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# IP Strategies

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## The United States Implements Hague System of International Design Protection

The Hague Agreement is a system for the centralized application and registration of industrial designs or design patents as they are known in the United States. The Hague Agreement became effective for the United States on May 13, 2015 and permits an Applicant to seek the protection of the aesthetic or nonfunctional aspects of a product design in participating member countries around the world with a single application.

The Hague system, born out of the Hague Agreement, is administered by the World Intellectual Property Organization (WIPO) and has been in place in various jurisdictions around the world. The United States, however, did not implement the Hague system until recently. On December 18, 2012, the Patent Law Treaties Implementation Act of 2012 (PLTIA) was signed into law in the United States implementing the 1999 Geneva Act of the Hague Agreement concerning the international registration of industrial designs, effective May 13, 2015.

Prior to the implementation of the Hague system, a U.S. applicant seeking global protection was required to file separate design applications in each country or jurisdiction around the world for which protection was sought and had to comply with the formal requirements, including translations, imposed by each jurisdiction. The Hague system simplifies this process and permits an application to seek protection in participating countries around the world by filing a single standardized application in a single language.

The Hague system not only provides a simplified procedural avenue for filing design applications, but also facilitates the subsequent management of issued protections that may result. For example, a change in ownership or a change in the name or address of the patent owner can be centrally recorded in the International Register and have effect in all the designated jurisdictions.

The implementation of the Hague system in the United States results in a reduction of costs for applicants seeking to obtain industrial design

rights globally, in addition to providing for centralized international registration and renewal of registrations. In the process of implementing the Hague system in the United States, the term of U.S. design patent rights have also been increased from 14 to 15 years from the date of issue. Applicants still need to be aware that the requirements and standards for obtaining protection may differ in the various participating countries but the centralized application process has been significantly streamlined for applicants seeking global protection.



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If you have any questions about the Hague system or the protection of the aesthetic or nonfunctional aspects of your designs, please contact **John E. Munro**, or your Vedder Price attorney.

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## The Power and Importance of Your Brand: Practical Guidance for Implementing and Improving Your Brand Protection, Enforcement and Monetization Strategy on any Budget

With the growing power of data analytics, companies are making more effective use of data to increase the likelihood that consumers will consider their goods and services when making purchasing decisions. Sophisticated analytics are also applied by these same organizations to help ensure that consumers become repeat customers and that these customers develop a sense of brand loyalty. Increasingly, this data-rich marketplace is online and mobile. This new and constantly evolving way of doing business has resulted in a faster moving and more competitive marketplace with a more savvy purchasing public. This inevitably requires companies to continue to evaluate and reevaluate the strength and appeal of their brands in capturing the attention of discerning consumers that are encountering more messaging in this highly competitive environment.

A number of recent Supreme Court and Federal Circuit decisions in the intellectual property area further highlight how organizations are needing to rethink the role of brands to their organizations. The Supreme Court's June 2014 decision in *Alice Corp. v. CLS Bank*

International and the questions it leaves unresolved regarding the patentability of certain innovations has certainly prompted organizations to reconsider how they can most effectively construct barriers to entry against their competitors. While there continue to be numerous effective avenues for excluding competition through patent protection and/or trade secret protection, some organizations might conclude that because of the characteristics of the specific markets they compete in, their resources might be best spent building the best possible product/service irrespective of right or ability to potentially exclude others based on the protectability of the product/service itself, perfecting the customer experience and protecting and enforcing their brands. Or an organization might simply feel the need to have a more robust brand portfolio as a complement to their patent portfolio. Regardless of the exact makeup of an organization's IP portfolio, if an organization concludes that their brands need to occupy an important position in the company's overall protectable intellectual property portfolio, the organization might need to consider whether they are optimizing how they deploy resources to protect and enforce their brands. This analysis is relevant to start-up companies as well as more established companies.

Any organization that has been through the exercise of identifying a new potential name for their company, product or service knows that it can be an arduous journey simply to identify a name that the business embraces as being the right fit for how the business wants to portray itself or its goods and/or services in the marketplace. As an initial matter, organizations still need to be very mindful of where their proposed name falls on the spectrum of protectability from a legal perspective. Fanciful, arbitrary and suggestive marks will be treated differently than descriptive and generic marks. Although these standards are certainly not new, the courts continue to interpret these standards, and organizations need to be aware of these recent interpretations in order to pick a mark that can likely be registered on absolute grounds. For example, the Federal Circuit weighed in on the proper legal standard for a genericness determination in their June 2015 ruling in *Frito-Lay North America Inc. v. Princeton Vanguard LLC* by confirming that compound marks must be considered in their entirety.

