to use registered denominations to distinguish their plant varieties (or strains) in Canada's marketplace.

However, licensed producers seeking to protect their intellectual property rights should be mindful of the intersection between these two pieces of legislation and understand that plant variety denominations and trademarks afford their owners separate rights, and that there is a danger inherent in conflating the two.

The *Plant Breeders' Rights Act*

Under the *Plant Breeders' Rights Act* (*PBRA*), a plant breeder may apply to the Canadian Food Inspection Agency (CFIA) to obtain legal protection of a new "plant variety," with the exception of algae, fungi, and bacteria. A "plant variety" is a plant grouping defined by a set of unique, genetically-governed characteristics that will not change upon reproduction of the plants in the grouping.

The owner of registered rights in and to a particular plant variety enjoys the exclusive rights to protect that plant variety by managing and controlling the use of its propagating material, such as seeds or stalks, for a limited period of time. Plant breeders' rights are granted for a term of either 20- or 25-year terms, depending on the category of plant variety. For example, a strain of the hemp plant, or *cannabis sativa*, is entitled to a 20-year term of protection, while a new tree or vine is entitled to a 25-year term. After the term of protection expires, the plant variety may be used freely by persons other than the plant breeder in Canada.

In many ways, the *PBRA* affords a registered plant breeder a "bundle of rights" similar to those granted to a copyright holder under Canada's *Copyright Act*. For example, the holder of the plant breeder's rights respecting a plant variety has the exclusive right to, among other acts:

- produce and reproduce the propagating material of the variety;
- sell the propagating material of the variety;
- import or export the propagating material of the variety; and
- authorize (conditionally or unconditionally) the doing of any of these acts.

In order to obtain these exclusive rights, a plant breeder, or its legal representative, must file an application to register its plant variety with the CFIA. As part of the application, the plant breeder must propose a name, or denomination, for its plant variety; the application also can be filed under an experimental number or proposed denomination, which can be changed at any time before rights are granted. The Commissioner of Plant Breeders' Rights must ultimately approve the proposed denomination, which will then be recorded on the Varieties Register, which is maintained by the CFIA.

The denomination is the designation by which a registered plant variety will be identified and protected. Once the Commissioner has approved the proposed denomination, and the plant breeder's rights have been granted in respect of the applied-for plant variety, the denomination must be used by anyone designating the variety for the purposes of selling the propagating material of the variety, during and following the expiry of the term of protection.

Cross-Border Rights, Denominations, and Implications

If the plant breeder or another person has applied for, or already obtained, protection of the plant variety in another country, then that denomination must be used in Canada to identify and protect that plant variety. Similarly, if the plant variety is not protected in another country but is being marketed under or is known by a particular denomination in that country, then that same denomination must be used if the variety is protected in Canada. However, the Commissioner of Plant Breeders' Rights may, in its sole discretion, reject the proposed or foreign denomination if it is "likely to mislead or to cause confusion concerning the characteristics, value or identity of the variety in question or the identity of its breeder" or considered "unsuitable for any reasonable cause," in which case the Commissioner will direct the applicant to submit a suitable denomination instead.

Choosing a Denomination—A Rose by Any Other Name

While neither the *PBRA* nor its regulations offer detailed requirements for the suitability of a proposed denomination, the CFIA has published "Variety Naming Guidelines" to assist plant breeders in selecting "suitable" denominations for their new plant varieties, including:

- Denominations liable to mislead and/or cause confusion should be avoided. A denomination should be avoided that gives the impression that the plant variety:
  - has particular characteristics it does not have;
  - is the only one with that characteristic when in fact others also have it;
  - is derived from, or related to, another variety when this is not the case; or
  - has been bred by a certain breeder, when this is not the case.
- Denominations should not cause confusion concerning the value of the plant variety by the use of comparatives or superlatives, such as "Better", "Best", "Superior", "Sweeter", etc.
- The prior rights of third persons shall not be affected by the use of a proposed denomination. A denomination cannot be accepted if another right, already granted to a third party under any intellectual property legislation, is already in use.
- A plant variety name shall not be such as to be considered offensive.

Using Denominations and Trademarks Together, before and after the Term of Protection

To prevent a plant breeder from forever monopolizing the name of a new plant variety, and to ensure the free use of the plant variety after the plant breeder's rights have expired, the CFIA's "Variety Naming Guidelines" are clear that no person, including the plant breeder, may subsequently register as a trademark a denomination or any part of a denomination. If a plant breeder has obtained registered plant breeders' rights in and to a plant variety of a particular denomination, the plant breeder cannot claim the denomination as its trademark, even after its plant breeders' rights have expired. Upon the expiry of the term of protection, the denomination becomes the plant variety's generic name and cannot be registered as a trademark. Unlike plant breeders' rights, trademarks rights may be renewed indefinitely, which would inhibit the use of the plant variety by persons other than the plant breeder in Canada.

