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For the most current news and analysis related to the coronavirus, visit the free COVID-19 resource center at TR.com. The website provides the latest on court closings, federal and state legislative responses to the virus, legal analysis of the most important issues, and other topics.

PATENT

Supreme Court's appointments clause ruling will keep PTAB intact, lawyers predict

By Patrick H.J. Hughes

The U.S. Supreme Court has grilled the government and two medical device manufacturers over the appointment of administrative patent judges, and attorneys say the justices probably will leave the process in place but require more oversight.

United States v. Arthrex Inc. et al., Nos. 19-1434, 19-1452 and 19-1458, oral argument held (U.S. Mar. 1, 2021).

The justices held oral argument March 1 to help them decide if the Patent Trial and Appeal Board's system for appointing APJs should be overhauled.

Arthrex Inc. argued that it should, while Smith & Nephew Inc. said it wants to keep the current process. The U.S. government, which

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REUTERS/Joshua Roberts

The U.S. Supreme Court building in Washington.

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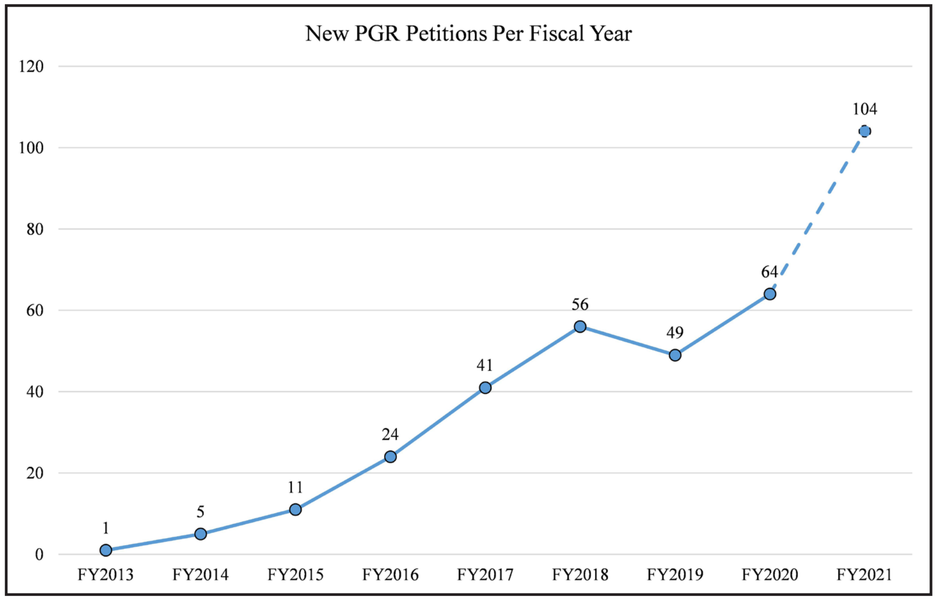
Rising PTAB discretionary denials and popularity of PGR bring into focus a special case: § 325(d) discretionary denials in PGR

By Christopher L. McKee, Esq., and Camille D. Sauer, Esq.
Banner Witcoff

The Patent Trial and Appeal Board (PTAB) is afforded a lot of discretion, and it uses it — more and more these days. For example, the PTAB has broad discretion to deny institution of trial on petitions in view of the late stage of parallel litigation proceedings, or multiple petitions challenging the same patents.[1]

Post-grant review filings have been on the rise.



Number of PGR Petitions Filed

Such denials under Section 314(a) of the Patent Act[2] have seen a recent dramatic increase, and generated controversy.[3] The PTAB also has discretion to deny institution of petitions asserting the "same or substantially the same prior art or arguments" as those previously presented to the Patent Office. Such § 325(d)[4] denials have been on the rise as well.[5]

Responding to calls for clarity on application of § 325(d),[6] the PTAB recently designated two decisions as precedential. In *Advanced Bionics LLC v. MED-EL Elektromedizinische Geräte GmbH*,[7] the PTAB set forth a "two-part framework" for exercising discretion under § 325(d):

(1) whether the same or substantially the same art previously was presented to the Office or whether the same or substantially the same arguments previously were presented to the Office; and

(2) if either condition of first part of the framework is satisfied, whether the petitioner has demonstrated that the Office erred in a manner material to the patentability of challenged claims.

"If a condition in the first part of the framework is satisfied and the petitioner fails to make a showing of material error, the Director generally will exercise discretion not to institute inter partes review."[8] In *Becton, Dickinson & Co. v. B. Braun Melsungen AG*,[9] the PTAB set forth factors by which the question of whether proffered art or arguments are "the same or substantially the same" as art or arguments previously presented to the Office may be resolved.

As shown above, Post-Grant Review (PGR) — provided for by the America Invents Act (AIA) — got off to a very slow start, in 2013. But PGR filings have been on the rise, with 104 PGR petitions projected to be filed in FY 2021, representing an increase of 62% over FY 2020's 64 filings.[10]

While still far fewer than the 1-2,000 IPRs filed each year,[11] PGR filings can be expected to continue to grow as the number of "AIA patents" issuing each year grows as a proportion of the total number of patents issuing. Only AIA patents (those with a claim having an effective filing date on or after March 16, 2013) are eligible for PGR.[12]

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While the limited filing window can limit PGR's usefulness — the petition must be filed within nine months of issuance of the subject patent[13] — PGR can be beneficial over IPR from the standpoint that the proceeding is comparatively wide-open as to the permissible challenge grounds.[14]

And with the PTAB's evident current disposition toward § 314(a) denials of IPR petitions filed "later rather than sooner" (particularly in the case of concurrent litigation),[15] PGR would seem to possess some inherent immunity to § 314(a), since the petition will have necessarily been filed within nine months of patent issuance.

PGR may attract more would-be patent challengers from this standpoint as well. As PGR comes to be viewed as a more viable and attractive option, and with the number of PGR filings on the rise, it is increasingly important to understand how the PTAB approaches § 325(d) denials in the case of PGR.

As to *prior art* challenge grounds, there is no apparent reason to expect a different approach between PGRs and IPRs. An examination of the PTAB's decisions on § 325 denials in PGRs bears this out. At issue is whether "the same or substantially the same prior art or arguments previously were presented to the Office."[16]

But unlike IPR, PGR is not limited to prior art challenges.[17] Other unpatentability grounds can be included, such as lack of written description or non-enablement under § 112(a),[18] failure to particularly point out and distinctly claim the subject matter regarded as the invention under § 112(b), and subject matter ineligibility under § 101.[19]

While such grounds do not raise any question of whether the *prior art* is the same or substantially the same as was previously presented, they may be considered to raise an *argument* the same or substantially the same as was previously presented (such as during prosecution), thus providing a basis for § 325(d) denial of PGR.

This article thus examines PTAB decisions addressing § 325(d) denial in PGR where the challenge grounds raised include non-prior art grounds, with an aim to illuminate the PTAB's approach. A total of six decisions fitting this criterion were identified. In two of these, the PTAB discretionarily denied. In four, it did not.

NON-PRIOR ART GROUNDS — THE SAME OR SUBSTANTIALLY THE SAME ARGUMENT PREVIOUSLY PRESENTED?

Addressing whether the same or substantially the same argument has previously been presented with respect to non-prior art challenge grounds, the PTAB will look to see whether the *particular* argument presented was *explicitly* presented and considered previously by the Office.

> As PGR comes to be viewed as a more viable and attractive option … it is increasingly important to understand how the PTAB approaches § 325(d) denials.

The PTAB is unlikely to infer previous presentation and consideration of argument solely from the examiner's duty to examine patent applications for compliance with the statutory requirements, e.g., of § 112 and § 101.

The PTAB has consistently demonstrated its unwillingness to infer previous presentation of an argument from an examiner's presumed examination of an application for statutory compliance.

For example, in *Lifescan Global Corp. v. Ikeda Food Research Ltd.*[20] (no discretionary denial), the PTAB concluded that there was no indication the enablement issue raised had been previously considered in prosecution "beyond the consideration given to all allowed claims for compliance with the requirements of 35 U.S.C.A. § 112."[21]

Similarly, in *Adello Biologics LLC v. Amgen Inc.*,[22] the enablement issue had not been *expressly* discussed during prosecution, and this counseled against a discretionary denial.[23] Likewise, in *Genome & Co. v. The University of Chicago*,[24] the lack of "any discussion of the question of enablement" in the prosecution was key to the PTAB's refusal to discretionarily deny under § 325(d): "Thus, we are unable to determine what conclusions the Examiner made with respect to enablement, let alone what evidence the Examiner considered in deciding the issue."[25]

Adello Biologics provides further an example where the written description argument previously presented in prosecution was deemed different than the one presented in the PGR petition, counseling against discretionary denial.[26]

Similarly, in *Lifescan*, the lack of "significant overlap" between the enablement rejection entered during prosecution and the petition's non-enablement argument was cited by the PTAB as a reason for its decision not to discretionarily deny with respect to that ground.[27]

Together, these decisions illustrate the close scrutiny the PTAB can give to the issue of "the same or substantially the same" argument under § 325(d), in the case of non-prior art PGR challenge grounds.

THE SOURCES OF PREVIOUSLY PRESENTED ARGUMENTS

The PTAB's decisions reflect the variety of sources from which arguments made in PGR may be deemed to have been previously presented to the Office. *Supercell Oy v. Gree Inc.*,[28] *Adello Biologics* and *Genome & Co*. each present the typical scenario where the source of the asserted previous presentation of argument is the prosecution of the patent undergoing PGR.[29]

Telebrands Corp. v. Tinnus Enterprises LLC[30] is somewhat unusual in that the argument presented previously in prosecution originated in related PGR proceedings. Documents and decisions from the related proceedings had been submitted by the applicant during prosecution of the subject patent, and the examiner indicated those had been considered.

Leading to a discretionary denial, these proceedings raised obviousness challenges against claims of related patents that were deemed "based on similar arguments and the same art [] at issue in the instant proceeding."[31] The PTAB thus observed "that the Examiner's reasoning for allowance took into account the art and arguments of record, including the Decisions filed in [the related PGR proceedings]."[32]

In both *Live Nation Entertainment Inc. v. Complete Entertainment Resources B.V.*[33] and *Lifescan,* the PTAB considered whether to deny on the basis of argument deemed to be the same or substantially the same as previously raised in the prosecution of a *related patent* with similar claims.

In *Live Nation,* the petition's § 101 argument was found to have been previously presented in a *third party submission* during the prosecution of the related patent, leading to the PTAB's discretionary denial.[34] In *Lifescan*, the PTAB declined to discretionarily deny, deeming the previously presented enablement argument in the related application to be different from that presented in the petition.[35]

Opposite outcomes aside, these decisions make clear that the PTAB is willing to extend its inquiry under § 325(d) beyond the prosecution of the challenged patent itself, to related proceedings.

DO THE MERITS GET CONSIDERED?

The PTAB may discretionarily deny non-prior art grounds on the basis of the same or substantially the same argument being previously presented, with or without express reconsideration of the argument on the merits.

Live Nation provides an example where the PTAB declined to institute with respect to the asserted § 101 challenge grounds on the basis that the argument was previously presented, and without expressing any views on the merits of the challenge.[36]

Going in the opposite direction is *Supercell*. There, the PTAB accepted for argument's sake that the § 101 argument presented was the same as previously presented during prosecution. Nonetheless, it declined to discretionarily deny, and instituted trial based on its consideration of the merits of the § 101 challenge grounds.

CAN NEW EVIDENCE MAKE THE DIFFERENCE?

As to previously presented prior art and non-prior art grounds alike, new evidence, such as expert testimony, can make the difference necessary to avoid discretionary denial. But an expert declaration that merely states a different conclusion than the Office previously reached, or parrots conclusory attorney argument, will not.

Telebrands is illustrative. There, the petitioner presented argument that the "present record is different from the one before the Examiner," based on its expert's declaration testimony. This testimony, opining on issues of inherency, and reaching a conclusion at odds with the examiner's conclusion, was insufficient to avoid § 325(d) denial.[37]

An opposite result was reached in both *Adello Biologics* and *Genome & Co.* In these cases, the PTAB considered the new evidence presented, including expert testimony, sufficient to warrant PGR.[38]

> A PGR petitioner may be able to avoid a discretionary denial by making a compelling, specific showing of error in the previous determinations.

INITIALED IDS LISTINGS

An issue common to both IPR and PGR, for *prior art* grounds, is the weight placed on the examiner's mere indication that a reference was considered in prosecution, such as by initialing an Information Disclosure Statement (IDS) reference listing.

Adello Biologics provides a PGR example where the PTAB deemed mere indication that a cumulative reference listed in an IDS was considered during prosecution to be insufficient basis to warrant discretionary denial, since it did not reflect consideration of the reference *in particular* in determining patentability. Notably, this was an extreme case where the reference was listed among "hundreds of references."[39]

In contrast, *Telebrands* provides a PGR example where the PTAB placed considerable weight on the examiner's indicated consideration during prosecution of "various documents from other related [PGR] proceedings before the Board."[40]

These documents addressed similar obviousness challenges on the same art, and while they were not expressly addressed by the examiner, the PTAB deemed their listing in an IDS to provide "circumstantial evidence" that the petitioner's arguments had been previously considered.[41]

Genome & Co. provides an interesting example where references listed in an IDS were relied on in the PGR petition to show non-enablement. The citation during prosecution was deemed an insufficient basis for a discretionary denial, since nothing had been cited "to show that the Examiner considered these references in conjunction with determining that the claims were enabled."[42]

ALL OR NOTHING

Where the petition presents multiple challenge grounds (prior art and/or non-prior art), the PTAB may discretionarily deny as to one or more grounds while, with respect to other grounds, the decision on institution is determined on the merits (to ascertain whether it is "more likely than not that at least 1 of the claims challenged in the petition is unpatentable").[43] But if the PTAB is persuaded to institute trial with respect to even one claim or ground, it will institute as to all claims and grounds as a matter of policy in light of the U.S. Supreme Court's *SAS* decision.[44]

Thus, a patent owner may choose to argue (preliminarily) for discretionary denial as to less than all claims or grounds, in addition to or in lieu of, making arguments on the merits. It must be recognized, however, that in order to achieve success in avoiding institution of trial, the PTAB must be persuaded to not institute as to each claim and ground.

Telebrands provides an example of the PTAB discretionarily denying institution as to some grounds and denying on the merits as to others. *Lifescan* provides an example of the PTAB instituting as to all grounds (including prior art as well as non-prior art grounds) under *SAS*, on the basis of its decision not to discretionary deny, and favorable as to the merits of, an enablement challenge.

These decisions counsel that patent owners include, where possible, arguments both in favor of a discretionary denial and addressing the challenge grounds on the merits. On the other hand, petitioners should consider, as to each ground asserted, whether the same or substantially the same argument arguably was previously presented to the Office. And if so, petitioners should consider preemptively addressing the reasons § 325(d) denial is not warranted. Such reasons may include the differences with respect to the grounds presented in the petition, and/or a compelling showing of error in the previous determination(s).

CONCLUSION

The potential for the PTAB to discretionarily deny institution under § 325(d) must be considered in PGR as it would be in IPR. The

PTAB's approach in PGR with respect to prior art challenge grounds mirrors its approach in IPR, under its precedential *Advanced Bionics* and *Becton Dickinson* decisions.

Non-prior art challenge grounds in PGR are similarly vulnerable to discretionary denial insofar as the argument(s) made in the petition may be said to raise an issue specifically and expressly addressed previously in prosecution (or other related proceedings before the Office).

Even then, however, a PGR petitioner may be able to avoid a discretionary denial by making a compelling, specific showing of error in the previous determination(s). As the number of PGR filings continues to increase, so too will the number of PTAB decisions addressing § 325(d) in the PGR context. Further developments in this area will be watched with interest. WJ

NOTES

[1] Two recent decisions have particularly impacted denials under 35 U.S.C.A. § 314(a). In *NHK Spring Co. v. Intri-Plex Technologies Inc.*, No. IPR2018-00752, 2018 WL 4373643 (P.T.A.B. Sept. 12, 2018) (precedential), the PTAB authorized the use of discretionary denials based in part on the advanced stage of parallel district court proceedings involving the same invalidity arguments raised in the petition. And in *Apple Inc. v. Fintiv Inc.*, No. IPR2020-00019, 2020 WL 2126495 (P.T.A.B. Mar. 20, 2020) (precedential), the PTAB summarized non-exclusive factors to consider when a patent owner requests discretionary denial based solely on the stage of parallel proceedings. Under *NHK/Fintiv*, the PTAB can deny institution of a timely, meritorious petition that fully complies with all statutes and regulations, simply based on the "advanced" stage of a parallel proceeding.

[2] 35 U.S.C.A. § 314(a).

[3] *See, e.g., Tech Companies Wage Broad Battle on Patent Office Challenge Rule*, Bloomberg Law (Sept. 4, 2020), https://bit.ly/2NwrMHf (last visited Jan. 22, 2021); *Comments on Discretion to Institute Trials Before the Patent Trial and Appeal Board published October 20, 2020*, https://bit.ly/3simlKM (last visited Jan. 22, 2021).

[4] 35 U.S.C.A. § 325(d).

[5] *See, e.g.,* Eisenberg, Jason D. et al., *The PTAB Gives Section 325(d) Sharp Teeth* (Oct. 2017), https://bit.ly/3skZ7nb (last visited Jan. 27, 2021); *see also, Patent Public Advisory Committee 2019 Annual Report*, pp. 57-58, https://bit.ly/3sm9LKt (last visited Jan. 27, 2021).

[6] *Patent Public Advisory Committee 2019 Annual Report, supra* note 5.

[7] *Advanced Bionics LLC v. MED-EL Elektromedizinische Geräte GmbH*, No. IPR2019-01469, 2020 WL 740292 (P.T.A.B. Feb. 13, 2020) (precedential).

[8] *Advanced Bionics*, IPR2019-01469, Paper 6 at 8-9.

[9] *Becton, Dickinson & Co. v. B. Braun Melsungen AG*, No. IPR2017-01586, 2017 WL 6405100 (P.T.A.B. Dec. 15, 2017) (precedential as to § III.C.5, first paragraph) (*"Becton Dickinson"*).

[10] Source: Docket Navigator (published calendar year data translated to USPTO fiscal year data for FYs 2013-2020; projected total for FY 2021, based on 26 PGR filings in first quarter FY 2021 (Oct. 1, 2020, to Dec. 31, 2021) as shown by PTAB's E2E database, available at https://bit.ly/3bDfDse (last visited Jan. 27, 2021).