Once a business has decided upon the name(s) of interest, the business then undertakes the important process of conducting a trademark clearance search in order to determine the risks associated with use and registration of their chosen company names, trademarks, service marks and/or taglines based upon any senior trademark rights owned by third parties. As a preliminary matter, the organization will need to decide upon a list of goods and services that the business uses or intends to use in connection with the mark so that the trademark search is appropriately tailored to this particular field of goods and services. The organization will also need to decide the countries in which protection will be sought for the mark so that the trademark clearance search includes all of these jurisdictions. It is also important to know if the chosen jurisdictions are first to use or first to file jurisdictions. This will have a material impact on the likelihood of confusion analysis. Having an established protocol in place for your trademark clearance search process will help to ensure that your organization moves efficiently through the trademark clearance search process with a reliable risk assessment regarding the risks associated with use and registration of the mark. An organization should consider what metrics it uses to search and clear its brands, who develops the metrics, which internal personnel must be alerted for approval when a clearance search risk assessment reaches a certain level and if the metrics are in line with the expectations of their risk management team and the expectations of upper management. As part of the trademark search clearance process, brand owners need to clearly understand the third-party use landscape for their proposed mark and confusingly similar marks in order to make an informed decision with respect to the advantages and disadvantages of common law use compared to obtaining a federal registered mark. Brand owners also need to be aware of supplementary investigation tools available to them in the event that the search results do not provide sufficient information regarding certain prior third-party users which might pose infringement risks and/or trademark registration problems.

After a name has been cleared through the company's trademark clearance search process, the organization should confirm which jurisdictions have been cleared for use and registration of the mark.

If the mark will be filed in multiple jurisdictions, consideration should be given to whether there is any benefit to utilizing the Madrid System and/or a regional filing regime such as a CTM application in the European Union. Trademark owners will also need to know if the countries of interest are signatories to the Madrid System. Careful attention should also be paid to the goods and services description ultimately set forth in the application to ensure that it accurately reflects the ongoing business or intended business operations of the trademark owner. A decision also needs to be made as to which entity within the organization's business structure will actually use the mark and/or be responsible for exercising quality control over the mark, as this will need to be the trademark applicant. This decision is often driven by tax considerations and companies are increasingly adopting holding company structures for the intellectual property for tax purposes.

The prosecution process itself can of course also be fraught with obstacles of which to be mindful. In addition to potentially encountering a range of issues raised by the trademark examiner during the substantive examination period of the trademark application, the trademark owner also needs to be aware of numerous potential third-party challenges which might arise. One such challenge is on the basis that the applicant never had a bona fide intent to use the trademark. In the United States, when a trademark is not already in use by a trademark applicant at the time of filing of the application, the applicant has the option of filing the application on an intent-to-use basis. Trademark owners need to be aware that this intent must in fact exist at the time the application is filed. Notably, the Federal Circuit ruled in their June 2015 *M.Z. Berger & Co., Inc. v. Swatch AG* decision that courts should consider the "totality of the evidence" when determining whether a trademark applicant actually had a "bona fide intent" to use the mark. Trademark owners also need to ensure that they have a robust trademark portfolio management system in place to effectively track all deadlines associated with their trademark portfolio.

Assuming that the mark enjoys a successful prosecution process and a registration is obtained, the organization needs to consider whether a trademark watch service is advisable to effectively monitor third-party infringement of the brand. Watch services are increasingly important as third-party infringements continue to crop up with increased frequency in new and widely used online channels, which are more difficult to track, such as social media sites. The damage done by these third party infringers can be swift and severe. Organizations benefit from having a brand enforcement plan in place which allows them to promptly act once a third-party infringement has been identified.

A company's brand enforcement plan will necessarily need to include an understanding as to the tools available to the organization to enforce its brands including state and Federal court proceedings, administrative proceedings in front of the U.S. Patent and Trademark Office's Trademark Trial and Appeal Board (TTAB) as well as domain name proceedings under the federal Anti-Cybersquatting Consumer Protection Act and Uniform Domain Name Dispute Resolution Policy. Important decisions like the Supreme Court's March 2015 decision in *B&B Hardware, Inc. v. Hargis Industries, Inc.* certainly impact the analysis, as a finding that a likelihood of confusion exists by the TTAB may now have preclusive effect in District Court proceedings.