However, the *PBRA* does permit plant breeders to market and sell their propagating material using "a trademark, trade name or other similar indication" *in association with* an approved denomination if that denomination is "easily recognizable." For example, the approved denomination of a hemp plant variety may be THC123, but the licensed producer that owns the plant breeder's rights in and to the denomination may wish to market the variety as GREEN MONSTER. In this case, the propagating material of the variety could be sold as THC123 or as THC123 GREEN MONSTER, but not as GREEN MONSTER alone.

Protecting Your Cannabis Brands under the *Trademarks Act*

A trademark registration entitles its owner to not only exclusively use the subject trademark in Canada in connection with the registered goods and/or services, but also prevent, and permanently enjoin, others from using the same mark, or a confusingly similar mark, in Canada in connection with the same or similar goods and/or services.

However, the *TA* contains several provisions that restrict plant breeders and other persons in Canada from adopting, using, and registering trademarks or trade names that are the same as, or "so nearly resembling … as to be likely to be mistaken" for, a denomination registered under the *PBRA*.

Specifically, the *TA* prohibits the adoption of a registered plant variety denomination as a trademark in association with the plant variety or another plant variety of the same species. Similarly, an application to register a plant variety denomination in association with a wide variety of goods and services, including "seeds," may be considered objectionable by the Trademarks Office. Also prohibited is the use of such a plant variety denomination "in a way likely to mislead," and the adoption or use of "any mark so nearly resembling that denomination as to be likely to be mistaken therefor." The *TA* also prevents the use, in connection with a business, as a trademark or otherwise, of a registered plant variety denomination, and prohibits the registration of any such denomination as a trademark.

When the amendments to the *TA* come into force in 2019, these prohibitions will *not* be repealed. Plant breeders and brand owners alike still will not be permitted to adopt, use, or register plant variety denominations previously registered under the *PBRA*.

That said, the amendments to the *TA* will expand significantly the definition of the term "trademark" to include, among other things, a scent or a taste, which are not likely to be mistaken for an alphanumeric plant variety denomination.

It is therefore possible that savvy licensed producers that own registered plant breeders' rights may still obtain registered *trademark* rights in and to the distinctive *scents* or *tastes* of their cannabis strains, having benefited from 20-year monopolies on the use of such strains by virtue of their plant breeders' rights.

Indeed, the 20-year term of protection in which a registered plant breeder is entitled to exclusively use its plant variety should afford the plant breeder ample time to develop a protectable reputation and goodwill in Canada that will assist it in establishing that an applied-for scent or taste is distinctive of the plant breeder as of the filing date of its trademark application.

Finally, where a plant breeder has not registered its rights under the *PBRA* (or its plant breeder's rights have expired) but registers a trademark to protect its brand of a particular strain, there remains some risk that the mark will fall victim to "genericide" if it is not policed properly.

For example, a cannabis brand owner's trademark may be rendered generic, and thus unprotectable, if the trademark becomes inextricably linked or synonymous with the plant variety and is used by consumers or other producers to describe the strain itself.

Cannabis brand owners should therefore keep a close eye on the cannabis marketplace to ensure that their trademarks do not fall into generic use, but rather remain distinctive indicators of *their own brands* of a particular strain of cannabis.

Conclusion

The *PBRA* and the new *TA* are of critical importance to licensed producers that are looking to make their mark in Canada's cannabis industry. Each piece of legislation presents unique opportunities for licensed producers to protect and exploit their intellectual property in order to maximize their market share. In view of both the practical and legal implications of the intersection between the *PBRA* and the *TA*, licensed producers, as plant breeders and brand owners, are best advised to consult local trademark counsel to help navigate the intricacies of these intellectual property regimes.

Licensing Markets

Patent Litcensing

David Mroz and Razi Safi

Thinking Ahead on Standing: Using Evidence from Outside the License Agreement to Overcome Bare Licensee Status

Standing to sue for patent infringement arises from the Patent Act, which expressly grants patentees and their assignees a remedy by civil action. [35 U.S.C. § 281; 35 U.S.C. § 100(d).] But because patents implicate a bundle of rights, for example, the right to sue, the right to collect past damages, the right to collect future damages, the right to make, use, or sell, etc., the standing analysis can get complicated. Whether standing exists often turns on the number of rights from the bundle that a particular party has, and whether the patent owner is joined in the lawsuit.

