

## Trademark Cases To Watch In 2018

By **Bill Donahue**

*Law360, New York (January 1, 2018, 3:04 PM EST)* -- It's going to be another busy year in the world of trademark law, featuring Tiffany and Costco's ongoing fight over rings, Adidas' efforts to shut down a Skechers look-alike, and many more important courtroom battles. Here are big the cases you need to watch, and why.

### **NantKwest Inc. v. Matal**

The en banc Federal Circuit is geared up to issue a ruling in 2018 on a controversial new policy from the U.S. Patent and Trademark Office: that applicants who appeal to a district court must pay the agency's legal bills regardless of who wins the case.

Both the Patent and Lanham acts require applicants who file a de novo appeal to a district court — as opposed to a more streamlined appeal of the record directly to the Federal Circuit — to pay "all expenses" of the proceeding, but the agency had previously only considered that to cover things like experts' fees.

That changed in 2013, when the agency started asking for the far-larger attorneys' fees, too. USPTO says it should not have to "subsidize the expenses" of applicants who choose a costlier appellate route, but others say it will make de novo appeals too expensive for many applicants.

"Big companies won't be happy about it, but they'll still pursue the cases that are important to them," said Cynthia Walden, the head of the trademark group at Fish & Richardson PC. "But for smaller companies, where it's maybe doubling their outlay, I'm sure it will cause many to not pursue cases where they otherwise would have."

In June, a three-judge Federal Circuit panel rejected various challenges to the policy in a case involving drugmaker NantKwest, like the argument that it violates the so-called "American rule" against fee-shifting. But in August, without request from either party, the appeals court agreed to rehear the case en banc.

If the full court eventually strikes down the USPTO's approach, it would be splitting with the Fourth Circuit, which endorsed the fees-no-matter-what policy in a separate case in 2015. If the en banc court upholds it, it will alter not just the cost of an appeal, but the entire process of litigating before the Trademark Trial and Appeal Board.

"It really puts the burden on applicants to develop that TTAB record," said Monica Riva Talley, who runs the trademark practice at Sterne Kessler Goldstein & Fox PLLC. "If you don't want to pay the PTO's legal bills, you really need to have a full record when you go to the Federal Circuit."

The case is *NantKwest Inc. v. Matal*, case number 16-1794, in the U.S. Court of Appeals for the Federal Circuit.

### **Tiffany & Co. v. Costco Wholesale Corp.**

The yearslong case filed by Tiffany & Co. against Costco Wholesale Corp. over the unauthorized use of "Tiffany" on signage for diamond engagement rings will finally shift to the Second Circuit in 2018.

A federal judge ruled way back in 2015 that Costco was liable for trademark infringement and counterfeiting for using the name, but the case has been meandering through district court over damages. Costco was denied an immediate trip to the Second Circuit.

Following a damages trial in 2016, U.S. District Judge Laura Taylor Swain ordered the big-box retailer in August to pay \$11.1 million in profits and \$8.25 million in punitive damages, an unusually high number for a trademark case.

That cleared the way for Costco to finally lodge an appeal in early September to the Second Circuit, where experts expect an interesting examination of that eye-popping award.

"I think it's quite possible that the amount of the award will be reduced," Walden said. "That is such a big number for a trademark case."

One thing to watch? How the Second Circuit deals with Swain's decision to impute a portion of Costco's membership revenues when calculating the profits it needed to fork over to Tiffany. Costco has argued it lacked a basis in the record.

"They could argue that this imputation didn't really take place in any kind of scientific way that you often see in damages analysis," said Richard Rochford, co-head of the trademark practice at Haynes and Boone LLP. "It'll be interesting to see how closely the Second Circuit looks at that."

The case is *Tiffany & Co. v. Costco Wholesale Corp.*, case number 17-2798, at the U.S. Court of Appeals for the Second Circuit.

### **Converse Inc. v. ITC**

The Federal Circuit is set in 2018 to weigh in on whether Nike Inc.'s Converse can use trademark law to block rival shoe companies from making sneakers that look like the iconic Chuck Taylor.

Converse's case, scheduled to be argued before a panel in February, claims that Wal-Mart Stores Inc., Skechers USA Inc., New Balance and dozens of others have been copying the Chuck's key elements — a rubber "bumper" running around the front, a toe cap and stripes around the sides.

The company believed those elements combined to form trade dress that's protected by the Lanham Act, but the U.S. International Trade Commission rejected that argument in 2016. The ruling said the

shoe lacked the kind of "secondary meaning" necessary, pointing to numerous look-alike shoes sold over the years without opposition.

In its appeal to the Federal Circuit, Converse said the ruling is "at odds with well-settled trademark law" and "undermines the ability to protect iconic American brands." It said the commission's focus on similar shoes was misplaced.