Cease-and-desist letters continue to be an extremely effective prelitigation strategy for achieving a brand owner's objectives without resorting to litigation. However, brand owners need to ensure that their cease-and-desist letters are carefully drafted to achieve the intended enforcement results while avoiding unnecessary exposure from a liability standpoint. A declaratory judgment action filed against the trademark owner is one area of potential exposure. Additionally, the widespread use of social media should also be a concern for trademark owners. Social media sites are where overreaching cease and desist letters are often posted these days, causing serious public relations concerns for brand owners. Trademark bullying is a concept that has been gaining attention globally. The U.S. Trademark Office defines a trademark bully as "a trademark owner that uses its

trademark rights to harass and intimidate another business beyond what the law might be reasonably interpreted to allow.” The balancing act is a delicate one because brand owners have an obligation to defend their trademark rights. If owners fail to monitor and defend their marks against third-party infringement, they risk losing their rights completely. This can have serious consequences for the brand owners and related third parties such as licensees.

In addition to enforcement of the brands, an organization will want to consider how they can best monetize their brands. In connection with the promotion of their goods and services, companies need to be mindful that their advertising, marketing materials and product packaging does not run afoul of false advertising laws and regulatory guidelines. Additionally, companies should ensure that any agreements they enter into with third parties in connection with the promotion of their goods and services contain sufficient safeguards for the brands. Some examples of typical agreements with third parties which require appropriate language to safeguard the brands include website development and hosting agreements, supplier agreements, distribution agreements, joint venture agreements and license agreements. Brand owners need to be mindful that each jurisdiction around the world has its own requirements with respect to license recordation. Failure to properly record the license in jurisdictions requiring recordation can lead to an abandonment of the owner’s trademark rights. Royalty-bearing licenses often have additional recordation requirements in numerous foreign jurisdictions. Failure to adhere to these additional royalty recordation requirements can lead to impairment of the trademark owner’s ability to collect its royalties. There may also be a need for the brand owner to grant a security interest in the brands for purposes of obtaining financing to achieve the business objectives of the business. The security interest will need to be drafted to protect the brands and the security interest will need to be recorded in order to be perfected. The trademark owner might also benefit from considering whether the entity which owns the mark is still the best entity to own the mark within their organization for tax purposes. If it is not, the brand might need to be assigned within the organization, and the assignment will need to be recorded.

A successful brand management program also depends upon an understanding within the organization as to the acceptable use of the company's brands. This is most effectively conveyed in a brand use guidelines manual distributed throughout the company. Brand use guidelines manuals can be prepared in conjunction with the company's trade secrets protection guidelines manual so that internal training can be conducted in connection with both manuals.

Ultimately, brand owners looking to successfully implement a new brand protection strategy and enforcement program will want to consider whether some or all of these issues are relevant to their business needs. Brand owners looking to improve upon their existing brand protection strategy and enforcement program should consider an audit of their existing practices to identify areas which might need improvement. In either case, brand owners can utilize a brand protection checklist like the one below to track the progress of these issues in their brand program:

- trademark selection
- pre-trademark search diligence
  - preliminary goods/services description
- preliminary jurisdiction selection
- trademark clearance search
  - trademark clearance search supplementary investigation
- trademark clearance search opinion
- trademark filing and prosecution
- trademark docket and portfolio management
- trademark watch service
- brand enforcement plan
  - pre-litigation strategies
  - litigation strategies
- advertising, marketing materials and product packaging review



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- third party agreement review
  - license agreement recordation
  - security interest recordation
  - third party agreement review
- brand use guidelines manual and brand use internal training program

If you have any questions regarding the topics featured in this article, please contact **Jason K. Schmitz**, or your Vedder Price attorney.