[11] *See, e.g., Trial Statistics IPR, PGR, CBM*, Patent Trial and Appeal Board, Nov. 2020, https://bit.ly/2ZI41OT (last visited Jan. 27, 2021).

[12] 35 U.S.C.A. § 321 (note). The number of AIA patents issuing relative to the number of pre-AIA patents issuing naturally increases with the passage of time from March 16, 2013.

[13] 35 U.S.C.A. § 321(c).

[14] On the flip side, the greater inclusiveness as to the types of challenges that may be brought in PGR has the potential to subject an unsuccessful petitioner, upon receipt of an adverse final written decision, to a wider range of estoppels under the "raised or reasonably could have raised" standard of 35 U.S.C.A. § 315(e)(1) and (2).

[15] *See* note 1, *supra*.

[16] 35 U.S.C.A. § 325(d).

[17] Prior art challenges in PGR are extended as well, not being limited to "patents and printed publications" as in IPR.

[18] 35 U.S.C.A. § 112(a).

[19] 35 U.S.C.A. § 101.

[20] *Lifescan Global Corp. v. Ikeda Food Research Ltd.*, No. PGR2019-00032, 2019 WL 3851803 (P.T.A.B. Aug. 15, 2019) (claim directed to biosensor compounds used for the determination of blood glucose levels was challenged for lack of enablement and written description under 35 U.S.C.A. § 112(a), and for obviousness over asserted prior art references).

[21] *Id.* at 14.

[22] *Adello Biologics LLC v. Amgen Inc.*, No. PGR2019-00001, 2019 WL 1767168 (P.T.A.B. Apr. 19, 2019) (claims directed to a method of refolding proteins expressed in non-mammalian cells were challenged for alleged lack of § 112 written description and enablement, as well as for unpatentability over prior art references).

[23] *Id.* at 10.

[24] *Genome & Co. v. University of Chicago*, No. PGR2019-00002, 2019 WL 1749487 (P.T.A.B. Apr. 15, 2019) (claims directed to a cancer treatment method for a human subject challenged on Section 112(a) lack of enablement and obviousness grounds).

[25] *Id.* at 31.

[26] *Id.* at 10.

[27] *Id.* at 14.

[28] *Supercell Oy v. Gree Inc.*, No. PGR2018-00036, 2018 WL 4380798 (P.T.A.B. Sept. 13, 2018), (claims directed to methods and apparatus including functional steps, executed by a computer, for controlling a video game were challenged as failing to recite patent eligible subject matter under 35 U.S.C.A. § 101, and for indefiniteness under 35 U.S.C.A. § 112(b).)

[29] In *Neil Ziegmann N.P.Z., Inc. v. Stephens*, No. IPR2015-01860, 2017 WL 3923543 (P.T.A.B. Sept. 6, 2017) (expanded panel), the PTAB addressed and rejected the argument that § 325(d)'s language "presented to the Office" excluded ordinary (*ex parte*) prosecution due to the absence of a party "advocating before the Office against the patentability of the claims." *Id.* at 16-17; *see also, id.* at 29-30 (listing exemplary IPR decisions).

[30] *Telebrands Corp. v. Tinnus Enterprises LLC*, No. PGR2017-00040, Paper 10 (P.T.A.B. Feb. 7, 2018) (petition presented both prior art and § 112(a) written description challenges against claims directed to apparatus for filling balloons with fluid).

[31] *Id.* at 13.

[32] *Id.*

[33] *Live Nation Entertainment Inc. v. Complete Entertainment Resources B.V.*, No. PGR2017-00038, 2018 WL 444034 (P.T.A.B. Jan. 16, 2018) (claims directed to an event ticket distribution system were challenged as being directed to patent ineligible subject matter under 35 U.S.C.A. § 101, as well as for obviousness over cited prior art references).

[34] *Id.* at 12.

[35] *Id.* at 14.

[36] *See id.* at 12. There is tension apparent here with *Advanced Bionics and Becton Dickinson*, which indicate that the merits will be considered at least to the extent that the petitioner argues error in the Office's previous determination of the issue. More in line with these decisions, *Telebrands* emphasizes the importance of the petitioner making a particularized demonstration of examiner error. There, the PTAB expressly considered the merits of the petitioner's obviousness challenges in deciding to discretionarily deny as to those grounds. *See id.* at 16-17.

[37] *See id.* at 14-17.

[38] *Adello Biologics* at 10-11; *Genome & Co.* at 31.

[39] *Id.* at 11.

[40] *Id.* at 13.

[41] *Id.* at 14-15.

[42] *Id.* at 31.

[43] The threshold for institution in PGR under 35 U.S.C.A. § 314(a).

[44] *See https://bit.ly/3sm8Xp6*; policy now codified in 37 C.F.R. §§ 42.108(a) (IPR) and 42.208(a) (PGR) (effective as of Jan. 8, 2021).

Not all audits are bad: Intellectual property audits can protect and create value in your retail business

By John Flock, Esq., Joshua M. Kalb, Esq., and Aimee Soucie, Esq.
Hunton Andrews Kurth LLP

The COVID pandemic forced retailers into new realities. Most notably, it accelerated the transition to e-commerce, and created a myriad of practical (and legal) retail challenges, including health and safety issues, counterfeit products, remote workers and, in some cases, staff reductions, reduced demand and decreased profitability.

While these issues dominated most companies' focus for the last ten months, many are now beginning to shift focus, to ways to improve the bottom line. One — sometimes overlooked — means to do so is by maximizing the value and protection of existing intellectual property assets and identifying areas of intellectual property growth and development (and potential concern).

This article focuses on the basics of systematically auditing intellectual property holdings and strategies. Such audits can identify gaps in protection, avoid potential liabilities and result in new (and/or previously untapped) revenue sources.

CONFIDENTIALITY/TRADE SECRET PROTECTIONS

While it happens all the time, particularly in 2020 due to COVID, more companies than usual have taken steps that test the limits of existing confidentiality and trade secret protections. Actions such as (i) letting go of staff who possess confidential and trade secret information, (ii) hiring new staff who bring confidential information from a prior employer, (iii) sharing confidential information with third-party service providers or (iv) accelerating the use, development or licensing of technology, each implicate confidentiality and trade secrets.

> At liquidation, it has been the brand names, not inventory or other assets, that command the highest price.

Now is a good time to make sure you are well protected. There has been a 27 percent increase in confidentiality and trade secret-related litigations in the past three years (compared to the prior three years), with very high-dollar judgments awarded for misappropriation, sometimes more than $500M.

To protect confidential/trade secret information, a company needs to show that it has (i) designated certain information as confidential/trade secret, (ii) taken reasonable steps to maintain the confidentiality of that information and (iii) insured that employees (or third parties with whom you share information) know that they have an obligation to protect that confidential/trade secret information.

In conducting a confidentiality/trade secrets audit, some questions to ask your team include:

Preventative measures: Have you created a culture of respect for confidential information in which employees feel that the careful safeguarding of confidential information is as important as any other business consideration for the company, including your HR, sales, marketing, engineers, legal and cybersecurity teams? Do you send annual reminders of the importance of safeguarding confidential information? Do you monitor for unusual patterns or volumes of copying data?

Exiting/Incoming employees: Does your exit interview of departing employees who possess sensitive confidential information include a supervisor who has knowledge of the types of confidential information possessed by the employee? For new hires coming from a competitor, what steps have you taken to ensure that the new employee will not be using confidential information of the former employer?

Agreements: Are your nondisclosure agreements, employment contracts, technical service agreements, licenses and joint venture documents generic or are they tailored to particular situations? Do all of your team members (not just your legal team) fully understand the terms? Do you revise the documents and update the affected individuals as circumstances change?

While many specific elements can go into a confidentiality/trade secret audit, the overarching reminder is that a company must be constantly vigilant in its protection of that information, or risk losing it (and recovery of damages for someone else's misappropriation).



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This article was originally published in January 2021 in the firm's *Retail Industry in Review 2020* report. Republished with permission.

TRADEMARKS AND TRADE DRESS

Trademarks and trade dress — your own and your rights to use others' — are essential to all retailers. The value of marks and branding has been borne out by the unfortunate shuttering of many retailers during the COVID pandemic. At liquidation, it has been the brand names, not inventory or other assets, that command the highest price.[1]

To maximize the strength and value of your trademark portfolio and avoid unnecessary, costly litigation, a thoughtful trademark audit can ensure that you are carrying out an effective trademark strategy.

The following issues, among others, should be considered in any such audit:

Existing registrations: Have you reevaluated in what classes and countries you register your marks to take into account changes in business? Do they cover the appropriate goods and services (and the ones you expect to sell/provide in the future)? Do you continue to pay for marks you no longer use or countries in which you do not have foreseeable business? Do your registrations reflect the current version/usage of the mark (e.g., has a logo been updated, or a brand name shortened)? Have Section 15 Declarations of Incontestability been filed for all eligible marks? What other marks exist in similar spaces with similar commercial impressions, and how much room for expansion of the brand is there?

Possible new registrations: Is there anything consumers associate with your company that you have not registered (including nontraditional associations, such as color, packaging shape, fonts, shelving displays or even a smell (*see* TMEP § 1202.13))? Have you considered the use of design patents, which are inexpensive and relatively easy to obtain, to protect look and feel aspects of your brand until secondary meaning is established and a trademark registration can be secured? Do you have new products, brands or packaging for which you have not obtained protection?

Clearance and enforcement: Do you have a systematic, regular procedure in place to police potential infringements of your trademarks? Before investing in new marks, do you conduct a rigorous, thorough clearance search and address any arguable blocking marks before you invest in developing your new trademark?

Licensing: For inbound licensing, are your business teams in full compliance with the terms of your contracts? For outbound licensing, do you have a systematic way to ensure that your licensees are not abusing your trademarks and going beyond the scope of their license? Are your licensees (or others) attempting to register your marks or similar marks in other countries (including those where you do not have registrations)? Are you including and enforcing quality control terms in your licenses? If you agree to celebrity and/or brand collaborations, do they include a license beyond the scope of the collaboration? Who owns what rights?

PATENTS

Retailers are often the target of patent infringement suits. A thoughtful intellectual property audit and subsequent patent strategy can help retailers protect themselves from patent litigation — and explore developing (or monetizing) their own portfolio.

> Intellectual property can be an underappreciated value proposition.

At least these basic concepts should be included:

Existing and prospective patents: What technology does your company use that you believe is novel? (Keep in mind that technology can include novel business methods.) Is any of it already patented? If so, is it being properly maintained? If you have existing patents, have you reassessed ways to broaden their scope, especially to uses outside of your business or that cover your competitors' products? Are you marking your products either physically or "virtually" with the relevant patent numbers (but not expired patents)?

Employment agreements: Does your standard employment agreement include a strong intellectual property assignment provision (e.g., does it include the language "do hereby assign," as opposed to "will" assign), and what is the scope of assigned inventions (e.g., those made in the course of employment, those made utilizing company resources or something else)? Are all employees required to sign the agreement?

Patent litigation defense: Do you have strong indemnification provisions against infringement claims in all your supplier contracts (e.g., will it protect you if only the main elements of the infringement claim are provided by the supplier)? Do you investigate the financial strength of the supplier to determine if it can stand behind its indemnification or require insurance coverage? Have you looked into whether any infringement threats have been made against the product the supplier is providing you?

Patent litigation offense: Do you have a systematic way of monitoring the industry for use of your technology (e.g., are your engineers and salespeople aware of your patents and do they know to report any possible infringements)? If you have inbound or outbound patent licenses, who has the right, obligation and/or standing to enforce the patents? Who is responsible for monitoring for infringement? For those same licenses, how are you monitoring compliance with the terms internally and externally?

SOFTWARE AUDITS

With an increased move to online services and the accelerated trend to web-based products, third-party software licenses are on the rise. An effective audit of your software licenses and use of licensed software can save hundreds of thousands of dollars. We covered this issue in our 2019 Annual Review.[2]

CONCLUSION

Intellectual property can be an underappreciated value proposition. But the drive towards shopping online has emphasized the critical importance and tremendous value of brand identity and other intellectual property to a business. And studies show that intellectual property and intangible assets represent roughly 80 percent of the value of an S&P 500 company.[3]

At the start of any new year, (and especially this year with the upheaval caused by the pandemic, including changes to numbers and types of employees, new areas of business and expanded use of software and technology), companies will benefit from a careful review of their intellectual property assets and protections.

What assets are strong already? What protections can be strengthened? Where are the areas of concern and potential liabilities? Asking these questions, taking a proactive approach, can avoid (or at least mitigate) legal and business problems and unnecessary losses, while improving profitability and securing your company's competitive advantages.

Whether you undertake an audit in-house or with assistance from outside counsel, the key is to take an unbiased, fresh look at your intellectual property assets, procedures and related legal documents to increase value, discourage violations, protect against challenges and prevail in litigation if necessary.

NOTES

[1] https://bit.ly/3pv3ZnY

[2] https://bit.ly/2ZpE5r4

[3] Aon PLC, *2019 Intangible Assets Financial Statement Impact Comparison Report* (2019).

PATENT

Federal Circuit reconsiders Teva's 'skinny labels' challenge

(Reuters) – A panel of the U.S. Court of Appeals for the Federal Circuit on Feb. 23 heard arguments for the second time in a potentially far-reaching dispute over Teva Pharmaceuticals USA Inc.'s sale of a generic version of GlaxoSmithKline LLC's heart drug Coreg with a partial label that omitted patented uses.

GlaxoSmithKline LLC v. Teva Pharmaceuticals USA Inc., Nos. 2018-1976 and 2018-2023, oral argument held (Fed. Cir. Feb. 23, 2021).

A panel ruled 2-1 last October that Teva had induced infringement of GSK's patent, reviving a $235 million jury verdict against Teva that had been overturned by a district judge. *GlaxoSmithKline LLC v. Teva Pharms. USA Inc.*, 976 F.3d 1347 (Fed. Cir. 2020).

The verdict called into question the long-standing use of so-called skinny labels by generic drugmakers.

Juanita Brooks of Fish & Richardson, arguing for GSK, said Feb. 23 that Teva's label was not a true skinny label because it still included information about a patented use, saying she was afraid that argument had "gotten lost" amid dueling amicus briefs focused on the broader implications of the case.

However, she said even if Teva had used a true skinny label, a jury could still have found that it induced doctors to infringe GSK's patent through other means, including a press release.

William Jay of Goodwin Procter, arguing for Teva, said his client had precisely followed the federal Hatch-Waxman Act in carving out uses that GSK had identified as patented in submissions to the Food and Drug Administration.

"The carve-out provision of Hatch-Waxman was designed for just this situation, where the drug is not patented and the vast majority of uses, more than 80%, are not patented," he said.

The judges seemed to stick to the positions they took in their initial decision. U.S. Chief Judge Sharon Prost, the dissenting vote, said of Brooks' argument that Teva had not used a true skinny label, "I don't understand how that's even plausible."

U.S. Circuit Judge Pauline Newman said that, while encouraging generic drug sales was important, the court also needed "to be sure we don't cut off at the pass the kinds of research that would develop" new indications.

U.S. Circuit Judge Kimberly Moore pressed Jay to explain why a jury could not find that Teva induced infringement through some combination of its label and other statements to doctors, even if they were, as Jay argued, "cobbled together."

"The problem is even if it's cobbled together, if it amounts to infringement, it amounts to infringement," she said.

Coreg, whose chemical name is carvedilol, was initially approved to treat hypertension, left ventricular dysfunction after a heart attack, and congestive heart failure.

In 2007, GSK's patent on carvedilol itself expired, but it maintained a patent for a method for using the drug to treat congestive heart failure until 2015.

REUTERS/Amir Cohen

Teva launched its generic version of the drug in 2007, omitting congestive heart failure from the label.

In 2011, the U.S. Food and Drug Administration required Teva to change the label to be identical to GSK's, including congestive heart failure.

In 2014, GSK sued Teva, saying it induced infringement of the congestive heart failure patent both before and after the 2011 label change. Even carving out the congestive heart failure indication on the label, it alleged, Teva induced infringement by representing its generic as an exact equivalent to Coreg in a press release, and including some language on the label that pointed to the patented use.

(Reporting by Brendan Pierson)

Related Filings:
2020 Federal Circuit opinion: 976 F.3d 1347
Complaint: 2014 WL 4718163

Judge pares down testimony over damages in patent suit against Apple

By Patrick H.J. Hughes

Apple Inc.'s expert made some assumptions in calculating potential damages from the company's alleged patent infringement through its FairPlay digital rights management system, a Texas federal magistrate judge has ruled.

Personalized Media Communications LLC v. Apple Inc., No. 15-cv-1366, 2021 WL 662238 (E.D. Tex. Feb. 20, 2021).

Personalized Media Communications LLC v. Apple Inc., No. 15-cv-1366, 2021 WL 662237 (E.D. Tex. Feb. 20, 2021).

In two Feb. 20 orders, U.S. Magistrate Judge Roy S. Payne of the Eastern District of Texas not only struck part of Apple's expert's testimony, but also said the patent holder accusing Apple of infringement must clarify its own expert's testimony.

Judge Payne did not take issue with Personalized Media Communications LLC's expert's speculation that Apple should pay $240 million if found liable.

Rather, he found both sides had erred in their debate over how much it costs to obtain and use DRM technologies meant to protect communications products.

APPLE TO FACE INFRINGEMENT CLAIMS

Personalized Media is a Texas-based patent licensor that in 2015 accused Apple of infringing a pair of patents, including U.S. Patent No. 8,191,091, which is called "signal processing apparatus and methods."

The suit said Apple's FairPlay product, which is installed in iPhones, iPods and other devices to prevent unauthorized access to content, infringed Personalized Media's patented method of enabling broadcast entities, broadly referred to as "stations," to identify and block certain signals.

In November 2016, Apple moved for summary judgment over the patents' validity.

The District Court stayed the litigation between Personalized Media and Apple while the Patent Trial and Appeal Board reviewed both patents. After the stay was lifted from the '091 patent, the court agreed to consider whether that patent was abstract. The other patent is still under review at the PTAB.

Apple claimed the invention encompassed an abstract concept, making it ineligible for patenting under Section 101 of the Patent Act, 35 U.S.C.A. § 101.

After many defeats, Personalized Media prevailed in persuading Judge Payne to reject Apple's summary judgment motion in a report and recommendation he issued Jan. 29.

> The judge found both sides had erred in their debate over how much it costs to obtain and use DRM technologies.

This decision revitalized the long-running dispute, leading both sides to submit objections to claims and counterclaims and motions seeking to exclude expert testimony before trial.