"The commission improperly adopted a patent-like prior art analysis, relying on sporadic and decades-old shoe images without any evidence the shoes made a material impression on the relevant consumer group," Converse wrote. "But in this trademark case, the question is whether any alleged third-party uses impacted secondary meaning in the minds of relevant consumers, not what 'prior art' products were in the market 50 years ago."

Walmart, Skechers and New Balance, meanwhile, urged the appeals court to uphold the ruling.

"The 'abundant' evidence ... shows that Converse's use was anything but substantially exclusive," the three companies wrote. "Instead, Converse has always competed with shoes from other sources bearing the design that Converse now attempts to claim as its own."

The case is Converse Inc. v. ITC, case number 16-2497, in the U.S. Court of Appeals for the Federal Circuit.

#### **Adidas America Inc. et al. v. Skechers USA Inc.**

In a case pitting Adidas AG against Skechers USA Inc., the Ninth Circuit could provide an answer in 2018 to a major open question in trademark law: How does a plaintiff show enough irreparable harm for a preliminary injunction?

That question has been a source of aggravation for trademark attorneys since the U.S. Supreme Court's 2006 ruling in eBay Inc. v. MercExchange LLC, which overturned a long-standing presumption of "irreparable harm" when a plaintiff can show infringement is likely.

In 2013, the Ninth Circuit applied eBay to reverse a preliminary injunction granted in a trademark case filed by the estate of musician Herb Reed, saying a lower court's "cursory and conclusory" look at irreparable harm had lacked "any evidence or showing." More than mere "platitudes" about harm to reputation and goodwill are needed, the court said.

But satisfying that standard is difficult in the context of a trademark case, where the kind of evidence that shows you will eventually win the case on the merits almost inherently overlaps with evidence of irreparable harm. It's one thing to say more than that must be shown; it's another thing to figure out what that is.

"It's a big lingering question," Rochford said. "If it's infringing our brand, of course it's going to hurt us. But what do you say that's not a tautology to support that?"

The Supreme Court turned down Herb Reed in 2014, but with Adidas' case against Skechers, the Ninth Circuit is gearing up to rule once again on the tricky issue.

Adidas sued in 2015, claiming Skechers was infringing the the trade dress for the company's Stan Smith

sneaker. The judge overseeing the case granted Adidas a preliminary injunction in early 2016, relying heavily on the idea that confusion would harm Adidas' careful efforts to keep the Stan Smith exclusive.

On appeal to the Ninth Circuit, Skechers says that ruling would mean that "every finding of likely infringement necessarily establishes irreparable harm — exactly what Herb Reed prohibits."

The district court transmuted its infringement conclusion into a finding of likely irreparable harm, relying solely on Adidas employees' testimony about how sale of the challenged Skechers shoes would hurt Adidas' "carefully constructed premium brand image" and "ability to create scarcity and drive demand," the company wrote in its opening brief. "The court cited no actual evidence of existing or future harm to reputation or goodwill, or the losses that would result."

Adidas, of course, sees things differently, saying it offered plenty of hard evidence to satisfy the Ninth Circuit's Herb Reed standard.

"The court grounded its holding in evidence showing: Adidas has invested heavily in its marks and related brand image; infringement by Skechers — a lower-end value brand and direct competitor — is likely to impair Adidas' premium quality reputation, and Skechers' flooding of the market with imitation products will likely impair Adidas' ability to control the supply of its iconic footwear," the sneaker giant wrote.

How the court comes down on those two arguments could provide needed practical guidance on how to win a preliminary injunction. And we may not need to wait long: The case was argued before a panel way back in 2016, so it's about as ripe as they come.

"Hopefully it will provide further insights into what do you have to come to court with on a preliminary injunction," Rochford said.

The case is Adidas America Inc. et al. v. Skechers USA Inc., case number 16-35204, in the U.S. Court of Appeals for the Ninth Circuit.

### **Others to Watch**

**AM General LLC v. Activision Blizzard Inc.:** Can company behind the Humvee succeed where others have gotten game over and sue Activision Blizzard for use of the iconic military vehicle in its "Call of Duty" video games? We could find out in 2018.

**Lombardo v. Dr. Seuss Enterprises LP:** Though known more for its copyright law questions, the case filed by the estate of Dr. Seuss over a raunchy off-Broadway play riffing on "How the Grinch Stole Christmas!" will pose interesting questions for the Second Circuit over trademark law, too.

**Variety Stores Inc. v. Wal-Mart Stores Inc.:** The Fourth Circuit will hear arguments in January as Walmart tries to overturn a whopping \$33 million damages award over its sale of a line of "Backyard BBQ" products, which a trial judge said intentionally infringed a rival "Backyard" brand.

**Snyder's-Lance Inc. et al. v. Frito-Lay North America Inc.:** Snyder's-Lance appealed to a district court in November after TTAB once again ruled that the company's "Pretzel Crisps" is a generic and unregistrable phrase, kicking off a new phase of its seven-year battle with Frito-Lay.

--Editing by Katherine Rautenberg and Alanna Weissman.

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