## Fall 2015 Case Law Review 2014-2015 Cases:

### I. *B&B Hardware, Inc. v. Hargis Industries, Inc.*, 135 S. Ct. 1293 (2015)

In *B&B Hardware, Inc. v. Hargis Industries, Inc.*, the Supreme Court held that the standard used to determine whether a likelihood of confusion exists for purposes of trademark registration in disputes before the Trademark Trial and Appeal Board (TTAB) is the same standard used for purposes of infringement in district court litigation. According, “[s]o long as the other ordinary elements of issue preclusion are met, when the usages adjudicated by the TTAB are materially the same as those before the district court, issue preclusion should apply.” As a result, the Trademark Trial and Appeal Board’s finding that a likelihood of confusion between the parties’ marks precluded the parties from relitigating that issue before the district court.

For more information, see Vedder Price’s news alert on [www.vedderprice.com/bbhardwarevhargisindustries](http://www.vedderprice.com/bbhardwarevhargisindustries).

#### Practice Tip

Proceedings before the Trademark Trial and Appeal Board must be taken seriously, as a decision could be binding in a subsequent district court action for trademark infringement.

## II. *Hana Financial, Inc. v. Hana Bank*, 134 S. Ct. 2842 (2014)

The Supreme Court clarified that in cases where a jury trial is requested, the issue of whether tacking is available to determine trademark priority is generally a question of fact for the jury. Tacking is available when original and revised marks are “legal equivalents” in that they created the same commercial impression. Because this inquiry is from the perspective of an ordinary purchaser or consumer, a jury should make the determination. However, if warranted by the facts, a judge may decide a tacking question on a motion for summary judgment or for judgment as a matter of law.

For more information, see Vedder Price’s news alert on [www.vedderprice.com/hana](http://www.vedderprice.com/hana).

### Practice Tip

Whether older uses of one version of a mark may be “tacked on” to a new version of the mark to establish an earlier priority date is a factual question that generally must be decided by the jury.

## III. *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401 (2015)

In *Kimble v. Marvel Entm’t, LLC*, the Supreme Court reaffirmed its long-standing precedent that a patentee may not continue to receive royalties based on a patent after that patent expires.<sup>1</sup> As noted by the Court, “[p]atents endow their holders with certain powers, but only for a limited time.”<sup>2</sup> During a patent’s term, the patentee possessive exclusive rights to the invention covered by the patent. Those rights may be sold or licensed to others for royalty payments.<sup>3</sup> However, when the patent expires, rights to the invention enter the public domain.<sup>4</sup> Accordingly, the Court upheld that post-expiration royalties for patents remain *per se* unlawful.

Petitioner Kimble obtained a patent on a toy that allows children to role-play as a “spider person” by shooting webs (i.e., pressurized foam string) from the palm of the hand, which he licensed to Marvel in exchange for a lump sum payment and a 3% royalty on all of Marvel’s

future sales of the product. Notably, the license had no specified end date for the royal payments. Upon expiration of the patent, Marvel sought a declaratory judgment in Federal District Court to cease the royalty payments. The district court, relying on *Brulotte*, held that the royalty provision was unenforceable once the patent expired.<sup>5</sup>

On appeal to the Supreme Court, Kimble argued that the rationale behind *Brulotte* was economically unsound and “the decision interferes with the ability of parties to negotiate licensing agreements that reflect the true value of a patent” by encompassing a bright-line rule rather than a flexible case-by-case analysis. The Supreme Court acknowledged that although there may be support for this argument, “that [an] elaborate inquiry produces notoriously high litigation costs and unpredictable results.”<sup>6</sup> However, the Court noted that because *Brulotte* has governed licensing agreements for over half a century, there exists a presumption that parties rely on it as the default rule. Overturning this default rule would upset contractual expectations and bring dormant patents to life. The Supreme Court further elaborated that Congress, not the courts, has the prerogative to change the policy wherein after a patent lapses the invention is available to all for free and noted that there exist multiple provisions to circumnavigate the default rule to allocate risks and rewards associated with commercializing inventions (i.e., the time between licensing a patent and bringing a product to market.)

A full copy of the opinion is available [www.vedderprice.com/kimble](http://www.vedderprice.com/kimble).

#### Practice Tip

Contractual provisions granting a patentee royalties beyond the expiration of the patent are unenforceable.

However, contracts may provide for ongoing payments following a patent’s expiration in a variety of ways, including: (i) deferring royalty payments for pre-expiration use of a patent into the post-expiration period; (ii) granting a royalty covering multiple patents (royalties are enforceable until the last patent expires); and (iii) tying post-patent expiration royalties to a non-patent right and decreasing the royalty when the patent expires (e.g., licensing both a patent and a trade secret with the royalty dropping upon expiration of the patent).