Some parties have no more than a promise from the patentee not to be sued for infringement. Such parties are called "bare" licensees and, absent exceptional circumstances, have no standing to sue for infringement. Other parties, in contrast, are exclusive licensees with "all substantial rights" in the patent. Such parties may sue in their own name. In between bare licensees and exclusive licensees with all substantial rights falls a third category of licensee: exclusive licensee with less than all substantial rights. An exclusive licensee with less than all substantial rights has standing to sue as long as the patent owner also is a party in the lawsuit.

When determining which category a licensee falls into, litigants often focus on how the license agreement defines the parties (*e.g.*, as an exclusive or nonexclusive licensee), and how the agreement allocates various patent rights. While license agreements can certainly be relevant in the standing analysis, litigants should know that, even when a license agreement defines a party as a bare licensee, evidence from outside the license agreement can be used to elevate that licensee to the next category—the level where a party can sue with the patent owner.

For example, in *Schneider (Europe) AG v. Scimed Life Systems, Inc.* [No. 3-91 CIV 241, 1993 WL 463204 (D. Minn. May 14, 1993)], an American subsidiary and European parent were co-plaintiffs. Schneider (Europe) was the patent owner, and Schneider (USA) was defined by the license agreement as a "nonexclusive" or bare licensee. While Schneider (Europe)'s independent standing was undisputed, the court analyzed whether the license agreement's characterization of Schneider (USA) as a "nonexclusive" licensee meant that the US subsidiary lacked standing to sue, even as a co-plaintiff with the patent owner.

The court looked beyond the "nonexclusive licensee" label and the license agreement itself to find that that Schneider (USA) possessed sufficient rights to sue as a co-plaintiff. In particular, the court considered that the companies did not compete in each other's respective markets, were owned by the same parent company, and operated in tandem with each other as part of a network aimed at marketing the patented products worldwide. The Federal Circuit affirmed the district court's ruling, finding that the district court correctly looked outside the terms of the license agreement to focus on the parties' (1) corporate structure, (2) intent while executing the agreement, and (3) their conduct under the agreement. [*Schneider (Europe) AG v. SciMed Life Sys., Inc.*, 60 F.3d 839, at *3 (Fed. Cir. 1995) (unpublished).]

In *Ropak Corp. v. Plastican, Inc.* [04-C-5422, 2005 WL 2420384, at *4 (N.D. Ill. Sept. 30, 2005)], the court held that a licensee had standing to sue as a co-plaintiff despite the fact that the licensor previously had issued a non-exclusive license because the licensee had received an express promise that others would be excluded. In *Cognex Corp. v. Microscan Sys., Inc.* [13-CV-2027 JSR, 2014 WL 2989975, at *5 (S.D.N.Y. June 30, 2014)], the court found that, despite the lack of a written license agreement, the parent corporation for a patent-owning subsidiary was an exclusive licensee and thus had standing to bring suit. The court rejected arguments attempting to disregard the corporate relationship between the licensing parties and emphasized evidence showing that the decision to bring the lawsuit was made within the licensee-parent corporation and that the licensee-parent corporation had set the licensing policy for the subsidiary's entire intellectual property.

In sum, a party labeled by a license agreement as a nonexclusive, or bare, licensee should look beyond the four corners of the agreement to other evidence proving that it has more rights than the license agreement shows. Such evidence can elevate the licensee to a status where it has standing to sue with the patent owner. Keep in mind, however, that courts often allow challengers to raise standing issues late in a case. Bare licensees should anticipate such late standing challenges and preemptively put the evidence into the case that helps improve their standing position.

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Trademark Licensing

Richard Hoad and Julia Gillies

Amazon Brand Registry Launched in Australia

Businesses with registered Australian trademarks selling goods on Amazon should consider enrolling in the Amazon Brand Registry program. While the initial launch of Amazon's retail offering in Australia was widely critiqued as underwhelming, retailers have begun to recognize that the retail landscape is shifting worldwide. Similarly, brand owners continue to confront the challenges posed by the ongoing growth of online retailing. One concern of brand owners has been the ability to deal with the sale of counterfeit goods on Amazon. In response to that concern, Amazon has created the Amazon Brand Registry program.

What Is Amazon Brand Registry?

The Amazon Brand Registry program is a mechanism designed to help brand owners protect their registered trademarks on Amazon. In particular, it enables brand owners to access proprietary search tools. For example, a brand owner can search for potentially counterfeit goods on the Amazon Web site by reference to the brand name and also using image searches. Amazon also markets the program as giving brand owners more control over their product listings.

Who Can Enroll in the Amazon Brand Registry?

The Amazon Brand Registry program is only available to brands with a registered trademark incorporating a word (whether alone or in combination with other elements) in one or more of the following countries: Australia, Canada, European Union, France, Germany, India, Italy, Japan, Mexico, Spain, the United Kingdom, or the United States. Australia was only recently added to this list, following Amazon's Australian launch in December 2017.