PERSONALIZED MEDIA'S EXPERT TESTIMONY

Apple moved to strike the testimony of Michael Dansky, Personalized Media's expert witness.

In 2016, he calculated that, if Apple violated patent law with its FairPlay product, the company would have to pay a "running royalty close to $240 million."

Apple said the estimate came from merely analyzing certain existing licenses and the expert's professional experience, which are insufficient to calculate an accurate damages award.

Judge Payne disagreed, saying Dansky used a "reasonable methodology" and took a "reasonable approach" to the issues.

However, Dansky did make some comments about a hypothetical negotiation involving a patent portfolio that the judge said could confuse a jury, so he asked Personalized Media to "show sufficient relevance to outweigh that confusion."

APPLE'S EXPERT TESTIMONY

Personalized Media also filed a motion to strike testimony from Apple's expert, Vincent A. Thomas, who offered an alternative report of estimates and calculations after learning of Personalized Media's $240 million estimate.

While Judge Payne recognized that differences in calculations might indicate a flaw, he said such a possibility should not affect the admissibility of the testimony.

However, the judge also said Thomas made "an unreliable calculation" of the value of how Apple's DRM technology could violate patent law.

Thomas assumed the many technologies were used equally in the FairPlay product, the judge said.

"The expert must tie his or her analysis to the facts of the case," the judge said, striking any testimony that relied on the assumption.

Arun S. Subramanian of Susman Godfrey LLP is representing Personalized Media.

Alan Rabinowitz and Gregory S. Arovas of Kirkland & Ellis LLP are representing Apple. WJ

Attorneys:
Plaintiff: Arun S. Subramanian, Susman Godfrey LLP, New York, NY; Amanda K. Bonn, Meng Xi and Rohit D. Nath, Susman Godfrey LLP, Los Angeles, CA

Defendant: Alan Rabinowitz and Gregory S. Arovas, Kirkland & Ellis LLP, New York, NY

Related Filings:
Order over Personalized Media's expert: 2021 WL 662238
Order over Apple's expert: 2021 WL 662237
Complaint: 2015 WL 4593718

Chicago, New York attorneys ask Supreme Court to revive drive shaft patent

By Patrick H.J. Hughes

Attorney groups in Chicago and New York City are asking the U.S. Supreme Court to redefine the patent-eligibility test they say the U.S. Court of Appeals for the Federal Circuit failed to apply when invalidating a drive shaft patent.

American Axle & Manufacturing Inc. v. Neapco Holdings LLC et al., No. 20-891, amicus brief filed, 2021 WL 490502 (U.S. Feb. 5, 2021).

American Axle & Manufacturing Inc. v. Neapco Holdings LLC et al., No. 20-891, amicus brief filed, 2021 WL 490501 (U.S. Feb. 4, 2021).

In friend-of-the-court briefs filed Feb. 4 and 5, a group calling itself "Chicago patent attorneys" and the New York City Bar Association say the patent dispute between American Axle & Manufacturing Inc. and auto parts manufacturer Neapco Drivelines Inc. is appropriate for revisiting the test the high court established in 2014.

Six years ago, the Supreme Court in *Alice Corp. v. CLS Bank International*, 573 U.S. 208 (2014), created a test for inspecting patents for abstractness under Section 101 of the Patent Act, 35 U.S.C.A. § 101.

As the Chicago attorneys' brief points out, the Federal Circuit has at least 150 times since 2014 evaluated whether inventions recite abstract concepts. American Axle's patent was invalidated for this reason.

Under the *Alice* test, a court first analyzes whether a patent covers an abstract idea or "natural law." If so, the court examines whether the patent contains an "inventive concept" that transforms the idea into patent-eligible subject matter.

The Chicago and New York attorneys say the Federal Circuit has been ignoring the second part of the test and invalidating more patents than the Supreme Court had envisioned.

'WARNINGS ARE NOW A REALITY'

The controversy stems from a suit American Axle filed in 2015 accusing Neapco of infringing U.S. Patent No. 7,774,911, which covers a method of creating driveline propeller shafts with liners that reduce a vehicle's vibrations.

The dispute eventually came before the Federal Circuit, which in October 2019 issued a split opinion declaring the drive-shaft invention ineligible for patenting. *Am. Axle & Mfg. Inc. v. Neapco Holdings LLC*, 939 F.3d 1355 (Fed. Cir. 2019).

American Axle filed its petition for certiorari in November 2019, echoing the arguments of lawyers and legal scholars who in 2014 warned that the *Alice* test would invalidate patents for inventions that historically have been patent-eligible.

"The warnings are now a reality," the petition says.

In 2020, the Federal Circuit modified and reissued its 2019 opinion, reaffirming that the '911 patent was invalid "because it clearly invokes a natural law, and nothing more, to accomplish a desired result." *Am. Axle & Mfg. Inc. v. Neapco Holdings LLC*, 967 F.3d 1285 (Fed. Cir. 2020).

Later, U.S. Circuit Judge Kimberly A. Moore said it was probable the justices would review the invalidation of American Axle's patent. *Am. Axle & Mfg. Inc. v. Neapco Holdings LLC*, 977 F.3d 1379 (Fed. Cir. 2020).

'NOTHING MORE' TEST

Kevin E. Noonan of McDonnell Boehnen Hulbert & Berghoff LLP filed an amicus brief on behalf of Chicago patent attorneys.

The brief says the Federal Circuit has developed a new "nothing more" patent-eligibility test, whereby "any invention — can be called into question."

Thomas Edison's lightbulb patent and Alexander Graham Bell's patent for an "improvement in telegraphy" would have failed the Federal Circuit's test, the Chicago attorneys' brief says.

The nothing-more standard ignores the fact that patents always use natural laws at some level, but inventors can transform those laws into something patentable, as the high court held in *Alice*, according to the Chicago attorneys.

The New York attorneys agree, saying the "vagueness" in the Federal Circuit's nothing-more rulings "disrupts the incentives and expectations of our innovative industrial economy."

If the Federal Circuit's decision to invalidate American Axle's patent is allowed to stand, that decision will "diminish the value of patents by interjecting more uncertainty into the reach of ineligible subject matter," the New York attorneys say.

James R. Major of Norris McLaughlin PA filed the brief on behalf of the New York attorneys. WJ

Attorneys:
New York Bar Association: James R. Major, Norris McLaughlin PA, New York, NY; Aaron L.J. Pereira, Panitch Schwarze Belisario & Nadel LLP, Philadelphia, PA

Chicago patent attorneys: Kevin E. Noonan, Michael S. Borella, Aaron V. Gin and Adnan M. Obissi, McDonnell Boehnen Hulbert & Berghoff LLP, Chicago, IL

Related Filings:
New York bar amicus brief: 2021 WL 490502
Chicago attorneys amicus brief: 2021 WL 490501
October 2020 Federal Circuit opinion: 2020 WL 6228080
July 2020 Federal Circuit modified opinion: 2020 WL 4380419
Certiorari petition: 2019 WL 11611081
October 2019 Federal Circuit opinion: 939 F.3d 1355

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Seinfeld recoups attorney fees in IP spat over 'Comedians in Cars'

(Reuters) – Comedian Jerry Seinfeld is entitled to be reimbursed for his legal fees after defeating a lawsuit claiming he stole the Netflix hit "Comedians in Cars Getting Coffee" from a former colleague, a Manhattan federal judge has ruled.

Charles v. Seinfeld, No. 18-cv-1196, 2021 WL 761851 (S.D.N.Y. Feb. 26, 2021).

U.S. District Judge Alison Nathan of the Southern District of New York ruled Feb. 26 that Seinfeld's one-time collaborator Christian Charles had no "reasonable basis" for his lawsuit, in which he claimed he had pitched the idea for the show a decade before its debut.

The judge did not determine how much Charles would have to pay, though she said she had "concerns" about the nearly $1 million Seinfeld previously requested.

Peter Skolnik of Clark Guldin, a lawyer for Charles, said in an email, "What no court has ever explained — and Judge Nathan fails to explain for the second time — is how Seinfeld came to own the show's copyright. He didn't write it. He didn't direct it. … Nothing made Seinfeld an owner. All he did was complain that because he waited too long, Charles shouldn't own it."

"We are pleased with today's ruling," said Orin Snyder of Gibson, Dunn & Crutcher, a lawyer for Seinfeld. "In the court's own words, this was an 'opportunistic' suit and the court was right to take strong action as a stand against frivolous and abusive lawsuits, and to hold people who file them accountable."

Judge Nathan had dismissed the case in 2019 after finding Charles took too long to sue, having waited six years to file his lawsuit after Seinfeld had in 2012 rejected his copyright claim. *Charles v. Seinfeld*, 410 F. Supp. 3d 656 (S.D.N.Y. 2019). The statute of limitations was three years.

Charles, who said he had worked with Seinfeld since 1994, said he mentioned the idea to Seinfeld for "Comedians in Cars" as early as 2002, when pitching a project called "Two Stupid Guys in a Stupid Car Driving to a Stupid Town."

He said he reminded Seinfeld of that pitch when the comedian in 2011 said he was mulling an idea that became "Comedians in Cars."

Their relationship allegedly broke down after the pilot, which Charles directed, was shot in October 2011, and Charles sought more credit and compensation than Seinfeld wanted to give.

Judge Nathan said Feb. 26 that Charles' lawsuit appeared "opportunistic," as he

REUTERS/Mike Theiler

Comedian Jerry Seinfeld, shown here, is entitled to reimbursement of attorney fees after defeating a lawsuit by a former collaborator who claimed "Comedians in Cars Getting Coffee" copied his idea "Two Stupid Guys in a Stupid Car Driving to a Stupid Town."

had waited until after the show was highly successful before bringing it.

"In circumstances like these, the prospect of a huge payday may entice litigants to pursue claims with little or no merit," the judge wrote. "Substantial deterrence is needed to counterbalance these incentives." WJ

(Reporting by Brendan Pierson)

Related Filings:
2021 District Court opinion: 2021 WL 761851
2019 District Court opinion: 410 F. Supp. 3d 656
Complaint: 2018 WL 889369

See Document Section A (P. 19) for the 2021 District Court opinion.

TRADEMARK

Woodstock festival producers beat appeal over right to use trademark for pot

By Patrick H.J. Hughes

The organizers of the famous Woodstock music festival can continue to sell recreational marijuana under the festival's name despite objections from entities with federally registered "Woodstock" trademarks for smoking-related items, a federal appeals court has ruled.

Woodstock Ventures LC et al. v. Woodstock Roots LLC et al., No. 19-2720, 2021 WL 745290 (2d Cir. Feb. 26, 2021).

The 2nd U.S. Circuit Court of Appeals on Feb. 26 affirmed a New York federal judge's denial of a preliminary injunction sought to bar Woodstock Ventures LC and the Woodstock Cannabis Co. from selling Woodstock-brand pot.

U.S. District Judge Paul G. Gardephe of the Southern District of New York ruled in 2019 that Woodstock Roots LLC and other companies using the Woodstock brand failed to show a likelihood of consumer confusion. *Woodstock Ventures LC v. Woodstock Roots LLC*, 387 F. Supp. 3d 306 (S.D.N.Y. 2019).

Woodstock Roots bore a "heavy burden" when it asked for an injunction and failed to show the District Court erred in finding the company's claim had little likelihood of succeeding on the merits, U.S. Circuit Judge Susan L. Carney wrote for the unanimous appellate panel.

TRADEMARK OWNER 'EXPRESSLY DISAVOWED' USE FOR CANNABIS

Woodstock Ventures, which produced the Woodstock Music and Art Fair where half a million people gathered for "peace and music" in 1969, began selling cannabis-related products in 2016.

The holder of a slew of federally registered Woodstock marks in a variety of categories, Woodstock Ventures claimed the trademark could be used with cannabis under a "natural zone of expansion" theory.

Woodstock Roots and other companies that had obtained licenses years earlier for certain trademark uses said they had the exclusive right to sell cannabis-related items because they held Woodstock trademark registrations for cigarette rolling papers, lighters and similar goods.

After Woodstock Ventures filed trademark claims against Woodstock Roots in February 2018, Woodstock Roots filed a counterclaim asking the court to bar Woodstock Ventures from selling cannabis products.

In denying the injunction, Judge Gardephe noted that when Woodstock Roots applied to register trademarks for smoking products, it "expressly disavowed" using those marks for cannabis, as such products are illegal under federal law and registrations are prohibited for illegal products.

While Woodstock Ventures sells vape pens and similar smoking products that could be marketed through the same trade channels as Woodstock Roots' goods, the judge said this fact did not mean confusion was likely.

Woodstock Roots' "smokers' articles" are not intended for use with recreational marijuana, so a preliminary injunction is not necessary, the judge said.

The appeals panel found no clear error in the judge's logic.

Edward T. Colbert of Hunton Andrews Kurth LLP represented Woodstock Ventures.

Andrew R. Sperl of Duane Morris LLP represented Woodstock Roots. WJ

Attorneys:
Appellants: Andrew R. Sperl, Seth A. Goldberg and Joseph J. Pangaro, Duane Morris LLP, Philadelphia, PA

Appellees: Edward T. Colbert and Erik C. Kane, Hunton Andrews Kurth LLP, Washington, DC; Jonathan D. Reichman, Shawn P. Regan and Jennifer Bloom, Hunton Andrews Kurth LLP, New York, NY

Related Filings:
2nd Circuit opinion: 2021 WL 745290
District Court opinion: 387 F. Supp. 3d 306

TRADEMARK

Nothing Bundt Cakes wins trademark injunction for frosting design

By Patrick H.J. Hughes

Nothing Bundt Cakes, a nationwide retailer of baked goods that specializes in frosted ring-shaped cakes, has persuaded a federal judge to issue a preliminary injunction barring another bakery from putting a certain frosting pattern on cakes.

Denbra IP Holdings LLC v. Thornton, No. 20-cv-813, 2021 WL 674238 (E.D. Tex. Feb. 22, 2021).

Nothing Bundt Cakes federally registered its frosting design as a trademark, so it is entitled to stop the production of confusingly similar frosting patterns on others' cakes, U.S. District Judge Sean D. Jordan of the Eastern District of Texas said Feb. 22.

Defendant Kerri Thornton is temporarily prohibited from using only the frosting design, even though Nothing Bundt Cakes had also complained that Thornton inappropriately used the title "Anything Bundt Cakes" for her online cake sales.

"Nothing Bundt Cakes relies on its frosting-pattern mark in its advertisements — and on the cakes themselves — to direct customers to its physical locations and website for new business," the judge said.

CAKE CONFUSION IN TEXAS

Denbra IP Holdings LLC, headquartered in Addison, Texas, is the official name of the owner of 300 Nothing Bundt Cakes stores in North America.

It filed a trademark suit in October after some franchisees said Thornton's website at allaboutbundtcakes.com was selling Bundt cakes with "a similar frosting pattern" to customers in the Dallas-Fort Worth area.

The same day that it filed the complaint, Denbra moved for a preliminary injunction.

In the motion, it noted that it supplemented its application to federally register its frosting design mark with evidence that showed 83% of those surveyed associated the frosting pattern with Nothing Bundt Cakes' products.

Judge Jordan said the survey results demonstrated that the pattern had acquired secondary meaning, a factor that weighed "heavily in Nothing Bundt Cakes' favor" for a finding that the plaintiff had a legitimate interest in protecting its mark.

The judge noted that the U.S. Patent and Trademark Office has designated the design, which was registered in 2008, as incontestable.

In addition to trademark rights, Nothing Bundt Cakes needed to show a probability of confusion to indicate a likelihood of irreparable harm if there were no injunction. The judge said the similarities between the products was a good indicator of such a likelihood.

The judge also said he was influenced by the fact that the costs for Thornton to change existing frosting designs and advertisements would be minimal.

Overall, the plaintiff demonstrated that an injunction was necessary, Judge Jordan concluded.

Theodore G. Baroody of Carstens & Cahoon LLP represented the plaintiff.

Thornton did not appear before the court.

Attorneys:
Plaintiff: Theodore G. Baroody, Carstens & Cahoon LLP, Dallas, TX; Lance C. Venable, Chandler, AZ

Related Filings:
Opinion: 2021 WL 674238
Motion for injunction: 2020 WL 7755022

See Document Section B (P. 23) for the opinion.

TRADEMARK

Nike can't get internet domain named after Greek goddess of victory

By Patrick H.J. Hughes

Nike Innovate CV, the European arm of the athletic shoe giant, cannot take an internet domain that incorporates the word "nike," because the current owner says it stands for the Greek goddess of victory, the World Intellectual Property Organization has ruled.

Nike Innovate CV v. Contact Privacy Customer 1243971962/Ladinu, No. D2020-3067, 2021 WL 679013 (WIPO Arb. Feb. 16, 2021).

The WIPO Arbitration and Mediation Center rejected Nike's argument that because of the long-standing fame of its trademark, there could be no "believable or realistic reason" for someone else to own nike.dev.

Robert A. Badgley, the sole panelist appointed to resolve the dispute, issued a Feb. 16 decision in favor of the respondent, a man known only as "Ladinu," who registered nike.dev in February 2019.

The respondent did not post anything related to athletic footwear on the website at nike.dev. Instead, the disputed domain resolves to a "largely undeveloped website" featuring only a photo of a statue of Nike.

"In Greek mythology Nike is the daughter of god Titan and goddess Styx," the domain's owner explained. "Nike is the sister of Kratos, Bia and Zelos."

Panelist Badgley accepted that the domain was confusingly similar to the athletic footwear company's famous trademark, but that is not all that is required for a domain name transfer under the rules set by the Uniform Domain Name Dispute Resolution Policy, commonly known as UDRP.

A complainant seeking a transfer must also show bad faith, which the panelist said was absent in this case.

> "In Greek mythology Nike is the daughter of god Titan and goddess Styx," the domain's owner explained.

The registrant of nike.dev claimed to be using the domain for "personal projects" involving a VPN tunnel to provide secure internet connections. Other domains he registered include bia.dev, kratos.dev and zelos.dev.

He said he uses the names of Greek gods to make it easier to remember the sites, and registered them with the .dev gTLD because in Sanskrit "deva" is a word meaning "divine and heavenly."

REUTERS/Grigory Dukor

Although finding the registrant's reason for using the .dev gTLD to be "somewhat dubious," the panelist also said the explanation was "fairly cogent."

It was the shoe company's burden to prove bad faith and it did not meet that burden, the panelist said.

"The panel simply cannot make the leap that complainant urges, essentially on the sheer strength of its famous trademark," he concluded.

Nike was represented by Stobbs IP Ltd.