<sup>1</sup> *Brulotte v. Thys Co.*, 379 U.S. 29, (U.S. 1964)

<sup>2</sup> *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401, 2406

<sup>3</sup> 35 U.S.C.S. § 154(a)(1)

<sup>4</sup> 35 U.S.C.S. § 154(a)(2)

<sup>5</sup> *Kimble v. Marvel Enters.*, 692 F. Supp 2d 1156, 1161 (Ariz. 2010).

<sup>6</sup> *Kimble*, citing *Arizona v. Maricopa County Medical Soc.*, 457 U.S. 332, 343 (1982).

#### IV. *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015).

In *Commil USA, LLC v. Cisco Sys., Inc.*, the Supreme Court held that a defendant's belief regarding patent validity is not a defense to an induced infringement claim under 35 U.S.C. § 271(b). The Supreme Court reasoned that infringement and validity are separate issues under the Patent Act. Furthermore, the Supreme Court's precedent in *Global-Tech* requires a plaintiff to prove both that a defendant has knowledge of the patent and the defendant knew the acts were infringing. *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011). Invalidity is a separate ground upon which an accused infringer can prevail. As emphasized by the Supreme Court, a patent is presumed valid. Therefore, if a defendant knows that the patent exists and knows that it is inducing the acts which are covered by the patent, it does not matter whether he believes the patent is valid or not. The court analogized the defendant's belief to the usual case where "I thought it was legal" is no defense.

The Court further clarified its earlier ruling in *Global-Tech*. In order to induce infringement under 271(b), *Global-Tech* requires knowledge of the patent and requires proof that the defendant knew the acts were infringing. The Supreme Court stated that if all that was required is knowledge of the patent then, ". . . even if the defendant reads the patent's claims differently from the plaintiff, and that reading is reasonable, he would still be liable because he knew the acts might infringe. *Global-Tech* requires more." Therefore, the Supreme Court appears to be promulgating a defense for induced infringement that would allow a defendant to assert that at the time of the alleged infringement they reasonably read the claims in such a way that the acts they were inducing would not be covered by the claims. Therefore, they would not have had the requisite knowledge that the acts were infringing.

The dissent by Justice Scalia, joined by Chief Justice Roberts, relates to the majority opinion's strengthening the power of patent trolls who merely sue to recover settlements from accused infringers wanting to

avoid the costs of litigation. The dissent stated that this ruling requires an accused infringer to prove invalidity by the high burden of clear and convincing evidence. However, the majority opinion pointed out that rule 11 of the Federal Rules of Civil Procedure provides for sanctions for frivolous cases. Additionally, the courts have discretion to award attorney's fees to the prevailing party and defendants have the ability to obtain rulings on validity. The majority opinion stated that these were adequate safeguards.

A full copy of the opinion is available [www.vedderprice.com/commilUSA](http://www.vedderprice.com/commilUSA).

#### Practice Tip

Draft claims that can only have one interpretation to prevent a defense of a reasonable alternative reading of the claims. If a client is accused of induced infringement and the patent is found valid, a better defense would be to show proof that the client had a reasonable alternative interpretation of the claims.

Remember, induced infringement always has to be considered with the presumption that the patent is valid.

### *V. Teva Pharm. USA, Inc. v. Sandoz, Inc., 135 S. Ct. 831 (2015)*

In a 7-2 decision, the United States Supreme Court held that not all determinations made during the process of claim construction are reviewed *de novo* upon appeal to the Federal Circuit. The Court left the holding of *Markman* unchanged and held that while the overall determination of a patent claim's scope (i.e., claim construction) is a matter of law that is reviewed *de novo* (without deference) on appeal, the process of determining a claim's construction may include the need to resolve subsidiary facts that are in dispute between the parties. The resolutions made by a district court with regard to these extrinsic subsidiary facts in dispute are factual findings, held by the Court, and are reviewed for clear error on appeal. Intrinsic evidence, such as the prosecution history of the patent, on the other hand, are legal determinations that will be reviewed *de novo* on appeal.

For more information, see Vedder Price's client alert on [www.vedderprice.com/teva](http://www.vedderprice.com/teva).

Practice Tip

Due to the heightened level of deference afforded to a district court's factual determinations during claim construction, the presentation of experts and other extrinsic subsidiary evidence at the district court level is critical.



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