In order to register, brand owners will need to provide Amazon with:

- Details of their registered trademarks, including the list of product categories in which the mark is registered;
- A list of countries where the products are manufactured and distributed; and
- Images of the brand logo, products, and packaging.

Brands can sign into their regular Amazon account, or create a new account online, and will then be able to complete the Amazon Brand Registry application process.

What Options Are Available to Brand Owners Who Do Not Register?

Even if a brand owner does not have an Amazon Brand Registry account, it can still report trademark infringements to Amazon. Amazon provides an online form to report intellectual property infringement, which can be completed either by the rights owner or by its agent. An Amazon account is not required to report infringement.

What about Infringements of Other Intellectual Property?

As noted above, the Amazon Brand Registry program is limited to registered trademarks having a word element. Complaints about infringements of other intellectual property, such as registered trademarks that do not have a word element, unregistered trademarks, patents, copyright, and designs, can be submitted through Amazon's IP infringement reporting page.

Why Should Brand Owners Care?

Brand protection is one of the key concerns that constantly confront brand owners in relation to selling products via online retailers, in particular, dealing with counterfeiting. The Amazon Brand Registry program is one mechanism by which brand owners can seek to manage the risk of counterfeiting. It is unlikely to resolve all of the concerns that have been expressed by brand owners (including allegations of Amazon itself selling counterfeit products), however it is certainly a welcome initiative.

Richard Hoad is a partner at Clayton Utz, specializing in advice and dispute resolution in intellectual property, technology, franchising, and competition and consumer law matters. He also advises clients in relation to the emerging risks and opportunities presented by the rise of ecommerce and social media.

Julia Gillies is a first year lawyer in the Litigation team at Clayton Utz, and recently has completed a rotation through the Intellectual Property and Technology team. Ms. Gillies has been a key team member in numerous matters relating to brand protection and compliance with the Australian Consumer Law

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Copyright Licensing

Armand J. Zottola, III

Can I Use that Photo? No. Yes. Maybe?

Businesses often have a need to make use of photographs as decorative art, for illustration, in connection with programs, events, or seminars, or for other purposes. For photographs not created by the respective business, the question arises whether photos from other sources can be used without first obtaining a license. The general answer is no. US copyright law provides certain rights to the owner of the work of authorship that include the exclusive rights to reproduce, publicly distribute, and publicly display directly or through others. Before using a copyrightable work, it is therefore important to evaluate its respective copyright rights. This should happen regardless of where the work was found or how the work will be used.

For photographs, it is even more important to consider copyright interests. Photographs generally are going to be considered a creative work of authorship subject to copyright protection. The US Copyright Office recently amended the regulations governing the application process for photographs to permit group registration of photographs. Under the final rule 37 CFR 202.4 which took effect February 20, 2018, photographers can utilize an online application and refined deposit submission requirements to facilitate and increase the efficiency of applying for a copyright registration for multiple photos. Up to 750 photographs now can be included in a single claim. These processes will make it easier for photographers to enhance their rights in their photos (with a copyright registration), which, in turn, will increase the risk for third-party users that make use of such photos without permission. To avoid complications, particularly with copyright trolls that aggressively assert rights in photographs and often against innocent users, it is best for businesses to consider the following steps before making use of a third-party photo.

Copyright Considerations When Using Third-Party Photos

First, the business should consider the copyright status of the work of authorship. Is it owned by another? Published? It is important to check for a copyright notice, attribution, credit, or other indication of ownership or authorship. For online images, check the metadata, as online image files sometimes include information identifying the creator, copyright owner, or even applicable licensing terms. But keep in mind that a copyright notice for works published on or after March 1, 1989 is optional. So, the absence of a notice does not necessarily mean that a work can be freely used.

Second, consider the need to seek permission or a license from the copyright owner. Obtaining a license or permission from the copyright owner is the best way to confirm the ability to use a photograph. The contact information for the copyright owner may be found in the records of the US. Copyright Office, the associated ownership notice, or through the organization that published the image. Consider contacting the owner or author as far in advance of planned use as reasonably possible. Note that not all owners demand payment, but owners may want to know some specifics regarding the use, may work with an agent or service to facilitate, and may insist on only limited use or certain conditions.

Third, consider available "public domain" sources. There are online repositories of photographs either available under broad (and royalty-free) license terms or not otherwise claimed as exclusive copyright property. Sources such as Wikimedia Commons, UnSplash, Flickr Commons, and others offer many free "public domain" images from all over the world. Although it's still worth considering the source and use conditions, these resources generally provide a cost-effective (and often free) way to find and make use of photographs without additional permission.