Related Filings:
Decision: 2021 WL 679013

See Document Section C (P. 31) for the decision.

Insurer sues to ice coverage for frozen pizza trademark row

By Jason Schossler

State Auto Property & Casualty Insurance Co. is asking a Chicago federal judge to find it has no duty to defend a food distributor accused of selling frozen pizzas that bear a family-owned restaurant chain's trademarks without license or permission.

State Auto Property & Casualty Insurance Co. v. Power Play Distributors LLC et al., No. 21-cv-559, complaint filed, 2021 WL 372854 (N.D. Ill. Feb. 1, 2021).

The insurer filed a declaratory judgment complaint Feb. 1 in the U.S. District Court for the Northern District of Illinois, saying Power Play Distributors LLC is not entitled to defense or indemnity because its policy expressly excludes coverage for damages arising out of trademark infringement.

INFRINGEMENT CLAIMS

Power Play is a named defendant in a lawsuit filed in Chicago federal court by Michael Rosati and William Rosati on behalf of Rosati's Franchise Systems Inc., in which the claimants are both shareholders. *Rosati v. Rosati*, No. 20-cv-7762, *complaint filed* (N.D. Ill. Dec. 29, 2020).

The suit alleges that Power Play and co-defendants Anthony Rosati and David Rosati, who also are shareholders of RFSI, manufactured, distributed and sold frozen pizzas bearing the logo mark "Rosati's Authentic Chicago Pizza Est. 1964" and others that are owed by RFSI and associated with Rosati's Pizza restaurants.

The defendants sell the frozen pizzas in Illinois grocery stores in direct competition with the restaurants, which in some cases are less than 5 miles away from the stores, the underlying suit says.

The claimants allege that RFSI has not granted the defendants a license to use the Rosati marks and has not received any compensation for their use.

They also allege that the defendants' conduct was willful and meant to trade on the goodwill and brand recognition associated with the Rosati family's "fresh, non-frozen, high quality pizza."

The underlying suit says the defendants' unauthorized use of the marks constitutes unfair competition, trademark infringement, trademark dilution and false designation of origin under the federal Lanham Act, 15 U.S.C.A. §§ 1114 and 1125, and Illinois law.

It also says Anthony Rosati's and David Rosati's actions constitute a breach of their fiduciary duties to RFSI, which prohibit shareholders from using the Rosati marks other than in connection with Rosati's Pizza restaurants.

DECLARATORY RELIEF SOUGHT

According to State Auto, Power Play tendered the underlying suit for defense and indemnification under commercial general and commercial umbrella liability policies issued by the insurer.

State Auto did not accept the tender and is now asking the court to declare it has no obligation to pick up Power Play's legal costs because the suit does not allege bodily injuries or property damage caused by an "occurrence" as defined in the policies.

Coverage also is precluded by a policy exclusion for personal and advertising injuries arising from any actual or alleged infringement of any intellectual property rights or laws, according to State Auto, which is represented by Pretzel & Stouffer Chtd.

Other exclusions apply to bar coverage, including one for the "unauthorized use of another's name or product in your email address, domain name or metatag, or any other similar tactics to mislead another's potential customers," the complaint says.

State Auto also alleges it is off the hook for any allegations involving "knowing violation of rights of another" and "material published with knowledge of falsity." WJ

Attorneys:
Plaintiff: Robert M. Chemers, Pretzel & Stouffer Chtd., Chicago, IL

Related Filings:
Complaint: 2021 WL 372854

See Document Section D (P. 36) for the complaint.

PTAB intact

CONTINUED FROM PAGE 1

has intervened in the dispute, agrees with Smith & Nephew.

The Supreme Court's decision rests on whether APJs are "inferior" officers, appointed as they are now by the secretary of commerce and director of the U.S. Patent and Trademark Office, or "principal" officers who must be appointed by the president.

Saul Ewing Arnstein & Lehr LLP attorney Darius Gambino said he expects the Supreme Court to find a way to save the PTAB by adding director oversight.

U.S. Deputy Solicitor General Malcolm L. Stewart, arguing on behalf of the government, said APJs should be considered inferior officers because "the director's supervisory powers are fully sufficient."

The government is seeking to overturn *Arthrex Inc. v. Smith & Nephew Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), in which the U.S. Court of Appeals for the Federal Circuit found the designation of APJs violated the U.S. Constitution's appointments clause, U.S. Const., art. II, § 2, cl. 2.

Arthrex, represented by MoloLamken LLP attorney Jeffrey A. Lamken, agreed with the Federal Circuit and said a complete replacement of all the PTAB judges is the only remedy.

'RARE BIRD'?

Justice Neil Gorsuch asked about severing Section 6(c) of the Patent Act, 35 U.S.C.A. § 6(c), which gives the PTAB exclusive rights to rehearings. Lamken, however, insisted this "wouldn't even fix the problem," because the director's part would still be limited.

Mark A. Perry of Gibson, Dunn & Crutcher LLP argued for Smith & Nephew. Principal officers are those whom the Supreme Court has recognized as "the ambassadors and the cabinet officers, and the heads of agencies," not those who preside over patent disputes, he said.

"The court may be poised to strike portions of the statute in a surgical manner," Banner Witcoff attorney Blair Silver said.

Justice Elena Kagan asked how the USPTO could call its officers "inferior" when they make decisions with little accountability.

Justice Gorsuch posed a similar question: "Is it fair to say that, yes, this is a rare bird ... in the sense that there isn't final review in the agency head?"

"It is unusual, but it is also well and historically founded and ... until now, unchallenged," Perry answered, noting a 150-year-old "patent-specific tradition."

'THEY SEEMED WARY OF THE DRASTIC REMEDY'

Attorneys not involved in the case offered their predictions of how the dispute will turn out based on the justices' questions during the oral argument.

Aziz Burgy, an attorney at Axinn, Veltrop & Harkrider LLP, said "it is unlikely the court will throw out the entire PTAB scheme with the bathwater."

Darius Gambino, a partner at Saul Ewing Arnstein & Lehr LLP, said he expects the Supreme Court to find a way to save the PTAB by adding director oversight.

"The USPTO has always had the power and authority to adjudicate patent validity issues, both pre-grant and post-grant, and the PTAB is really no different in that regard," he said.

Blair Silver, an attorney with Banner Witcoff, said the justices appeared to find the appointment of APJs to be unconstitutional, but "they seemed wary of the drastic remedy sought by Arthrex of dismantling the [PTAB] and overturning the current system."

"The court may be poised to strike portions of the statute in a surgical manner by giving the USPTO director authority to directly review decisions of the APJ panels," he said.

Aziz Burgy, a patent attorney at Axinn, Veltrop & Harkrider LLP, also said the majority of justices appeared to view APJs as principal officers given their authority and lack of accountability.

Scott Hejny, an attorney at McKool Smith, said the Supreme Court could still maintain a strict reading of the Patent Act and not have the PTO's director review PTAB decisions.

"Even though the odds favor a finding that APJs are principal officers, it is unlikely the court will throw out the entire PTAB scheme with the bathwater," he said. "Instead, the substance and tenor of the questions seem to suggest that the court will attempt to fix the problem by 'blue-penciling' the statute by perhaps requiring additional oversight over the APJs."

Scott Hejny, an attorney at McKool Smith, said the Supreme Court could still maintain a strict reading of the Patent Act and not have the PTO's director review PTAB decisions, but this would require Congress to fix the issue and "could take time."

"The easiest paths for the Supreme Court are to either overturn the Federal Circuit decision, finding that the PTAB structure truly is a 'rare' — but constitutional — bird, or affirm the Federal Circuit decision."

George E. Quillin of Foley & Lardner LLP said "a decision with the least immediate impact would be one in which the court agrees with the government and Smith & Nephew that administrative patent judges have been inferior officers all along."

Foley & Lardner LLP attorney George E. Quillin said "a decision with the least immediate impact would be one in which the court agrees with the government."

"Hence, there would be no need for a judicial fix to anything," he said.

Donald Falk, a partner in Mayer Brown's Supreme Court & Appellate and Intellectual Property practices, said that the final holding, which is due by the end of June, will probably include several opinions by a divided court.

"One can only hope that there is a firm majority that can provide clear instructions on how to fix the statute (in the case of an affirmance) or how to keep future

Mayer Brown attorney Donald Falk said the final holding will probably include several opinions by a divided court.

administrative adjudicatory systems within constitutional limits (in the case of a reversal)," he said. WJ

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Smith & Nephew: Mark A. Perry, Gibson, Dunn & Crutcher LLP, Washington, DC

Related Filings:

Respondent's brief: 2020 WL 4352704
Certiorari petition: 2020 WL 3545866
Federal Circuit opinion: 941 F.3d 1320

CASE AND DOCUMENT INDEX

CHARLES

2021 WL 761851

Only the Westlaw citation is currently available.

United States District Court, S.D. New York.

Christian Charles, Plaintiff,

v.

Jerry Seinfeld, et al., Defendants.

18-cv-1196 (AJN)

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Filed 02/26/2021

OPINION & ORDER

ALISON J. NATHAN United States District Judge

***1** After fending off claims that his one-time collaborator Christian Charles owned copyrights in the television show *Comedians in Cars Getting Coffee*, comedian Jerry Seinfeld now seeks to recoup his attorneys' fees. The Court referred Seinfeld's motion for fees to the Honorable Katharine H. Parker, who recommended it be denied. Though the Court agrees with much in Judge Parker's Report and Recommendation, it disagrees that Charles had a reasonable basis for his claim. The Court finds that a fee award is appropriate. It thus sustains Seinfeld's objections to the Report and Recommendation and grants his motion for fees.

I. Background

In Charles's telling, he and Seinfeld worked together on various projects since the 1990s. *Charles v. Seinfeld*, 410 F. Supp. 3d 656, 657 (S.D.N.Y. 2019). Charles produced a treatment for *Comedians in Cars Getting Coffee* and worked with Seinfeld to shoot the pilot, but Seinfeld insisted Charles's involvement would be limited to no more than a work-for-hire directing role. *Id.* at 657–58. Seinfeld repeatedly rejected Charles's requests for backend compensation on the project in 2011, and he paid Charles's production company a bit over $100,000 the following year for preproduction expenses. *Id.* at 658. Seinfeld went on to produce and distribute the show without crediting Charles. *Id.* at 658, 660. The pilot premiered in 2012.

But Charles didn't sue in 2012. Or within the following three years after Seinfeld refused his requests for backend compensation and made clear that Charles would receive no credit on the show. Only in late 2017, after learning that Seinfeld had reached a hundred-million-dollar distribution deal with Netflix, did Charles contact Seinfeld and demand he participate in mediation over Charles's claimed interest in the show. Second Amended Complaint, Dkt. No. 70, ¶¶ 96–97. In February 2018, Charles sued Seinfeld and several companies associated with the show's production and distribution.

Charles initially brought this suit without an attorney. *See* Dkt. No. 1. At that time, Seinfeld's attorneys wrote a letter to Charles explaining that his claim could not succeed because he did not file suit before the Copyright Act's statute of limitations had elapsed. Dkt. No. 125-2. The letter warned that Seinfeld would seek to recoup his attorneys' fees if Charles did not voluntarily dismiss his lawsuit. Charles did not voluntarily dismiss his lawsuit. Seinfeld then moved to dismiss, contending that Charles's suit was untimely. Dkt. No. 21.

Charles hired an attorney and amended his complaint in June 2018. Dkt. No. 46. Seinfeld again moved to dismiss, contending that Charles's suit was untimely. Dkt. No. 49. Seinfeld's attorneys wrote to Charles, this time through his new attorney, and warned that Seinfeld would seek to recoup his attorneys' fees if Charles did not voluntarily dismiss his lawsuit. Dkt. No. 125-3. Charles did not voluntarily dismiss his lawsuit. Again, Charles filed a new, amended complaint (his third in total) in August 2018. Dkt. No. 67. Seinfeld again moved to dismiss. Dkt. No. 73. Charles's opposition to that motion exceeded the page limit, requiring Seinfeld's attorneys to file yet another motion to strike the overlength submission. Dkt. No. 82.

***2** The Court dismissed Charles's claims as untimely. *See Charles*, 410 F. Supp. 3d 656. The Copyright Act imposes a three-year limitations period for civil actions. *Id.* at 659; 17 U.S.C. § 507(b). For claims that turn on who owns a copyright, the clock begins to run when the claimant receives notice that someone else claims sole authorship or ownership of the disputed work. *Charles*, 410 F. Supp. 3d at 659–60 (citing *Kwan v. Schlein*, 634 F.3d 224, 228–29 (2d Cir. 2011)). Charles received such notice in 2011 when Seinfeld refused him backend compensation and again in 2012 when Seinfeld began to distribute the show without giving him credit. *Id.* at 660. Yet Charles did not file suit until 2018, more than five years later. Because Charles had waited longer than the Copyright Act's three-year limitations period to sue, the Court held that his claims were time-barred. *Id.* at 661.

Charles appealed. The Second Circuit affirmed this Court's judgment in a summary order. *See Charles v. Seinfeld*, 803 F. App'x 550 (2d Cir. 2020). It agreed that Charles had notice that Seinfeld claimed ownership of the show no later than 2012 and rejected Charles's attempts to recast the dispute as about something other than ownership of copyrights in the show. Charles filed a petition for writ of certiorari in the Supreme Court, which the Supreme Court denied. *Charles v. Seinfeld*, No. 20-661, 2020 WL 7327869 (U.S. Dec. 14, 2020).

Seinfeld now seeks to recover the attorneys' fees he incurred litigating this case.

II. Discussion

District courts may refer consideration of a motion to a magistrate judge for a report and recommendation. If a party timely objects to the findings or recommendations of the magistrate judge, as Seinfeld has done here, the Court must "make a de novo determination of those portions of the report or specified proposed findings or recommendations to which objection is made." 28 U.S.C. § 636(b)(1).

Section 505 of the Copyright Act authorizes a court to require the losing party in a copyright case to pay the attorneys' fees of the prevailing party. 17 U.S.C. § 505. An award of fees is not automatic. A court has discretion to decide if a fee award is appropriate in a given case. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 (1994). However, courts must treat prevailing plaintiffs and prevailing defendants alike when deciding whether to award fees. *Id.*

The Supreme Court has outlined several factors courts should consider when deciding whether to award fees in a copyright case. Court's must give "substantial weight" to the objective reasonableness of the losing party's position. *Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S. Ct. 1979, 1988 (2016); *Matthew Bender & Co. v. W. Pub. Co.*, 240 F.3d 116, 122 (2d Cir. 2001). That is, courts will more often award fees against a party whose arguments lack a factual or legal basis. *TufAmerica Inc. v. Diamond*, No. 12-cv-3529 (AJN), 2016 WL 1029553, at *2 (S.D.N.Y. Mar. 9, 2016). Fees are less likely to be appropriate in a close case. Courts may also consider whether the losing party's claims were frivolous, the losing party's motivation in bringing suit, and "the need in particular circumstances to advance considerations of compensation and deterrence." *Kirtsaeng*, 136 S. Ct. at 1985 (quoting *Fogerty*, 510 U.S. at 534 n.19). These considerations help ensure that fee awards will promote the purposes of the Copyright Act. *Id.* at 1986; *Matthew Bender*, 240 F.3d at 122.

A. Seinfeld is Entitled to Attorneys' Fees

The Court finds that a fee award is appropriate based on the factors set out in *Fogerty*, 510 U.S. at 534 n.19. It first considers whether Charles's claims were objectively reasonable. It concludes that they were not.

Section 507 of the Copyright Act requires a claim for copyright infringement to be filed within three years of the date the claim accrues. 17 U.S.C. § 507(b). Claims of infringement ordinarily accrue on the date of the infringing conduct. However, if a claim turns on who owns a copyright, rather than whether copying occurred, the claim accrues when the person asserting ownership learns that their claim of ownership is disputed. *Kwan*, 634 F.3d at 228–29. Thus, if a "dispute involves who wrote [the work] in the first place," a person claiming authorship must file their lawsuit within three years from when the dispute over authorship arose. Otherwise, § 507 bars their claims.

***3** As both this Court and the Second Circuit held, the allegations in Charles's complaint reflect that he leaned no later than 2012 that Seinfeld disputed his claimed interest in the show. He therefore had only three years from 2012 to file his lawsuit. But instead he waited over five years. Under controlling Second Circuit precedent, his claims were plainly untimely. This was not a close case.

Charles all but concedes that controlling Second Circuit precedent squarely foreclosed his claims. In his opposition to Seinfeld's fees motion, he does not dispute his case was a dead end in the Second Circuit. *See* Dkt. No. 130. Instead, he hangs his case for objective reasonableness on a single decision from a different circuit decided after this Court dismissed his suit and the Second Circuit heard argument in his appeal. *Id.* He contends that under the Sixth's Circuit's decision in *Everly v. Everly*, 958 F.3d 442 (6th Cir. 2020), his claims would have been allowed to proceed, and thus the Sixth Circuit's decision in *Everly* is evidence that his claims were not objectively unreasonable. In her report and recommendation, Judge Parker correctly concluded that Charles's claims would be deemed objectively unreasonable in the absence of the Sixth Circuit's decision in *Everly*. *See* Report & Recommendation, Dkt. No. 139, at 12. But the Court disagrees that *Everly* demonstrates that Charles's claims were reasonable. *Everly* simply does not hold what Charles claims it does.

The Court must first provide some background on the types of disputes that may arise under the Copyright Act. In perhaps the most typical case, the ownership of a copyright is not in dispute. Instead, the question is whether someone copied—for example, whether an allegedly infringing song is too similar to one that came before. *See Kwan*, 634 F.3d at 229. In other cases, the issue is ownership. Two singers might dispute who wrote a song, or a record company might claim the person who wrote it sold away their rights to it. *See id.* Finally, the Copyright Act grants authors of works a so-called "termination-of-transfers" right. *See Penguin Grp. (USA) Inc. v. Steinbeck*, 537 F.3d 193, 197 (2d Cir. 2008). This right allows an author—that is, the original creator of a copyrighted work—the opportunity to reclaim their copyright after a lengthy term (usually thirty-five years) has passed, even if they previously sold or gave it to someone else. *See* 17 U.S.C. § 203. Thus, in a narrow category of disputes—those concerning an author's invocation of their termination-of-transfers right—the key question will not be who currently owns the copyright, but rather who was the original author of the copyrighted work.