Finally, United States copyright law does provide for certain limitations on the exclusive rights available to a copyright owner. The concept of "fair use" is one of the more commonly known limitations. Fair use is the ability to use, without permission or license, a work protected by copyright. But it is a principle that applies only in certain limited circumstances, including for the purposes of comment, criticism, or teaching. Determining whether a use is "fair use" under copyright law is a case-by-case and fact-intensive inquiry. In general, four factors are considered in connection with a determination of fair use: (1) the purpose and character of the use, (2) the nature of the copyrighted work, (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole, and (4) the effect of the use upon the potential market for or value of the copyrighted work. Consequently, there is no formula for predicting with certainty a determination of fair use. So, it's best to consult an attorney before reaching any conclusion regarding "fair use" and to proceed with caution.

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Trade Secret Licensing

Erik Weibust and Anne Dunne

Popular Insulated Cup Manufacturer in Hot Water over Alleged Trade Secret Misappropriation

In a recent case, Tervis Tumbler Company, the maker of the insulated tumblers, found itself in hot water with a former supplier, Trinity Graphic. Trinity filed suit in the Middle District of Florida against Tervis and its new supplier, Southern Graphics, alleging misappropriation of trade secrets under both the Defend Trade Secrets Act (DTSA) and Florida trade secret statute along with breach of confidentiality and non-disclosure agreement, fraud, aiding and abetting, and civil conspiracy. [*Trinity Graphic, USA, Inc. v. Tervis Tumbler Company et al.*, (8:18-cv-00230) Florida Middle Dist. Ct., Filed Jan. 26, 2018.] Trinity is seeking compensatory, exemplary and punitive damages, disgorgement of profits related to the misappropriation and attorney fees and costs.

In support of its claims, Trinity alleges that it "revolutionized" the creation of tumbler inserts with the development of its "Trinity Wrap." Trinity further alleges that before it created the Trinity Wrap at Tervis' request, Tervis was limited to the use of "crude and costly embroidery or flat one-sided images." In creating the Trinity Wrap, Trinity purports to have developed two trade secrets: (1) a printing method that reduces static electricity during the printing process, resulting in increased visual sharpness and (2) a printing method using a state of the art printer to perfectly align images printed on both sides of a transparent medium.

History of the Business Relationship and Subsequent Dispute

Trinity claims that it began mass producing the Trinity Wrap for Tervis pursuant to a handshake deal between the two companies. In the five years after Tervis began using the Trinity Wrap, Trinity claims that Tervis saw a three-fold increase in sales. As a result of the increase in sales, Trinity alleges that Tervis required it to make substantial capital investments in printing equipment and manufacturing space, without entering into a written agreement. In 2013, the parties entered into an 18-month freely terminable Master Agreement, which did not obligate Tervis to purchase inserts or continue using Trinity as a manufacturer. A year later, Tervis provided Trinity and its creditors with a letter stating that Trinity was and would remain a key supplier. Trinity relied on this letter to obtain financing for additional printing equipment. All in, Trinity invested several million dollars in facility space, equipment and employees in order to produce the Trinity Wrap.

During that time, Trinity claims that it put vigorous measures in place to protect its trade secrets related to the Trinity Wrap. Specifically, Trinity alleges it restricted access to its printing facilities, utilized video monitoring, and required employees, vendors, and customers touring its facilities to sign confidentiality and non-disclosure agreements. In the Complaint, Trinity claims that it went so far as to hide and or remove certain materials from the production facility during supplier tours with Tervis, until Tervis agreed to sign confidentiality and non-disclosure agreements. Trinity claims that during a tour, its employees observed a Tervis agent "lagg[ing] behind and writing down the model numbers of Trinity's printers." Additionally, Trinity purports that it refused to provide Tervis with information related to the Trinity Wrap production trade secrets, despite repeated requests, until Tervis executed confidentiality and non-disclosure agreements.

Prior to the disclosure of the trade secrets, Trinity claims that Tervis entered into a written contract with Southern Graphics to manufacture a product akin to the Trinity Wrap for a fraction of the price. Southern Graphics previously had been in talks with Trinity to acquire the business, but a deal was never consummated. Due to a series of setbacks, including a purported inability to divine Trinity's trade secrets, Southern was unable to begin printing wraps. Approximately a year and a half later, Trinity claims that Tervis demanded that Trinity lower its price to compete with Southern or lose the Tervis business. In order to retain the business, Trinity lowered its price.

In an attempt to allegedly steal Trinity's trade secrets, Tervis allegedly acquiesced and entered into confidentiality and non-disclosure agreements. Subsequent to the execution of the agreements, Trinity claims that Tervis demanded it provide certain information, including color combinations and a demonstration of the printing process or face cancellation of all open orders. Faced with the prospect of losing the Tervis portfolio, Trinity provided the requested information. Trinity claims that within a month of providing the information to Tervis, Southern was finally, after years of failed attempts, able to replicate the Trinity Wrap. Trinity attributes Southern's success to Tervis' violation of the nondisclosure and confidentiality agreements.

In the following months, Trinity alleges that Tervis progressively reduced the volume of its orders until they were a fraction of what had been placed before Southern perfected its techniques. In January of 2017, Tervis gave Trinity notice that it intended to terminate the freely terminable Master Agreement. One year later, Trinity claims that Southern continues to print the wraps using its trade secrets. As a result of the misappropriation of its trade secrets, Trinity alleges that it has suffered and continues to suffer significant damages in an amount to be proven at trial. It will be up to the court to decide whether Tervis has misappropriated Trinity's trade secrets and violated confidentiality agreements.

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Art Licensing

Robert Wulff

Artists and Intellectual Property

"I'm an artist, why should I care about Intellectual Property?" For the creatives who design the latest fashions in clothes, furniture and appliances, protecting the intellectual property around their work is likely to be a lower order priority for them compared with the drive to push the boundaries of function and form. I frequently hear comments such as: "I don't need to worry about IP. To protect my artistic integrity I rely on copyright, which is automatic, worldwide protection—right?" That is not always the case, and there may often be scenarios where more protection is needed.

Copyright and Designs (The Painful Overlap)

It's true that under the Berne and Universal Copyright Conventions copyright is automatic and provides worldwide protection. Further, in countries such as Australia and many others, the term of copyright protection does not expire until 70 years after the death of the author! So, what's the problem?

Well, if you're dealing with and producing three-dimensional copyright works for industrial application (*i.e.*, mass-production of a repeating design such as a funky new sofa or a decorative coffee pot), then there is a serious issue. And it is this: 3D copyright is *lost* with industrial application (*e.g.*, when 50 or more articles are offered for sale, etc.) and, if you haven't applied to register a corresponding design for your 3D copyright work, then the industrial application of your 3D copyright will also *prevent you* from being able to obtain a *valid* design right. In such a case, you will have *no protection at all*, at least in the three-dimensional sphere.

"OK—so I retain my two-dimensional copyright in my original design drawings?" Yes, that's correct, but what if your competitor is able to evolve a competing 3D design without having to revert to the 2D world. A while ago, you might have said—impossible! But enter the world of 3D printing and manufacturing. Here, the 3D work can be recreated in cyberspace. Then we need to ask: Is the computer-aided design that exists in cyberspace a 2D or a 3D work? Do you really want to try and fight out that legal argument in the courts?

Now with a registered design, unlike with copyright, you do not need to prove or infer copying. It doesn't matter if third-party imitators are not aware of your registered design—they will still infringe and can be stopped. Plus, a registered design can be used to protect the distinctive features of your design.

Copyright Ownership

"I also own my copyright and I keep it, even if someone pays me for it, so what's the issue?" Correct, the author of the copyright work retains the copyright, and the third party that pays you for it only gets an implied, royalty-free license to use that work in perpetuity for the purpose for which it was created. That is, of course, unless you have agreed to transfer the copyright. Thus, you do need to carefully check any contract you sign with that third party (*i.e.*, look out for the IP clause).

If you later decide to offer that work to another party, you better make sure you are not in breach of that implied license, or any other terms in the contract you might have signed with that third party.

For the record, it is much easier to enforce copyright in China and the United States if you register it there, so do consider that for any important international works you create.

Trademarks (Brands)

"I don't need to register my trading name or brands. I've already registered my company/business name and domain." A registered company name, business name, or domain name give you *no rights to that name!* Rights in relation to a trademark (trading name or brand) can only arise in two ways:

1. through use (*i.e.*, these are known as Common Law usage rights, but they are only as strong as the extent of your use/reputation); and
2. by registering your name or brand as a trademark.

To qualify for registration, your trademark does need to be *distinctive* of your goods/services. But, assuming it is, registration will give you country-wide rights and will protect you against any third-party trademark that also is substantially identical or deceptively similar to your registered trademark. Registration also crystalizes the value of your brand into an identifiable asset.

A trademark registration also provides a basis for international protection (assuming someone hasn't already independently adopted a similar trade mark in an overseas country).

Confidential Information (Trade Secrets and Know-How)

"I keep my trade secrets and know-how confidential." This may well be the case, but have you securely documented your key confidential assets? Have your employees signed confidentiality agreements, and agreed not to take your trade secrets and know-how to a competitor? Have you let any of these secrets out at a trade show? What about third-party suppliers and contractors to your business? Are they aware of their obligations not to disseminate any of your confidential information?

Patents (Inventions)

"Patents are of no relevance to me. Also, they're expensive." Sometimes a new design also can qualify for patent protection. If the design does qualify, a patent provides the strongest form of protection for a new design concept. But this is a complex area and can be expensive if the process isn't well-managed. It is advisable to speak to a patent attorney if you decide to go down this path.