In an effort to evade the rule that an ownership claim accrues when the person claiming ownership learns that their claim is disputed, Charles seeks to recast his claim as one about authorship rather than ownership. This is nothing more than an attempt to substitute jargon for substance. Charles sued Seinfeld for copyright infringement. To enforce a copyright, one must own it. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991). Authorship here matters only as an avenue to ownership. The Second Circuit's foundational case on claim accrual for ownership claims involved nearly identical facts. *See Kwan*, 634 F.3d at 229. The plaintiff in that case, like Charles, claimed that she was "the author and therefore owner of the copyright." *Id.*

***4** And so Charles turns to *Everly*, a recent Sixth Circuit case that he contends created a new rule for claims of "authorship." In *Everly*, a divided panel of the Sixth Circuit held that a claim asserting an author's termination-of-transfers right does not accrue until another person repudiates the claimant's status as an author. *Everly*, 958 F.3d at 452–53. In this context, another person's claim to own the copyright does not start the clock, because it does not necessarily give the author notice that their claim of authorship is disputed. *Id.* Abe might own the copyright today, while Beth, the original author, could invoke her termination-of-transfers right tomorrow. Thus, only Abe's claim that he is the work's author (not merely the current copyright owner) puts Beth on notice that her claim of authorship is disputed.

But *Everly* does not hold that the rules for claim accrual change just because someone throws out the word "authorship." Its holding applies only to "an authorship claim without a corresponding ownership claim." *Id.* at 453. Phil Everly's claim was "for authorship *qua* authorship, relevant *only* for the termination rights available under 17 U.S.C. §§ 203(a), 304(c)." *Id.* at 452 (emphasis added). Unlike here, the parties in that case agreed that Phil had transferred his ownership rights to his brother Don. The only dispute was whether Phil qualified as an author with the right to terminate that transfer. "[C]opyright ownership" simply was "not at issue in this case." *Id.*

This reasoning does not suggest a reasonable basis for Charles's position, nor does it conflict with Second Circuit precedent as he claims. Quite to the contrary, the court in *Everly* relied extensively on Second Circuit precedent—including *Kwan*—that would bar Charles's claims. Cases involving the termination-of-transfers right, it explained, are different from "ownership cases in which a defendant has raised a statute of limitations defense based on the defendant's repudiation of the plaintiff's authorship." *Id.* at 453 (citing *Kwan*, 634 F.3d at 229). Outside the narrow set of cases dealing with the termination-of-transfers right, the Sixth Circuit and the Second Circuit follow the same rule for the accrual of copyright claims.

Charles's case was not a termination-of-transfers case. *Everly* addressed an entirely different sort of claim and therefore does not support the reasonableness of Charles's position. The Court is quite confident that Charles's case would have met the same end in the Sixth Circuit as it did here. No matter where he had filed suit, his claims would have plainly been untimely. Charles learned no later than 2012 that Seinfeld disputed Charles's claimed ownership of copyrights in the show, and without ownership of those rights—whether obtained by authorship or by some other means—Charles could not maintain a claim for copyright infringement.

The Court thus concludes that Charles lacked a reasonable legal basis for his claims. And the Court stresses, for the benefit of future litigants, that his claims would be as unreasonable after *Everly* as they were before that case was decided.

The Court finds that the other factors set out in *Fogerty*, 510 U.S. at 534 n.19, also support an award of fees. Charles's suit appears to have been opportunistic. He received a substantial payment for his work on the show's pilot and brought suit only years later once Seinfeld had signed a lucrative distribution deal with Netflix. *Charles*, 410 F. Supp. 3d at 658. In circumstances like these, the prospect of a huge payday may entice litigants to pursue claims with little or no merit. Substantial deterrence is needed to counterbalance these incentives. The Court also takes into account Seinfeld's repeated—and correct—warnings that Charles's claims were time-barred and that a fee award would be likely if Charles pursued this case. *See* Dkt. No. 125. Rather than heed these warnings, Charles persisted in litigation conduct that created unusually high costs, requiring Seinfeld to file three motions to dismiss and a motion to strike.

***5** Considering these factors, the Court concludes that an award of fees would promote the purposes of the Copyright Act by deterring plainly time-barred claims, and so will award attorneys' fees to Seinfeld.

B. The Court Defers Consideration of the Amount of Fees

In his opposition to Seinfeld's motion for fees, Charles did not address the amount of fees that Seinfeld seeks. *See* Dkt. No. 130. The Court has an independent obligation to conduct a "conscientious and detailed inquiry" into the reasonableness of a fee award. *Lunday v. City of Albany*, 42 F.3d 131, 134 (2d Cir. 1994); *cf. Credit Lyonnais Sec. (USA), Inc. v. Alcantara*, 183 F.3d 151, 154–55 (2d Cir. 1999) (holding that a court must assess the evidence in support of a monetary award even in the case of default). In particular, the Court has concerns about whether the amount of fees Seinfeld seeks is appropriate in light of "the relative financial strength of the parties." *TufAmerica Inc. v. Diamond*, No. 12-cv-3529 (AJN), 2018 WL 401510, at *5 (S.D.N.Y. Jan. 12, 2018). Adversary briefing will assist the Court in this inquiry. Thus, the Court will defer consideration on the amount of the fee award pending further briefing.

Conclusion

Seinfeld's motion for attorneys' fees (Dkt. No. 123) is GRANTED. Within two weeks, Charles shall file a brief not to exceed ten pages addressing the size of the fee award. Seinfeld may file a reply not to exceed five pages within one week of that submission.

SO ORDERED.

All Citations

Slip Copy, 2021 WL 761851

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DENBRA IP HOLDINGS

2021 WL 674238

Only the Westlaw citation is currently available.

United States District Court, E.D. Texas, Sherman Division.

DENBRA IP HOLDINGS, LLC d/b/a NOTHING BUNDT CAKES

v.

KERRI THORNTON d/b/a ALL ABOUT BUNDT CAKES

CIVIL NO. 4:20-CV-813-SDJ

|

02/22/2021

Opinion

***1 MEMORANDUM OPINION AND ORDER** Before the Court is Plaintiff Denbra IP Holdings, LLC's ("Nothing Bundt

Cakes") Motion for Preliminary Injunction. (Dkt. #2). On February 12, 2021, the Court held a hearing on the motion. Having considered the motion and the attached evidence, the argument of counsel, and the relevant law, the Court concludes that the motion should be granted.[1]

I. BACKGROUND

Because Thornton has failed to appear in this case, the following background consists of the uncontested averments of Nothing Bundt Cakes' Director of Legal Affairs, Shannon Dean, (Dkt. #2-6), as well as the uncontested allegations in its complaint, (Dkt. #1), and preliminary-injunction motion, (Dkt. #2), which both appear to rely heavily on Dean's declaration. Nothing Bundt Cakes' principal business is the production and retail sale of Bundt cakes and accompanying gift items. Nothing Bundt Cakes operates over 300 franchise locations throughout the United States and Canada, which collectively earn over $100 million annually in revenue. Twenty-one of those franchises are located in the Dallas–Fort Worth area with two more scheduled to open.

Since 1998, the company has continuously used in interstate commerce a unique frosting pattern, which "consists of long, narrow strips of tubular ring-shaped frosting that expand radially outward from the center of each Bundt cake[ ] to a point on the outer edge of the cake...[and which] are applied around the entire perimeter of the Bundt cake's ring shape." (Dkt. #2-6 at 3–4). A rendering of this frosting pattern is replicated below:

***2** Editor's Note: Tabular or graphical material not displayable at this time.

Nothing Bundt Cakes avers that its frosting pattern has become recognizable throughout the country and indicates to the consuming public that any Bundt cake with this unique frosting pattern originated solely from Nothing Bundt Cakes. In support of its application to register the frosting pattern with the U.S Patent and Trademark Office (USPTO), Nothing Bundt Cakes submitted a survey of 304 consumers, 83% of which indicated that they associated the frosting pattern with Nothing Bundt Cakes' products. (Dkt. #2-6 at 8). Using this survey evidence as its primary basis for finding that the frosting pattern had obtained a secondary meaning, on November 4, 2008, USPTO registered Nothing Bundt Cakes' unique frosting pattern pursuant to 15 U.S.C. § 1052(f).[2] (Dkt. #2-5 at 6; Dkt. #2-6 at 4–5, 8). Further, USPTO has designated all of Nothing Bundt Cakes' trademarks, including the frosting-pattern mark, incontestable.

Nothing Bundt Cakes uses local advertising where its franchises exist and international advertising through its website. Nothing Bundt Cakes relies on its frosting-pattern mark in its advertisements—and on the cakes themselves—to direct customers to its physical locations and website for new business. Thus, Nothing Bundt Cakes contends, confusion as to the origin of a cake bearing the trademarked frosting pattern causes Nothing Bundt Cakes to lose business.

Like Nothing Bundt Cakes, Defendant Kerri Thornton's business is primarily the retail sale of Bundt cakes. Also like Nothing Bundt Cakes, Thornton advertises and sells Bundt cakes online—in Thornton's case, through a Facebook page and through a website located at allaboutbundtcakes.com. In mid-August 2020, Nothing Bundt Cakes' franchisees began complaining to the company that Thornton had been selling and advertising Bundt cakes with a similar frosting pattern in the Dallas– Fort Worth area under the name "Anything Bundt Cakes." Shortly thereafter, Nothing Bundt Cakes' counsel sent Thornton a demand letter alleging that: (1) her use of the word mark ANYTHING BUNDT CAKES was likely to cause confusion with the word mark NOTHING BUNDT CAKES, and (2) her tubular frosting pattern was likely to cause confusion with Nothing Bundt Cakes' trademarked frosting pattern. (Dkt. #2-6 at 8). In response to this letter, Thornton changed her business name to "All About Bundt Cakes," but she continued to use the same frosting pattern. Nothing Bundt Cakes sent a second demand letter, yet its local franchisees continue to report Thornton's use of the same frosting pattern.

Nothing Bundt Cakes' preliminary-injunction motion is limited to its trademarked frosting pattern. Invoking Federal Rule of Civil Procedure 65 and Section 34 of the Lanham Act, Nothing Bundt Cakes requests that the Court enter a preliminary injunction prohibiting Thornton from using Nothing Bundt Cakes' trademarked frosting pattern on her cakes and in her marketing and advertising.

II. LEGAL STANDARD

***3** Section 34 of the Lanham Act provides that district courts "shall have power to grant injunctions, according to the principles of equity, and upon such terms as the court may deem reasonable,...to prevent a violation under subsections (a), (c), or (d) of section 1125 of this title." 15 U.S.C. § 1116(a); *see also* FED. R. CIV. P. 65 (providing procedural requirements for preliminary injunctions).

A litigant seeking a preliminary injunction must show: (1) a substantial likelihood of success on the merits; (2) a substantial threat that plaintiff will suffer irreparable harm if the injunction is not granted; (3) that the threatened injury outweighs any damage that the injunction might cause the defendant; and (4) that the injunction will not disserve the public interest. *Nichols v. Alcatel USA, Inc.*, 532 F.3d 364, 372 (5th Cir. 2008). "Injunctive relief is a drastic remedy, not to be applied as a matter of course." *ODonnell v. Harris County*, 892 F.3d 147, 155 (5th Cir. 2018) (internal quotation marks omitted) (quoting *Marshall v. Goodyear Tire & Rubber Co.*, 554 F.2d 730, 733 (5th Cir. 1977)). But the party "is not required to prove its case in full at a preliminary injunction hearing." *Fed. Sav. & Loan Ins. Corp. v. Dixon*, 835 F.2d 554, 558 (5th Cir. 1985) (internal quotation marks omitted) (quoting *Univ. of Tex. v. Camenisch*, 451 U.S. 390, 395, 101 S.Ct. 1830, 68 L.Ed.2d 175 (1981)). A district court has discretion to grant or deny a preliminary injunction. *See House the Homeless, Inc. v. Widnall*, 94 F.3d 176, 180 (5th Cir. 1996).

III. DISCUSSION

A. Likelihood of Success on the Merits

The Lanham Act provides that a trademark may be "any word, name, symbol, or device, or any combination thereof" that is used or intended to be used "to identify and distinguish" a person's goods "from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown." 15 U.S.C. § 1127. "A mark need not be registered in order to obtain protection because '[o]wnership of trademarks is established by use, not by registration.' " *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 475 (5th Cir. 2008) (alteration in original) (quoting *Union Nat'l Bank of Tex. v. Union Nat'l Bank of Tex.*, 909 F.2d 839, 842 (5th Cir. 1990)).

To succeed on a claim of trademark infringement under the Lanham Act, a plaintiff must show: (1) that it owns a "legally protectable trademark," and (2) that a defendant's use of their mark "creates a likelihood of confusion as to source, affiliation, or sponsorship."

Streamline Prod. Sys., Inc. v. Streamline Mfg., Inc., 851 F.3d 440, 450 (5th Cir. 2017); *see also All. for Good Gov't v. Coal. for Better Gov't*, 901 F.3d 498, 505 (5th Cir. 2018); *Viacom Int'l v. IJR Cap. Invs., L.L.C.*, 891 F.3d 178, 184–85 (5th Cir. 2018).

1. Protectable interest in the mark

A plaintiff must establish both that the mark is "eligible for protection" and that the plaintiff is the "senior user" of the mark to have a legally protectable interest in the mark. *Union Nat'l Bank,* 909 F.2d at 844.

i. *The Nothing Bundt Cakes frosting-pattern mark is eligible for protection.*

To be protectable, a mark must be "distinctive" in one of two ways. *Nola Spice Designs, L.L.C. v. Haydel Enters., Inc.*, 783 F.3d 527, 537 (5th Cir. 2015).

> First, a mark is inherently distinctive if its intrinsic nature serves to identify a particular source. . . . Second, a mark has acquired distinctiveness, even if it is not inherently distinctive, if it has developed secondary meaning, which occurs when, in the minds of the public, the primary significance of the mark is to identify the source of the product rather than the product itself.

***4** *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205, 210–11, 120 S.Ct. 1339, 146 L.Ed.2d 182 (2000) (cleaned up).

A mark develops secondary meaning "when, in the minds of the public, the primary significance of a [mark] is to identify the source of the product rather than the product itself." *Samara Bros.*, 529 U.S. at 210–11. Courts consider the following to determine if a mark has acquired secondary meaning:

> (1) length and manner of use of the mark or trade dress, (2) volume of sales, (3) amount and manner of advertising, (4) nature of use of the mark or trade dress in newspapers and magazines, (5) consumer-survey evidence, (6) direct consumer testimony, and (7) the defendant's intent in copying the [mark].

Test Masters Educ. Servs., Inc. v. Robin Singh Educ. Servs., Inc., 799 F.3d 437, 445 (5th Cir. 2015) (quoting *Smack Apparel,* 550 F.3d at 476) (alteration in original); *see also Viacom*, 891 F.3d at 190. In conducting the secondary-meaning analysis, "several 'factors in combination may show that' a mark has developed secondary meaning 'even if each factor alone would not.' " *Viacom*, 891 F.3d at 190 (quoting *Test Masters,* 799 F.3d at 445).

The first factor, length and manner of use, supports Nothing Bundt Cakes, who avers that it has been using the frosting-pattern mark in interstate commerce since 1998—over two decades. *See id.* (holding that continuous eighteen-year use of a mark favored the plaintiff). The second factor, volume of sales, also supports Nothing Bundt Cakes, who avers that its franchisees collectively earn $100 million a year. *See id.* at 190–91 (citing *Smack Apparel*, 550 F.3d at 472, 478 for its holding that $93 million *total* sales weighed in favor of the plaintiff). The third factor—amount and manner of advertising—also favors Nothing Bundt Cakes, whose advertising of the frosting pattern has not only been pervasive internationally and in the Dallas–Fort Worth area but has also, apparently, been quite effective. *See* (Dkt. #2-6 at 8) (stating that 83% of surveyed consumers associate the frosting pattern with Nothing Bundt Cakes' products); *Viacom*, 891 F.3d at 191 ("The relevant question with regard to factor three …is not the *extent* of the promotional efforts, but their *effectiveness* in altering the meaning of the mark to the consuming public." (quotation and brackets omitted)). The fourth factor—the nature and use of the mark in media—also favors Nothing Bundt Cakes. The company and its products are regularly referenced by the media and, relevant here, its cakes are often shown bearing the frosting-pattern mark. *See, e.g.*, (Dkt. #2-5 at 21–29).

The fifth factor, consumer-survey evidence, weighs heavily in Nothing Bundt Cakes' favor. As discussed above, 83% of 304 consumers surveyed associate the frosting pattern with Nothing Bundt Cakes' product. (Dkt. #2-6 at 8). "Although no factor is dispositive," the Fifth Circuit has held that this one "is perhaps the most important," *Unified Buddhist Church of Viet. v. Unified Buddhist Church of Viet.*, 2020 WL 7346470, at *3 (5th Cir. Dec. 14, 2020) (per curiam), and has "consistently expressed a preference for an objective survey of the public's perception of the mark at issue," *id.* (quoting *Amazing Spaces, Inc. v. Metro Mini Storage*, 608 F.3d 225, 248 (5th Cir. 2010)). Regarding factor six, there is no direct consumer testimony before the Court at this time. Finally, factor seven—the defendant's intent in copying the mark—also favors Nothing Bundt Cakes. Although the Court has no direct evidence of Thornton's intent, her attempts to trade on Nothing Bundt Cakes' goodwill by using business names such as "Anything Bundt Cakes" and "All About Bundt Cakes," which seemingly nod to Nothing Bundt Cakes' own business name, lend to an inference that Thornton likely intended to replicate other aspects of Nothing Bundt Cakes' business as well, such as its frosting pattern.

***5** Because six of the seven factors weigh in favor of Nothing Bundt Cakes, and the remaining factor does not weigh against it, Nothing Bundt Cakes' frosting-pattern mark has acquired secondary meaning and is, therefore, eligible for protection.

ii. *Nothing Bundt Cakes is the senior user of the mark.*

Having determined that the mark is eligible for protection, the Court must now determine who is the "senior user" of the mark. "The first one to use a mark is generally held to be the 'senior' user." *See Viacom*, 891 F.3d at 186 (quoting *Union Nat'l Bank*, 909 F.2d at 842). Two Supreme Court cases, *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 36 S.Ct. 357, 60 L.Ed. 713 (1916), and *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 39 S.Ct. 48, 63 L.Ed. 141 (1918), establish "the general proposition that 'a senior user has exclusive rights to a distinctive mark anywhere it was known prior to the adoption of the junior user and has enforceable rights against any junior user who adopted the mark with knowledge of its senior use.' " *C.P. Interests, Inc. v. Cal. Pools, Inc.*, 238 F.3d 690, 700 (5th Cir. 2001); *see also* 5 J. THOMAS MCCARTHY, TRADEMARKS & UNFAIR COMPETITION §§ 26:1–26:4 (5th ed. 2019).

Nothing Bundt Cakes asserts that it is the senior user of the frosting-pattern mark based on its continuous use of the mark since 1998. Nothing Bundt Cakes further maintains that it first heard complaints of Thornton's potentially infringing business in late 2020—twenty-two years after Nothing Bundt Cakes' first use of the mark. Because this evidence is undisputed, the Court finds that Nothing Bundt Cakes is the senior user of the frosting-pattern mark.

In sum, because Nothing Bundt Cakes' frosting-pattern mark is eligible for protection and because Nothing Bundt Cakes has shown that it is the senior user, Nothing Bundt Cakes has a protectable right in the mark and an analysis of the likelihood of confusion is necessary to determine if Nothing Bundt Cakes is likely to succeed on its infringement claim.

2. Likelihood of confusion

To determine whether use of a mark creates a likelihood of confusion as to affiliation, sponsorship, or source, courts consider the "digits of confusion." *Viacom*, 891 F.3d at 192 (citations omitted). The digits comprise a non-exhaustive list that includes the following seven factors:

> (1) the type of mark allegedly infringed, (2) the similarity between the two marks, (3) the similarity of the products or services, (4) the identity of the retail outlets and purchasers, (5) the identity of the advertising media used, (6) the defendant's intent, and (7) any evidence of actual confusion.

Id. (citations omitted). "No one factor is dispositive, and a finding of a likelihood of confusion does not require a positive finding on a majority of the digits of confusion." *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 194 (5th Cir. 1998). The Fifth Circuit has also, at times, added an eighth factor, "the degree of care exercised by potential purchasers." *Viacom*, 891 F.3d at 192 (citations omitted).

To establish a likelihood of confusion, Nothing Bundt Cakes must show "a probability of confusion, which is more than a mere possibility of confusion." *Elvis Presley*, 141 F.3d at 193. Nothing Bundt Cakes has shown a likelihood of success under this standard.

***6** The first digit analyzes the type of mark allegedly infringed. As discussed, the Nothing Bundt Cakes frosting-pattern mark has acquired secondary meaning. *See supra* III.A.1.(i). Because the mark has acquired secondary meaning, it has acquired distinctiveness. The more distinctive the mark, the more likely it is that consumers will be confused by competing uses of the mark. *Streamline*, 851 F.3d at 454 (citing *Smack Apparel*, 550 F.3d at 479). A mark that has acquired distinctiveness through secondary meaning weighs in favor of finding a likelihood of confusion under the first digit. *See, e.g.*, *Viacom*, 891 F.3d at 193. Thus, the first digit weighs in favor of Nothing Bundt Cakes.

The second digit concerns the similarity between the two marks. "Even if two marks are distinguishable, we ask whether, under the circumstances of use, the marks are similar enough that a reasonable person could believe the two products have a common origin or association." *Viacom*, 891 F.3d at 193 (quoting *Xtreme Lashes, L.L.C. v. Xtended Beauty, Inc*., 576 F.3d 221, 228 (5th Cir. 2009)). Here, the frosting patterns appear to be identical. These identical frosting patterns could cause a reasonable person to believe that Nothing Bundt Cakes' products and Thornton's products have a common origin or association and thus this digit weighs heavily in favor of Nothing Bundt Cakes.

The third digit concerns the similarity of the products or services associated with the marks at issue. Here, Nothing Bundt Cakes and Thornton provide essentially identical services. Both sell primarily Bundt cakes, although, because the Court has not had the opportunity to hear Thornton's response, the Court is unaware of whether Thornton sells *only* Bundt cakes. In general, "[t]he greater the similarity between products and services, the greater the likelihood of confusion." *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 666 (5th Cir. 2000) (quoting *Exxon Corp. v. Tex. Motor Exch. of Hous., Inc.*, 628 F.2d 500, 505 (5th Cir. 1980)). Even if Thornton did offer some products other than Bundt cakes, this is not enough to overcome the similarity of the services and the identical nature of the products which directly compete. *See, e.g.*, *Exxon*, 628 F.2d at 505 (holding that two companies involved in car care had "a strong similarity between their wares and services" even though one sold car parts and the other did not). Thus, this digit also weighs heavily in favor of Nothing Bundt Cakes.

In regard to the fourth digit, Nothing Bundt Cakes' customers are the same as Thornton's, and each party's retail outlets substantially overlap. "The greater the overlap between retail outlets and purchasers, the greater the likelihood of confusion." *Viacom*, 891 F.3d at 194. Here, both parties target customers in the Dallas–Fort Worth area. And while it is unclear whether Thornton has any brick-and-mortar retail outlets, as Nothing Bundt Cakes does, both Thornton and Nothing Bundt Cakes seek online consumers for deliveries of their Bundt cakes. Thus, this digit also weighs in favor of Nothing Bundt Cakes.

As to the fifth digit, the parties both use at least some similar advertising media: social media platforms and websites. "The greater the similarity in the [advertising] campaigns, the greater the likelihood of confusion." *Streamline*, 851 F.3d at 455 (quoting *Exxon*, 628 F.2d at 506). However, this digit is "minimally probative" if there is not advertising beyond a website selling products. *Id.* at 455 (citing *Smack Apparel*, 550 F.3d at 481). This digit therefore weighs only somewhat in Nothing Bundt Cakes' favor.

***7** The sixth digit considers Thornton's intent. Determining intent requires analysis from several angles. Knowledge of the senior user's mark alone does not create intent. *See id.* at 456 (citing *Conan Props., Inc. v. Conans Pizza, Inc.*, 752 F.2d 145, 150 (5th Cir. 1985)). But when there is awareness, courts should look for evidence of whether "the defendant made efforts 'to pass off its product as that of [the plaintiff]' through 'imitation of packaging material' or 'adopting . . . similar distribution methods' " *Id.* (quoting *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252, 263 (5th Cir. 1980)). Courts have found "an intent to confuse when the evidence indicates that the defendant, in choosing its mark, knew about the plaintiff's mark and intended to capitalize on the plaintiff's popularity." *Id.* (citing *Smack Apparel*, 550 F.3d at 481–83). The same has been true when the defendant did not choose the mark with intent to confuse but subsequently used the mark in a way that "evidenced an intent to trade on [the senior user's] reputation." *Id.* (internal quotation marks omitted) (quoting *Westchester Media*, 214 F.3d at 666). Intent alone can determine the likelihood of confusion: "Although not necessary to a finding of likelihood of confusion, a defendant's intent to confuse may alone be sufficient to justify an inference that there is a likelihood of confusion." *Smack Apparel*, 550 F.3d at 481 (citing *Elvis Presley*, 141 F.3d at 203).

Here, again, the Court does not have direct evidence of Thornton's intent. However, for the same reasons articulated above, *supra* III.A.1.(i), the Court finds that the circumstances—Thornton's use of similar business names to sell a similar product—demonstrate a likely intent to use a similar frosting pattern to confuse consumers as to the origin of Thornton's products. Thus, the sixth digit weighs in favor of Nothing Bundt Cakes.

The seventh digit concerns the question of actual confusion. "Evidence that consumers have been actually confused in identifying the defendant's use of a mark as that of the plaintiff may be the best evidence of a likelihood of confusion." *Id.*, at 483 (quotation omitted). In this regard, testimony of a *single* instance of actual confusion caused by a defendant's representations can serve to prove actual confusion. *La. World Exposition v. Logue*, 746 F.2d 1033, 1041 (5th Cir. 1984). To rebut this, a defendant must provide "overwhelming proof" of no actual confusion. *Xtreme Lashes*, 576 F.3d at 230. Here, however, Nothing Bundt Cakes has pointed to no instances of actual confusion, and thus this digit does not weigh in favor of Nothing Bundt Cakes.

The eighth digit addresses the degree of care exercised by potential purchasers of the products at issue. "Where items are relatively inexpensive, a buyer may take less care in selecting the item, thereby increasing the risk of confusion." *Smack Apparel*, 550 F.3d at 483. Because Bundt cakes are relatively inexpensive, the Court concludes that consumers take less care when purchasing them and that this contributes to an increased risk of confusion among consumers between Nothing Bundt Cakes' and Thornton's products. This last digit also, then, weighs in favor of Nothing Bundt Cakes.

Taken together, and without any rebuttal from Thornton, the "digits of confusion" weigh conclusively in favor of Nothing Bundt Cakes. It is clear that the current frosting pattern Thornton uses and advertises creates "an impermissible likelihood of confusion as to source, affiliation, or sponsorship" of Thornton's products in relation to Nothing Bundt Cakes' products. *Viacom*, 891 F.3d at 198. Accordingly, with a protectable interest in an eligible mark and actual confusion, Nothing Bundt Cakes has proven a high likelihood of success on the merits of its infringement claim.

B. Likelihood of irreparable harm

The Fifth Circuit has twice declined to clarify whether a finding of a likelihood of confusion itself creates a presumption of irreparable harm. *See Emerald City Mgmt., L.L.C. v. Kahn*, 624 F.App'x 223, 224 (5th Cir. 2015) (per curiam); *Paulsson Geophysical Servs. v. Sigmar*, 529 F.3d 303, 313 (5th Cir. 2008). To the extent that this presumption applies, the Court presumes Nothing Bundt Cakes will suffer irreparable harm based on the established likelihood of confusion occurring among consumers and the public.

***8** However, even if the presumption does not apply, irreparable harm has been shown in this case. "The absence of an available remedy by which the movant can later recover monetary damages may be sufficient to show irreparable injury." *Emerald City*, 624 F.App'x at 224 (citing *Paulsson*, 529 F.3d at 312). "Grounds for irreparable injury include loss of control of reputation, loss of trade, and loss of goodwill." *Id.* (quoting *Kos Pharm., Inc. v. Andrx Corp.*, 369 F.3d 700, 726 (3d Cir. 2004)).

Nothing Bundt Cakes has shown that it has experienced a loss of control of reputation and a loss of goodwill. To show that it has lost control of its reputation, Nothing Bundt Cakes does not have to prove that Thornton is offering inferior services, only that there is the possibility that the services or goods are not to the satisfaction of Nothing Bundt Cakes. *Paulsson*, 529 F.3d at 313. The evidence confirms that Nothing Bundt Cakes has developed goodwill in at least the Dallas– Fort Worth community, that Thornton is operating in that same community, and that Nothing Bundt Cakes has no control over the goods and services offered by Thornton. Thus, Nothing Bundt Cakes has shown that it has lost control of its reputation and affiliated goodwill. Based on such evidence, Nothing Bundt Cakes has met its burden of demonstrating irreparable harm resulting from Thornton's actions. **C. Balance of equities**

The balance of equities also favors Nothing Bundt Cakes. Although Thornton may incur some cost by having to replace online advertisements or marketing photographs containing depictions of cakes with Nothing Bundt Cakes' trademarked frosting pattern, any such costs would be minimal. Likewise, there is no reason to believe that requiring Thornton to cease using a likely infringing frosting pattern and begin using a non-infringing one would impose any substantial costs on Thornton. Thornton will still be permitted to make, advertise, and sell frosted Bundt cakes. Thus, the harm to Nothing Bundt Cakes resulting from Thornton's use of her likely infringing frosting pattern outweighs any minimal costs that may be imposed on Thornton by terminating her use of the frosting pattern. The burden of losing control of its mark, the loss of customers, and the harm to Nothing Bundt Cakes' reputation and goodwill are greater than the cost to Thornton, who has failed to identify any cost not created by her own likely infringing activities.

Even if Thornton were to suffer some lost profits by switching frosting patterns, "[w]here the only hardship that the defendant will suffer is lost profits from an activity which has been shown likely to be infringing, such an argument in defense merits little equitable consideration." *Lakedreams v. Taylor*, 932 F.2d 1103, 1109 n.12 (5th Cir. 1991). Likewise, "[a]ny acts after receiving a cease-and-desist letter are at the defendant's own risk because it is on notice of the plaintiff's objection to such acts." *Elvis Presley,* 141 F.3d at 205. Nothing Bundt Cakes has sent Thornton a cease-and-desist letter and has served Thornton with its complaint in this case, yet Thornton continues to sell Bundt cakes with the likely infringing frosting pattern. Thus, Thornton has deliberately accepted the risk of harm when she decided to use the confusingly similar frosting pattern at issue in this case and when she continued to use that frosting pattern following her receipt of Nothing Bundt Cakes' cease-and-desist letter and following service of Nothing Bundt Cakes' complaint in this action.

***9** Nothing Bundt Cakes has shown demonstrable harm as a result of Thornton's likely infringement, including loss of control of its reputation and loss of goodwill. Any speculative harm that would be incurred by Thornton merits little consideration, especially given her failure to appear in this case or at the preliminary-injunction hearing. The balance of equities, therefore, weighs in favor of issuing a preliminary injunction.

D. Public interest

A plaintiff must show that the requested preliminary injunction will not disserve the public interest. "The public interest is always served by requiring compliance with Congressional statutes such as the Lanham Act and by enjoining the use of infringing marks." *Sparrow Barns & Events, LLC v. Ruth Farm Inc.*, No. 4:19-CV-00067, 2019 WL 1560442, at *10 (E.D. Tex. Apr. 10, 2019) (citing *T-Mobile US, Inc. v. AIO Wireless LLC.*, 991 F.Supp.2d 888, 929 (S.D. Tex. 2014)); *see also Paulsson*, 529 F.3d at 313 (affirming that enjoining an infringing user serves the public interest). Because Nothing Bundt Cakes has met its burden to show a likelihood of success on the merits concerning its infringement claim against Thornton, it has also shown that a preliminary injunction will serve the public interest.

* * *

For the foregoing reasons, the Court holds that a preliminary injunction is warranted. Thornton is, therefore, prohibited from using Nothing Bundt Cakes' frosting-pattern mark and all confusingly similar variations of the foregoing, either by itself or with any other designs, in any form of interstate commerce related to the food and beverage industry. Further, Thornton must remove from commerce any advertisement or offer for sale in commerce of its services or products displaying the Nothing Bundt Cakes frosting-pattern mark as well as all confusingly similar variations of the foregoing, either by itself or with any other designs, including but not limited to Thornton's website and social media.

IV. CONCLUSION

It is therefore **ORDERED** that Nothing Bundt Cake's Motion for Preliminary Injunction, (Dkt. #2), is hereby **GRANTED** in accordance with the following:

Pursuant to Federal Rule of Civil Procedure 65, Thornton, as well as all those in active concert or participation with Thornton, is **ENJOINED** from using Nothing Bundt Cakes' frosting-pattern mark, shown below—

U.S. Reg. No. First Use Date Reg. Date Mark 3,526,479 10/15/1998 11/4/2008

Editor's Note: Tabular or graphical material not displayable at this time.

—and from using all confusingly similar variations of the foregoing, either by itself or with any other designs, in any form of interstate commerce related to the food and beverage industry. In particular, Thornton is enjoined from using the mark:

a. To decorate any Bundt cakes sold in retail or wholesale;

b. In any signage she uses for any physical retail facility in Texas;

c. In any advertising or promotional materials through Facebook or her website at anythingbundtcakes.com, allaboutbundtcakes.com, or through any other internet domain name or any other form of social or print media; and

d. In any flyers, brochures, publications, or other related materials.

It is further **ORDERED** that, Pursuant to Federal Rule of Civil Procedure 65(c), Nothing Bundt Cakes shall post a bond in the amount of **$1,000.00**, by depositing this amount with the Clerk of the Court within **three business days** of this order.

It is further **ORDERED** that, because Thornton has been served with the complaint and summons in this case but has not yet made an appearance, Nothing Bundt Cakes shall provide a copy of this order to Thornton within **three business days** of this order.

***10** It is further **ORDERED** that Nothing Bundt Cakes' Motion to Expedite Discovery and for Briefing and Hearing Schedule, (Dkt. #4), is hereby **DENIED as moot**.

All Citations

Slip Copy, 2021 WL 674238

Footnotes

1 Despite Nothing Bundt Cakes' effecting service on Thornton and Thornton's receiving emails from both Nothing Bundt Cakes' counsel and the Court regarding the impending preliminary-injunction hearing, Thornton did not appear at the preliminary- injunction hearing—nor has she otherwise appeared in this case. In fact, Thornton responded to the Court's emails and requested call-in information to attend the hearing virtually, which the Court provided. However, Thornton failed to appear, telephonically or otherwise, at the preliminary-injunction hearing.

Thus, the Court concludes that Thornton received adequate notice of the complaint, the hearing, and the issues on which the injunction was sought against her and that she had an opportunity to present her case and rebut Nothing Bundt Cakes' arguments but chose not to. *See Tisino v. R&R Consulting & Coordinating Grp., L.L.C.*, 478 F.App'x 183, 185 (5th Cir. 2012) (per curiam) ("We have recognized that 'Rule 65(a) does not specify the particular type of notice required in order properly to bring defendants in an injunction proceeding before the trial court…and that '[t]he form of notice is a matter for the trial court's discretion." (alterations in original) (first quoting *Plaquemines Par. Sch. Bd. v. United States*, 415 F.2d 817, 824 (5th Cir. 1969) then quoting *In re Lease Oil Antitrust Litig. (No. II)*, 200 F.3d 317, 319 (5th Cir. 2000)); *Marshall Durbin Farms, Inc. v. Nat'l Farmers Org.*, 446 F.2d 353, 356 (5th Cir. 1971) ("[T]he requirements of a fair notice hearing include notice of the claims of the opposing party and an opportunity to meet them." (quotations omitted)).

2 "Except as expressly excluded in subsections (a), (b), (c), (d), (e)(3), and (e)(5) of this section, nothing in this chapter shall prevent the registration of a mark used by the applicant which has become distinctive of the applicant's goods in commerce."

End of Document

NIKE INNOVATE

2021 WL 679013 (UDRP-ARB Dec.)

NIKE INNOVATE C.V. v. CONTACT PRIVACY, INC. CUSTOMER 1243971962/LADINU

WIPO Arbitration and Mediation Center

ADMINISTRATIVE PANEL DECISION

NIKE INNOVATE C.V. v. CONTACT PRIVACY, INC. CUSTOMER 1243971962/LADINU

Case No. D2020-3067

***1** Doman Name: nike.dev

Industry: Prepackaged Software

Telephone Communications, Except Radiotelephone

Case Type: Domain Name

Award Amount: Equitable

***6 Award Date: February 16, 2021**

Arbitrator: Robert A. Badgley

1. The Parties

Complainant is Nike Innovate C.V., United States of America ('United States'), represented by Stobbs IP Limited, United Kingdom.