Conclusion

We live in an age where the products of our creativity (the intangible assets) have become the most valuable assets of a business (think Apple vs. Samsung). So, every designer should be asking themselves: What am I doing to protect my artistic integrity and ensuring that the value of my creativity is not being squandered? Yes—artists *should* care about their intellectual property!

Robert Wulff is a principal of IP firm Griffith Hack, based in Sydney, Australia, having joined the firm in 1989. Mr. Wulff's patent practice is focused on Australia's resources and building products industries and energy technologies. He works with a range of organizations to develop offensive and defensive IP strategies, working closely with the firm's litigators and IP management consultants. He is a registered patent attorney with degrees in Chemistry and Chemical Engineering from the University of Sydney. He holds an equivalent Masters of Science in Chemical Engineering from the Royal Institute of Technology, Stockholm.

Technology Licensing

Rolando González and Jiaxiao Zhang

Federal Circuit Ruls on Activity Outside a Field of Use Provision

The US Court of Appeals for the Federal Circuit found a licensor's termination of a patent license agreement ineffective, concluding that a licensee's activity outside of a "field of use" provision was not a material breach of that agreement. [*MACOM Technology Solutions Holdings, Inc., Nitronex, LLC v. Infineon Technologies, et al.*, Case No. 17-1448 (Fed. Cir., Jan. 29, 2018) (Prost, CJ).]

Nitronex developed semiconductors using gallium-nitride and obtained several patents related to this technology. Nitronex sold its gallium-nitride patents to International Rectifier in 2010. At the same time, both companies executed a separate license agreement that licensed back to Nitronex certain rights under the patents. Both companies were later acquired and renamed, where MACOM was formerly Nitronex and Infineon was formerly International Rectifier.

The license agreement included an Exclusive Field of Use provision for the gallium-nitride-on-silicon technology under which MACOM had certain exclusive rights to practice the licensed patents. Infineon notified MACOM that its activity in making and selling products using gallium-nitride-on-silicon-carbide technology, a technology outside of the Field of Use provision, was a material breach terminating the license agreement. MACOM obtained a preliminary injunction against Infineon for wrongful termination of the license agreement. The injunction also declared Infineon's termination ineffective and ordered Infineon to comply with the agreement. Infineon appealed.

The Federal Circuit affirmed entry of the injunction, vacated-in-part the injunction and remanded for further proceedings. Applying Ninth Circuit law, the Federal Circuit concluded that MACOM showed a likelihood of success on its wrongful termination claim, finding that MACOM could likely establish that its activity outside of the Field of Use provision did not breach the license agreement's implied covenant of good faith and fair dealing. The Federal Circuit explained that use of the term "only" with the Field of Use language did not suggest any additional promise or obligation by MACOM not to exceed the Field of Use, dismissing the notion of supplementing Infineon's mere promise not to sue with a contractual obligation of MACOM.

The Federal Circuit also concluded that there was a sufficient causal nexus between Infineon's termination of the license agreement and harm to MACOM. The Federal Circuit explained that losing the license exclusivity would harm MACOM "merely by virtue of its customers' perception that it no longer holds an exclusive license" if the termination was effective, noting that MACOM would have difficulty competing alongside Infineon for the same business without the exclusivity provided by the license agreement.

Finally, the Federal Circuit vacated portions of the injunction enjoining future infringing acts without reference to any particular adjudicated infringing products as violating the specificity requirements of Federal Rules of Civial Procedure 65(d), and portions of the injunction enjoining Infineon from granting licenses or sub-licenses to the licensed patents in the Exclusive Field without evidence of Infineon breaching or threatening to breach a contractual provision. The case was remanded to the district court for further proceedings.

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International Licensing

Jakob Dewispelaere

European Commission on the Fence Regarding SEP Licensing

Standard essential patents (SEPs) and fair, reasonable and non-discriminatory (FRAND) licensing terms remain hotly debated topics within antitrust circles as regulators around the world stake out their positions. In November 2017, the European Commission (Commission) published its Communication on the EU approach to Standard Essential Patents (the Communication). [*See https://ec.europa.eu/docsroom/documents/26583.*] It sets out a general, non-binding framework that can be used by SEP holders and implementers to reach an agreement on licensing terms. Similar efforts are being made in China, where the National Development and Reform Commission is drafting guidelines for pricing SEPs and the Guangdong Court is considering introducing trial guidance for lawsuits involving SEPs. [*Mlex Report*, "Draft Chinese SEP pricing guidelines out for public comment soon, NDRC official says," January 26, 2018; *Mlex Report*, "Guangdong high court mulls trial guidance for standard-essential patent cases," January 29, 2018.]