Respondent is Contact Privacy, Inc. Customer 1243971962, Canada/Ladinu, United States.

2. The Domain Name and Registrar

The disputed domain name ‹nike.dev› (the 'Domain Name') is registered with Google LLC (the 'Registrar').

3. Procedural History

The Complaint was filed with the WIPO Arbitration and Mediation Center (the 'Center') on November 17, 2020. On November 17, 2020, the Center transmitted by email to the Registrar a request for registrar verification in connection with the Domain Name. On November 17, 2020, the Registrar transmitted by email to the Center its verification response disclosing registrant and contact information for the Domain Name, which differed from the named Respondent and contact information in the Complaint. The Center sent an email communication to Complainant on November 23, 2020, providing the registrant and contact information disclosed by the Registrar, and inviting Complainant to submit an amendment to the Complaint. Complainant filed an amended Complaint on November 23, 2020.

The Center verified that the Complaint together with the amended Complaint satisfied the formal requirements of the Uniform Domain Name Dispute Resolution Policy (the 'Policy' or 'UDRP'), the Rules for Uniform Domain Name Dispute Resolution Policy (the 'Rules'), and the WIPO Supplemental Rules for Uniform Domain Name Dispute Resolution Policy (the 'Supplemental Rules').

On December 7, 2020, Respondent submitted a formal response during the pre-commencement state of the proceedings, claiming among other things that he registered the Domain Name in reference to the Greek goddess of the victory, for his personal projects.

In accordance with the Rules, paragraphs 2 and 4, the Center formally notified Respondent of the Complaint, and the proceedings commenced on January 5, 2021. In accordance with the Rules, paragraph 5, the due date for Response was January 25, 2021. Respondent did not submit any response. Accordingly, the Center notified Respondent's default on January 26, 2021.

The Center appointed Robert A. Badgley as the sole panelist in this matter on February 2, 2021. The Panel finds that it was properly constituted. The Panel has submitted the Statement of Acceptance and Declaration of Impartiality and Independence, as required by the Center to ensure compliance with the Rules, paragraph 7.

4. Factual Background

Complainant's NIKE brand is world famous in connection with athletic footwear, sports gear, sports equipment, clothing, and related items. The NIKE mark is registered in jurisdictions throughout the world. As set forth at length in the Complaint and accompanying annexes, the NIKE brand is one of the most valuable brands in the world. Numerous panels in previous UDRP cases have correctly recognized the fame of the NIKE mark.

***2** The Domain Name was registered on February 23, 2019. The Domain Name resolves to a largely undeveloped website, which features a photo of a statue of Nike, described as 'Goddess of victory.' Below the photo of Nike is the following text:

'[...] DISCLAIMER

This site nike.dev is in no way associated with the NIKE brand

NIKE

Peer0 of my WireGuard vpn. Contact Me

OTHER PEERS (HOPEFULLY):

- bia.dev-- zelus.dev/zelos.dev-- kratos.dev

This project is maintained by ladinu'

The disclaimer was added to Respondent's website on November 29, 2020, a few days after the Complaint was filed in this proceeding.

5. Parties' Contentions

A. Complainant

Complainant asserts that it has satisfied all three elements required under the Policy for a transfer of the Domain Name. Complainant argues that 'the combination of Complainant's NIKE brand and then .dev gTLD creates the false impression that the domain name is being used by the Respondent for the sale of genuine and authorised products bearing the Complainant's NIKE brand, or is being used to promote the development of future products under the Complainant's NIKE brand.'

Complainant argues further that, given the longstanding fame of the NIKE mark, 'there is no believable or realistic reason for the registration or use of the disputed domain name other than to take advantage of the Complainant's rights.' Complainant also notes that Respondent's registration information was 'hidden behind a proxy service.'

Finally, Complainant cites the 'passive holding' doctrine first articulated in *Telstra Corporation Limited v. Nuclear Marshmallows*, WIPO Case No. D2000-0003.

B. Respondent

As noted above, Respondent sent an email to the Center on December 7, 2020 at the pre-commencement stage of the proceedings, but otherwise did not respond to Complainant's allegations. Respondent's December 7, 2020 submission states in relevant part:

'I, the respondent, registered this domain for personal use of my Wireguard VPN tunnel and other personal projects. I have registered several domains in the name of Greek gods and goddesses that I use for my personal projects as easy-to-remember names. These include bia.dev (which I run my email server), kratos.dev, zelos.dev and nike.dev. Nike is the Greek goddess of victory. As stated on the website of nike.dev, I intend to use nike.dev as '*peer0 of my WireGuard vpn*.

The complainant makes the argument that since nike.dev contains little or no content it is similar to no website appearing at all and '*bad faith*' can be found when no website appears at the domain name. This is a ridiculous argument. Purpose of a domain name can be many things. For my Wireguard vpn tunnel, the content of the website does not matter at all. The domain simply acts as an easy-to-remember name which resolves to a server that is responding to Wireguard VPN client. Whatever the domain displays a website is not relevant.

***3** The complainant also suggests '*bad faith*' can be found since my name is concealed through a proxy service. I believe my registrar concealed my information by default tom protect me against spam emails. There is a 'Contact Me' link displayed on the website of nike.dev which allows anyone to contact me in a safe manner. [...]

I did not register nike.dev for the purpose of selling, renting or transferring the domain name to the Complainant or any sort of gain. I registered the domain for personal use. [...]

Complainant indeed has the rights to the NIKE brand and trademark. However, I registered nike.dev in honor of the goddess of victory from Greek mythology. In Greek mythology Nike is the daughter of god Titan and goddess Styx. Nike is the sister of Kratos, Bia, and Zelos. I have other domains to honor these mythological figures. From the Sanskrit language '*deva*' has the meaning of divine and heavenly. I perceive the .dev TLD (Top Level Domain) as an abbreviation of '*deva*'. To me, nike.dev literally means victory god.

[...] I started using nike.dev around February 25, 2019, well before the complainant's notification of dispute. You can see the public record of website edits here: [...]'

6. Discussion and Findings

Paragraph 4(a) of the Policy lists the three elements which Complainant must satisfy with respect to the Domain Name:

(i) the Domain Name is identical or confusingly similar to a trademark or service mark in which Complainant has rights; and (ii) Respondent has no rights or legitimate interests in respect of the Domain Name; and (iii) the Domain Name has been registered and is being used in bad faith.

A. Identical or Confusingly Similar

The Panel concludes that Complainant has rights in the famous trademark NIKE through widespread registration and use demonstrated in the record. The Panel also concludes that the Domain Name is identical to that mark.

Complainant has established Policy paragraph 4(a)(i).

B. Rights or Legitimate Interests

Pursuant to paragraph 4(c) of the Policy, Respondent may establish its rights or legitimate interests in the Domain Name, among other circumstances, by showing any of the following elements:

(i) before any notice to you [Respondent] of the dispute, your use of, or demonstrable preparations to use, the Domain Name or a name corresponding to the Domain Name in connection with a *bona fide* offering of goods or services; or

(ii) you [Respondent] (as an individual, business, or other organization) have been commonly known by the Domain Name, even if you have acquired no trademark or service mark rights; or

(iii) you [Respondent] are making a legitimate noncommercial or fair use of the Domain Name, without intent for commercial gain to misleadingly divert consumers or to tarnish the trademark or service mark at issue.

In view of the Panel's decision below on the 'bad faith' element, the Panel need not decide whether Respondent lacks rights or legitimate interests in respect of the Domain Name.

***4 C. Registered or Used in Bad Faith**

Paragraph 4(b) of the Policy provides that the following circumstances, 'in particular but without limitation,' are evidence of the registration and use of the Domain Name in 'bad faith':

(i) circumstances indicating that Respondent has registered or has acquired the Domain Name primarily for the purpose of selling, renting, or otherwise transferring the Domain Name registration to Complainant who is the owner of the trademark or service mark or to a competitor of that Complainant, for valuable consideration in excess of its documented out of pocket costs directly related to the Domain Name; or

(ii) that Respondent has registered the Domain Name in order to prevent the owner of the trademark or service mark from reflecting the mark in a corresponding domain name, provided that Respondent has engaged in a pattern of such conduct; or

(iii) that Respondent has registered the Domain Name primarily for the purpose of disrupting the business of a competitor; or

(iv) that by using the Domain Name, Respondent has intentionally attempted to attract, for commercial gain, Internet users to Respondent's website or other online location, by creating a likelihood of confusion with Complainant's mark as to the source, sponsorship, affiliation, or endorsement of Respondent's website or location or of a product or service on Respondent's website or location.

The Panel concludes, based on the fairly limited factual record here, that Complainant has not carried its burden to prove that Respondent registered and has used the Domain Name in bad faith. The allocation of the burden of proof is ultimately the critical factor here, as the Panel finds this a close case. Respondent lays out a simple explanation for his motivation vis-à-vis the Domain Name. It is not abundantly supported, and some aspects of Respondent's account (*e.g.*, that he views the '.dev' gTLD to mean 'deva' or 'divine') are somewhat dubious. Even so, Respondent presents a fairly cogent explanation, and asserts quite rightly that in appropriate circumstances a domain name may be put to personal use, even if it resembles a well-known trademark.

It also bears noting that, as far as the record indicates, in two years Respondent has never offered to sell the Domain Name to Complainant or anyone else, and his website does not indicate that the Domain Name is for sale.

On the record presented here, the Panel simply cannot make the leap that Complainant urges, essentially on the sheer strength of its famous trademark. The Panel, weighing the record and the Parties' submissions, does not perceive a sufficient basis on which to disbelieve Respondent's claim that his purposes are entirely personal and noncommercial.

In *Philip Morris USA Inc. v. Borut Bezjak, A Domains Limited*, WIPO Case No. D2015-1128, the UDRP panel denied a complaint involving the domain name ‹ marlboro.party›, despite the clear fame of the complainant's MARLBORO trademark. On the issue of bad faith, the panel observed:

***5** 'Having reviewed the contentions of the Parties and the evidence in the case file as well as the content of the website at the disputed domain name, the Panel is not satisfied that these sources of information contain conclusive evidence showing that the Respondent has specifically targeted the Complainant's MARLBORO trademark when choosing and registering the disputed domain name and when setting up the associated website. The MARLBORO trademark is well known for tobacco products, but there are also a number of geographic locations named Marlboro in the United States and elsewhere, and the disputed domain name appears to be one of the hundreds of domain names of the Respondent that contain geographic names and that are linked to websites similar to the website at the disputed domain name. These domain names were registered and their websites were activated prior to the present dispute. While the Panel finds the Respondent's various assertions among its submissions in this proceeding create a scattered and opportunistic impression, that does not imply that the Respondent was targeting the Complainant on one domain name among the many registered of a consistent different type. At first glance, it also appears to the Panel that these other domain names do not incorporate other famous trademarks.

As discussed in relation to the issue of rights and legitimate interests, the website at the disputed domain name is not filled with original content about any specific geographic location, but it does not significantly refer to, offer or promote tobacco products either. Indeed, there is a single photo in its 'Gallery' section taken from Flickr that depicts a smashed pack of Marlboro cigarettes. Also, as contended by the Complainant, the metatags of the website at the disputed domain name refer to various locations called 'Marlboro'; the Complainant does not contend that these metatags refer to tobacco products or to the Complainant and its Marlboro cigarettes.

As stated previously, the Panel is cognizant that a large-scale domain registration operation such as presently considered may be used to mask or legitimize domain name registrations undertaken for bad faith purposes--such as to capitalize on the value of a well-known trademark. Furthermore, the Panel considers that registrants engaged in automated bulk transfer or registration of domain names have some level of responsibility to ensure that their algorithms and procedures avoid the selection and use of domain names based on their trademark value. In light of the evidence available to the Panel, several indicia exist which support the Respondent's asserted plans for the registration of geographically-related domain names, with nothing besides incidental commercial activity and occasional and neutral references to the Complainant for this Panel to weigh in opposition.

In view of the above, the Panel finds that the Complainant has not met its burden of proof to establish that it is more likely than not that the Respondent has registered and used the disputed domain name in bad faith by targeting the Complainant's MARLBORO trademark and attempting to extract profit from its popularity. The Panel notes that this finding is made only within the narrow scope of the Policy, and is without prejudice to any findings that a competent court may make using all procedural means for collection of evidence at its disposal, taking account of the future conduct of the Respondent, notably the incorporation of trademark-related commercial content relevant to this dispute, or efforts to sell the disputed domain name at a price apparently inconsistent with the plans asserted here by the Respondent. Future respondent conduct may also be relevant in the context of UDRP refiling principles.'

The *Philip Morris* decision *supra* is not factually on all fours with the instant case, but there are some important parallels, including the shared observation that future conduct by the respondent may prove relevant to a possible UDRP refiling. Another important lesson is that a famous trademark, such as MARLBORO or NIKE (or APPLE) which are also dictionary terms, does not necessarily give its owner the right to recover any and all domain names which contain the famous mark and nothing more. It also bears noting that the respondent in the *Philip Morris* case *supra* was using the disputed domain name for 'incidental commercial' gain, which does not appear to be the case here.

In the instant case, the record lacks any hard evidence that Respondent targeted Complainant's admittedly world-famous NIKE trademark when registering the Domain Name. As noted above, within days of registering the Domain Name, Respondent registered three other domain names which also correspond to Greek deities (‹bia.dev›, ‹zelos.dev›, and ‹kratos.dev› and at least the former seems to be set up under an 'NGINX' server) who were siblings of Nike. Respondent claims to have registered the Domain Name (and the other domain names) 'to have a personal Wireguard vpn cluster,' and that his first use in this vein occurred within a few days of his registration of the Domain Name. Respondent asserts further that he will never use the Domain Name for commercial use, but only for personal use. The record is devoid of any evidence to the contrary.

As such, despite the obvious fame of Complainant's NIKE trademark, the Panel can find no basis in the record upon which to conclude, on a balance of probabilities, that Respondent registered or has used the Domain Name in bad faith. The burden of proof rests with Complainant, and in these circumstances, the sheer strength of its NIKE trademark has not carried the day. Again, as was observed in the *Philip Morris* decision *supra* quoted above, Respondent's future conduct vis-à-vis the Domain Name might prove relevant to a potential future refiling under the Policy.

Complainant has not established Policy paragraph 4(a)(iii).

7. Decision

For the foregoing reasons, the Complaint is denied.

Date: February 16, 2021

Arbitrator: Robert A. Badgley

Sole Panelist

2021 WL 679013 (UDRP-ARB Dec.)

STATE AUTO

2021 WL 372854 (N.D.Ill.) (Trial Pleading)

United States District Court, N.D. Illinois.

Eastern Division

STATE AUTO PROPERTY AND CASUALTY INSURANCE COMPANY, Plaintiff,

v.

POWER PLAY DISTRIBUTORS, LLC an Illinois limited liability company, and Michael Rosati and William Rosati, each individually and derivatively on behalf of Rosati's Franchise Systems, Inc., Defendants.

No. 1:21-cv-00559.

February 1, 2021.

Complaint for Declaratory Judgment

Robert Marc Chemers, Bar No. 0431508, Pretzel & Stouffer, Chartered, One South Wacker Drive, Suite 2500, Chicago, Illinois 60606, Telephone: (312) 578-7548, Fax: (312) 346-8242, E-Mail: rchemers@pretzel-stouffer.com.

Now comes the Plaintiff, State Auto Property and Casualty Insurance Company, by its attorney, Robert Marc Chemers of Pretzel & Stouffer, Chartered, and for its Complaint for Declaratory Judgment against the Defendants, Power Play Distributors, LLC, an Illinois limited liability company, and Michael Rosati and William Rosati, each individually and derivatively on behalf of Rosati's Franchise Systems, Inc., alleges the following:

Jurisdiction

1. The jurisdiction of this Court is premised upon 28 U.S.C. 1332 because there is complete diversity of citizenship between the parties and the amount in controversy exceeds the sum of $75,000, exclusive of interest and costs, in this action seeking a declaration of no insurance coverage.

Venue

2. Venue is premised upon 28 U.S.C. 1391(b)(2) as certain of the Defendants are residents of this District.

The Parties

3. State Auto Property and Casualty Insurance Company ("State Auto") is an Iowa insurance corporation, which maintains its principal place of business in Columbus, Ohio, and which at all times herein relevant was licensed to and which did transact insurance business in the State of Illinois and elsewhere.

4. Power Play Distributors, LLC ("Power Play") is an Illinois limited liability company with its principal place of business in Woodridge, Illinois. The managers of Power Play include Jay Williams, a resident and citizen of the State of Illinois, and Lumajo DSD, LLC, an Illinois limited liability company, whose managers include Marilyn Carlson and Lucretia Costello, each of whom is a resident and citizen of the State of Illinois.

5. Michael Rosati and William Rosati ("the Claimants") are the plaintiffs against Power Play and others in an action pending in another Court, which action will be more fully described herein. The Claimants have been joined herein as Defendants to the extent that each or both is interested, and in order to be bound by the judgment to be entered in this action, and no specific relief is sought against the Claimants. If the Claimants have no interest in the issues raised herein, State Auto will seek to voluntarily dismiss them from this action. The Claimants are each residents and citizens of the State of Illinois.

The State AutoPolicies

6. State Auto issued its policy of insurance numbered PBP2883688-00 to Power Play as named insured. The policy provided for Commercial General Liability Insurance for the effective period of December 31, 2019 to December 31, 2020. A certified true and correct copy of the State Auto primary policy is attached hereto, made a part hereof and is marked as Pleading Exhibit A.

7. The policy State Auto issued to Power Play also provided for Commercial Umbrella Liability Insurance for the effective period of December 31, 2019 to December 31, 2020 and is a part of Pleading Exhibit A attached hereto.

The Underlying Litigation

8. The Claimants have filed a Complaint against Power Play and others in the United States District Court for the Northern District of Illinois, Eastern Division, under Cause No. 2020 C 7762. A true and correct copy of the aforesaid Complaint is attached hereto, made a part hereof and is marked as Pleading Exhibit B.

9. The Claimants seek damages from Power Play for its alleged trademark infringement, trademark dilution, trademark counterfeiting and statutory unfair competition, all of which more fully appears in the Claimants' Complaint, Pleading Exhibit B, attached hereto.

10. The Claimants allege that they are members of the Rosati family and are shareholders and directors of Rosati Family Systems, Inc. ("RFSI") which entity maintains trademarks associated with Rosati's Pizza Restaurants. The Claimants allege that Power Play and others, Anthony Rosati and David Rosati, who are also members of the Rosati family and shareholders and directors of RFSI, manufactured, distributed and sold frozen pizzas under Rosati's marks without license or authority to use the Claimants' marks on frozen pizzas, all of which more fully appears in the Complaint, Pleading Exhibit B attached hereto.

11. The Claimants allege that in 2020 Power Play and Anthony Rosati and David Rosati began to sell frozen pizzas in boxes under the Rosati's marks in Illinois grocery stores. The Claimants allege that Power Play's conduct was willful and with the intent to trade on the good will and brand recognition associated with the marks for the allegedly fresh, high quality pizzas prepared and served at Rosati's Pizza Restaurants as Power Play's pizzas are inferior, pre-packaged frozen pizzas, all of which is more fully alleged in Pleading Exhibit B.

Provisions Of The State Auto Primary Policy

12. The State Auto primary policy provides in the Insuring Agreement for "bodily injury" and "property damage" as follows:

COVERAGE A BODILY INJURY AND PROPERTY DAMAGE LIABLITY

1. Insuring Agreement

a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "bodily injury" or "property damage" to which this insurance applies. We will have the right and duty to defend the insured against any "suit" seeking those damages for "bodily injury" or "property damage" to which this insurance does not apply. We may, at our discretion, investigate any "occurrence" and settle any claim or "suit" that may result. But:

(1) The amount we will pay for damages is limited as described in Section **III** - Limits Of Insurance; and

(2) Our right and duty to defend ends when we have used up the applicable limit of insurance in the payment of judgments or settlements under Coverages **A** or **B** or medical expenses under Coverage **C**.

No other obligation or liability to pay sums or perform acts or services is covered unless explicitly provided for under Supplementary Payments - Coverages **A** and **B**.

b. This insurance applies to "bodily injury" and "property damage" only if:

(1) The "bodily injury" or "property damage" is caused by an "occurrence" that takes place in the "coverage territory";

(2) The "bodily injury" or "property damage" occurs during the policy period; and

(3) Prior to the policy period, no insured listed under Paragraph **1**. of Section **II** - Who Is An Insured and no "employee" authorized by you to give or receive notice of an "occurrence" or claim, knew that the "bodily injury" or "property damage" had occurred, in whole or in part. If such a listed insured or authorized "employee" knew, prior to the policy period, that the "bodily injury" or "property damage" occurred, then any continuation, change or resumption of such "bodily injury" or "property damage" during or after the policy period will be deemed to have been known prior to the policy period.

13. The State Auto primary policy provides in the Insuring Agreement for "personal and advertising injury" as follows:

COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY

1. Insuring Agreement

a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which this insurance applies. We will have the right and duty to defend the insured against any "suit" seeking those damages. However, we will have no duty to defend the insured against any "suit" seeking damages for "personal and advertising injury" to which this insurance does not apply. We may, at our discretion, investigate any offense and settle any claim or "suit" that may result. But:

(1) The amount we will pay for damages is limited as described in Section III - Limits Of Insurance; and

(2) Our right and duty to defend end when we have used up the applicable limit of insurance in the payment of judgments or settlements under Coverages **A** or **B** or medical expenses under Coverage **C**.

No other obligation or liability to pay sums or perform acts or services is covered unless explicitly provided for under Supplementary Payments - Coverages **A** and **B**.

b. This insurance applies to "personal and advertising injury" caused by an offense arising out of your business by only if the offense was committed in the "coverage territory" during the policy period.

14. The State Auto primary policy contains various exclusions which are applicable to the claims of the Claimants which provide, as follows:

This insurance does not apply to:

a. Knowing Violation Of Rights Of Another

"Personal and advertising injury" caused by or at the direction of the insured with the knowledge that the act would violate the rights of another and would inflict "personal and advertising injury".

b. Material Published With Knowledge Of Falsity

"Personal and advertising injury" arising out of oral or written publication of material, if done by or at the direction of the insured with knowledge of its falsity.

*****

i. Infringement Of Copyright, Patent, Trademark Or Trade Secret

"Personal and advertising injury" arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights.

However, this exclusion does not apply to infringement, in your "advertisement", of copyright, trade dress or slogan.

*****

l. Unauthorized Use Of Another's Name Or Product

"Personal and advertising injury" arising out of the unauthorized use of another's name or product in your e-mail address, domain name or metatag, or any other similar tactics to mislead another's potential customers.

15. The State Auto primary policy defines certain terms used in the Insuring Agreements set forth in ¶¶ 12 and 13 hereof as follows:

1. "Advertisement" means a notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters. For the purposes of this definition:

a. Notices that are published include material placed on the Internet or on similar electronic means of communication; and

b. Regarding web-sites, only that part of a web-site that is about your goods, products or services for the purposes of attracting customers or supporters is considered an advertisement;

*****

3. "Bodily injury" means bodily injury, sickness or disease sustained by a person, including death resulting from any of these at any time.

*****

13. "Occurrence" means an accident, including continuous or repeated exposure to substantially the same general harmful conditions.

14. "Personal and advertising injury" means injury, including consequential "bodily injury," arising out of one or more of the following offenses:

a. False arrest, detention or imprisonment;

b. Malicious prosecution;

c. The wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling or premises that a person occupies, committed by or on behalf of its owner, landlord or lessor;

d. Oral or written publication, in any manner, of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;

e. Oral or written publication, in any manner, of material that violates a person's right of privacy;

f. The use of another's advertising idea in your "advertisement"; or

g. Infringing upon another's copyright, trade dress or slogan in your "advertisement".

*****

17. "Property damage" means:

a. Physical injury to tangible property, including all resulting loss of use of that property. All such loss of use shall be deemed to occur at the time of the physical injury that caused it; or

b. Loss of use of tangible property that is not physically injured. All such loss of use shall be deemed to occur at the time of the "occurrence" that caused it.

For the purposes of this insurance, electronic data is not tangible property.

As used in this definition, electronic data means information, facts or programs stored as or on, created or used on, or transmitted to or from computer software, including systems and applications software, hard or floppy disks, CD-ROMS, tapes, drives, cells, data processing devices or any other media which are used with electronically controlled equipment.

Provisions Of The State Auto Umbrella Policy

16. The State Auto umbrella policy provides in the Insuring Agreements for "bodily injury" and "property damage" as follows:

(3) We have a right and duty to defend the insured against any "suits" to which this insurance applies:

(a) But which are not covered by any "underlying insurance" shown in the Declarations or by any other primary policies that may apply; or

(b) If the applicable limit of "underlying insurance" is exhausted.

However, we will have no duty to defend the insured against any "suits" seeking damages for "bodily injury" or "property damage" to which this insurance does not apply;

The State Auto umbrella policy provides a similar Insuring Agreement for "personal and advertising injury."

17. The State Auto umbrella policy contains various exclusions which are applicable to the claims of the Claimants which provide, in Exclusions a.(1), (2), (9), and (12), as follows:

2. Exclusions

This insurance does not apply to:

a. "Personal and advertising injury"

(1) Knowing Violation Of Rights Of Another

Caused by or at the direction of the insured with the knowledge that the act would violate the rights of another and would inflict "personal and advertising injury;"

(2) Material Published With Knowledge of Its Falsity

Arising out of oral or written publication of material if done by or at the direction of the insured with knowledge of its falsity.

*****

(9) Infringement Of Copyright, Patent, Trademark Or Trade Secret

Arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights.

However, this exclusion does not apply to infringement, in your "advertisement," of copyright, trade dress or slogan.

*****

(12) Unauthorized Use Of Another's Name Or Product

Arising out of the unauthorized use of another's name or product in your e-mail address, domain name or metatag, or any other similar tactics to mislead another's potential customers.

18. The State Auto umbrella policy defines the terms "bodily injury," "property damage," "personal and advertising injury," "advertisement," and "occurrence" in a manner similar to the State Auto primary policy set forth in ¶ 15.

Tender Of Defense

19. Power Play tendered its defense to State Auto, and State Auto did not accept that tender for the reasons stated herein.

COUNT I

(Declaratory Judgment Re: No Duty ToDefend Primary Policy)

20. State Auto adopts and repeats the allegations of ¶¶ 1 through 15 and ¶ 19 as and for ¶ 20 hereof as though the same were fully set forth herein.

21. While the State Auto primary policy, Pleading Exhibit A, extends coverage to an insured for "bodily injury," "property damage," and "personal and advertising injury," as defined therein, the claims in the underlying action by the Claimants are not covered by the primary policy of insurance.

22. State Auto contends that it has no duty or obligation to defend Power Play in connection with the claims made against it by the Claimants for one or more or all of the following reasons:

(a) That the Complaint does not allege "bodily injury" as defined by the policy of insurance.

(b) That the Complaint does not allege "property damage" as defined by the policy of insurance.

(c) That the Complaint does not allege "personal and advertising injury" as defined by the policy of insurance as the Complaint does not allege that Power Play published an advertisement which disparaged the Claimants' goods or products, and the Complaint does not allege that Power Play used any advertisement idea of the Claimants in any advertisement, and the Complaint does not allege that Power Play's alleged marketing and selling of its frozen pizzas involved any of the Claimants' copyrights, trade dress or slogans.

(d) That the Complaint does not allege an "occurrence" as defined by the policy of insurance.

(e) That the Complaint seeks damages arising out of trademark infringement, dilution and counterfeiting and trademark infringement is excluded from coverage.

(f) That to the extent that the Complaint seeks damages for "personal and advertising injury" then it is excluded as Power Play's conduct was such that any "personal and advertising injury" was caused by or at the direction of Power Play with the knowledge that it would violate the rights of another and would inflict "personal and advertising injury" under the policy as it was not authorized to use Rosati's marks on its pre-packaged frozen pizzas.

(g) That to the extent that the Complaint seeks damages for "personal and advertising injury" arising out of the unauthorized use of the Claimants' name in order to mislead the Claimants' potential customers such conduct is excluded.

(h) That the Complaint seeks injunctive relief in connection with Power Play's conduct which does not involve an enumerated offense under "personal and advertising injury" as defined by the policy of insurance.

23. The above contentions of State Auto are, on information and belief, denied by Power Play which, in turn, contends that it is entitled to coverage under the State Auto primary policy of insurance. State Auto, in turn, denies, the contrary contentions of Power Play and each of them.

24. By reason of the foregoing, an actual and justiciable controversy exists between the parties and each of them, which may be determined by a judgment or order of this Court. Pursuant to the terms and provisions of 28 U.S.C. 2201 and 2202, this Court has the power to declare and adjudicate the rights and liabilities of the parties hereto under the terms and provisions of the policy of insurance referred to herein, and to adjudicate the final rights of all parties and to give such other and further relief as may be necessary to enforce the same.

COUNT II

(Declaratory Judgment Re:No Duty To Defend Umbrella Policy)

25. State Auto adopts and repeats the allegations of ¶¶ 1 through 11 and ¶¶ 16 through 19 as and for ¶ 25 hereof as though the same were fully set forth herein.

26. While the State Auto umbrella policy, Pleading Exhibit A, extends coverage to an insured for "bodily injury," "property damage," and "personal and advertising injury," as defined therein, the claims in the underlying action by the Claimants are not covered by the umbrella policy of insurance.

27. State Auto contends that it has no duty or obligation to defend Power Play in connection with the claims made against it by the Claimants for one or more or all of the following reasons:

(a) That the Complaint does not allege "bodily injury" as defined by the policy of insurance.

(b) That the Complaint does not allege "property damage" as defined by the policy of insurance.

(c) That the Complaint does not allege "personal and advertising injury" as defined by the policy of insurance as the Complaint does not allege that Power Play published an advertisement which disparaged the Claimants' goods or products, and the Complaint does not allege that Power Play used any advertisement idea of the Claimants in any advertisement, and the Complaint does not allege that Power Play's alleged marketing and selling of its frozen pizzas involved any of the Claimants' copyrights, trade dress or slogans.

(d) That the Complaint does not allege an "occurrence" as defined by the policy of insurance.

(e) That the Complaint seeks damages arising out of trademark infringement, dilution and counterfeiting and trademark infringement is excluded from coverage.

(f) That to the extent that the Complaint seeks damages for "personal and advertising injury" then it is excluded as Power Play's conduct was such that any "personal and advertising injury" was caused by or at the direction of Power Play with the knowledge that it would violate the rights of another and would inflict "personal and advertising injury" under the policy as it was not authorized to use Rosati's marks on its pre-packaged frozen pizzas.

(g) That to the extent that the Complaint seeks damages for "personal and advertising injury" arising out of the unauthorized use of the Claimants' name in order to mislead the Claimants' potential customers such conduct is excluded.

(h) That the Complaint seeks injunctive relief in connection with Power Play's conduct which does not involve an enumerated offense under "personal and advertising injury" as defined by the policy of insurance.

28. The above contentions of State Auto are, on information and belief, denied by Power Play which, in turn, contends that it is entitled to coverage under the State Auto policy of insurance. State Auto, in turn, denies, the contrary contentions of Power Play and each of them.

29. By reason of the foregoing, an actual and justiciable controversy exists between the parties and each of them, which may be determined by a judgment or order of this Court. Pursuant to the terms and provisions of 28 U.S.C. 2201 and 2202, this Court has the power to declare and adjudicate the rights and liabilities of the parties hereto under the terms and provisions of the policy of insurance referred to herein, and to adjudicate the final rights of all parties and to give such other and further relief as may be necessary to enforce the same.

Prayers For Relief

WHEREFORE, the Plaintiff, State Auto Property and Casualty Insurance Company, prays that this Court enters judgment finding and declaring the rights of the parties as follows:

As To Count I:

A. That State Auto Property and Casualty Insurance Company has no duty or obligation to provide a defense to Power Play Distributors, LLC for the action filed in the United States District Court for the Northern District of Illinois, Eastern Division, under Cause No. 2020 C 7762, under its Commercial General Liability policy of insurance numbered PBP2883688-00.

B. That the Court grant State Auto Property and Casualty Insurance Company such other and further relief as the Court deems fit and just under the circumstances.

C. That State Auto Property and Casualty Insurance Company be awarded and have and recover its just and reasonable costs incurred herein and have execution issue therefor.

As To Count II:

A. That State Auto Property and Casualty Insurance Company has no duty or obligation to provide a defense to Power Play Distributors LLC for the action filed in the United States District Court for the Northern District of Illinois, Eastern Division, under Cause No. 2020 C 7762, under its Commercial Umbrella Liability policy of insurance numbered PBP2883688-00.

B. That the Court grant State Auto Property and Casualty Insurance Company such other and further relief as the Court deems fit and just under the circumstances.

C. That State Auto Property and Casualty Insurance Company be awarded and have and recover its just and reasonable costs incurred herein and have execution issue therefor.

Respectfully submitted:

/s/ Robert Marc Chemers

Robert Marc Chemers

Bar No. 0431508

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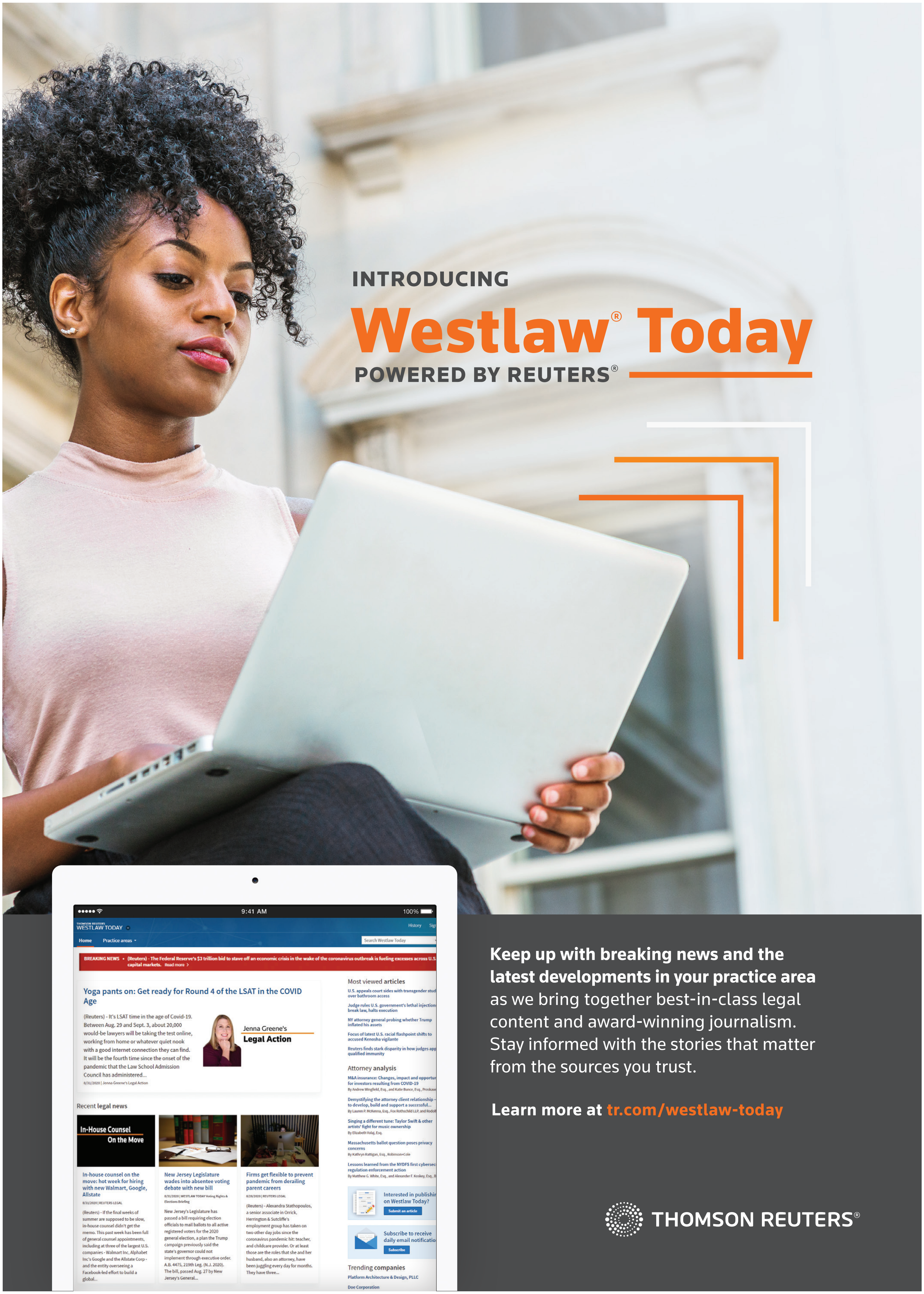

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