A standard is usually defined as a document that sets out requirements for a specific item, material, component, system or service. [*See https://www.cencenelec.eu/standards/DefEN/Pages/default.aspx.*] Examples of widely spread standards include LTE, WiFi, or Bluetooth. Standards generally are set by standard-setting organizations such as the European Telecommunications Standards Institute (ETSI). SEPs is the acronym used to describe patents that protect technology essential to a standard. When a patent holder declares its patent essential to a particular standard, the holder typically commits to license it on FRAND terms. Unfortunately, what is FRAND or un-FRAND remains unclear, and antitrust intervention remains a source of great contention.

A particularly controversial issue is whether an SEP holder has the right to seek or enforce injunctions against implementers after it has committed to license the SEP on FRAND terms. The prime concern is that injunctions may be used to extract un-FRAND royalties from implementers.

The Court of Justice (CJEU) sought to give more guidance on the use of such injunctions in its landmark decision in *Huawei v. ZTE* [C-170/13, EU:C:2015:477], in which it shaped a general framework for companies to use when seeking injunctive relief based on SEPs that they committed to license on FRAND terms. It ruled, *inter alia*, that an SEP holder can indeed seek injunctions, provided that, before bringing the action, the SEP holder alerts the alleged infringer and presents to the infringer a written offer to license on FRAND terms, specifying the royalty and how it will be calculated. The CJEU did not, however, specify how exactly the royalty should be calculated in order for it to be FRAND.

Consequently, despite CJEU guidance, patent holders and implementers still find themselves frequently embroiled in lawsuits, especially in SEP-heavy industries such as telecommunications, precisely because clear guidelines are lacking. Realizing that interconnectivity is becoming more crucial than ever, particularly with the Internet of Things and the 5G telecommunications standard in mind, the Commission has recognized that there is an urgent need for a smooth, clear, and predictable framework for SEPs. The Communication aims to integrate the Commission's approach taken in earlier cases into a broader non-binding policy document, and to resolve the questions left open by the CJEU in *Huawei v. ZTE*.

Both patent holders and implementers—primarily smartphone makers—fiercely lobbied the Commission to endorse the licensing model that best serves their respective interests (*i.e.*, licensing based on the value of the end device versus licensing based on the value of components). The Commission eventually avoided choosing sides, saying that "there is no one-size-fits all solution for what is FRAND."

When discussing licensing and IP valuation, the Communication does nothing more than articulates a few high-level principles. It states that FRAND licensing terms for SEPs "have to bear a clear relationship to the economic value of the patented technology," that "parties need to take a reasonable aggregate rate for the standard into account, assessing the overall added value of the technology to avoid royalty stacking," and that "the FRAND value should be irrespective of the market success of the product which is unrelated to the patented technology." [A standard-compliant product uses thousands of SEPs, owned by various SEP holders (e.g., think about the number of patents in a cell phone). Royalty stacking essentially means that royalties set by each SEP holder individually without having regard to the aggregate royalty burden "stack" on top of each other, making the overall royalty burden unsustainably high.] When addressing the non-discrimination element of FRAND, the Communication goes no further than saying that "solutions can differ from sector to sector and depend on the business models in question."

Consequently, the Communication does not provide clear answers to the fundamental questions about which patent holders and implementers constantly litigate. What exactly is a fair royalty? Who gets a license and who doesn't? The Commission's decision not to take sides does not mean that the problems will go away. Clarity on whether the royalty set by the SEP holder is un-FRAND or whether the SEP holder can be obliged to license its patent to all implementers rather than to endusers only will still need to come from courts and/or competition authorities.

Although the Communication lacks clear guidance in that respect, it still provides some useful language in other areas. For example, the Commission's clear reference to "royalty stacking" as an IP valuation principle that should be taken into account is noteworthy. As, too, is its statement that "PAEs [Patent Assertion Entities] should be subject to the same rules as any other SEP holder, including after the transfer of SEPs from patent holders to PAEs." [Patent Assertion Entities are businesses that acquire patents (including SEPs) from third parties and generate revenue by asserting them against alleged infringers.] The implications of this sentence are potentially far-reaching. It could mean that the Commission considers that FRAND commitments travel in case of patent ownership change, irrespective of whether the buyer/PAE also pledged to license on FRAND terms.

In conclusion, parties negotiating SEP licensing agreements will no doubt want to read the Communication for general guidance on the Commission's views. However, SEP holders and implementers looking for clear answers to the questions left open by *Huawei v. ZTE* will be none the wiser and will still be forced to fight their battles in court.

Jakob Dewispelaere is an associate at Sidley Austin LLP. The views expressed in this article are exclusively those of the author and do not necessarily reflect those of Sidley Austin LLP and its partners. This article has been

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