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ACCESSORIES COUNCIL

NEW FEDERAL LAW BROADENS REMEDIES AGAINST COUNTERFEITERS

Congress approved and President Bush signed into law October 13, 2008 The Prioritizing Resources and Organization for Intellectual Property Act of 2008 (P.L. 110-403). The new law offers some additional protections in resisting counterfeiting, giving courts broader powers and imposing heftier civil damages and criminal penalties. Here is a snapshot of some of its more significant provisions.

Treble damages in trademark cases (amending 15 U.S.C. § 1117(b)) The federal trademark statute is amended to require the award of treble the amount of damages or profits, whichever is larger, as well as reasonable attorneys' fees, not only when someone intentionally and knowingly uses a counterfeit mark to sell, offer to sell or distribute goods or services — already the law — but also when, with intent, they provide goods or services necessary for someone else to do so. Trebled damages and attorneys' fees must be awarded unless the court affirmatively finds the existence of extenuating circumstances. This change should make it easier to get greater damages from those who enable counterfeiting.

Statutory damages in trademark cases (amending 15 U.S.C. § 1117) Existing trademark statutory damages also get an upgrade, with low and high ends being doubled from $500 to $1,000 and from $100,000 to $200,000, respectively, per type of goods or services, and from $1,000,000 to $2,000,000 per type if use of the counterfeit mark was willful.

Extension to include exporting copyright-infringing materials (amends 17 U.S.C. § 602) While U.S. law does not have worldwide application, the statute makes its reach a little longer, as the prohibitions on counterfeiting copyrighted materials now apply not only to products imported into the United States, but to those exported from it, as well.

Enhanced criminal penalties The statute amends federal criminal law to impose graver penalties when someone knowingly or recklessly causes or attempts to cause serious bodily harm or death in connection with counterfeiting activity. The former now is punishable by fine and up to 20 years in prison; the latter, by a fine and imprisonment up to life.

Other changes Federal courts' power to employ civil or criminal forfeiture in connection with certain counterfeit or copyright-infringing goods is expanded. Changes are made in the organization of the federal government's intellectual property enforcement efforts, a term specifically defined to include trade secrets and other forms of intellectual property, not just patents, copyrights and trademarks. Provisions are made for grants in aid to local government to improve intellectual property law enforcement and also to develop computer forensic resources toward that end. The statute also calls for further study of the extent and effects of counterfeiting, as well as of the effectiveness of the government's steps to fight it.

PROGRAM ON MAJOR CHANGES IN FEDERAL LAW AFFECTING CONSUMER PRODUCTS

The Consumer Product Safety Improvement Act of 2008 imposed new or stricter requirements in many areas affecting product manufacturers, importers, trademark licensors and retailers, among others. The Accessories Council, the Fashion Jewelry Trade Association and Schiff Hardin LLP hosted a program on the law as it affects consumer products at Schiff Hardin's New York office on September 11, 2008. Speakers included **Karen Giberson**, president of the Accessories Council; **Michael Gale** and **Gary Rose** of the Fashion Jewelry Trade Association; **George Morris** of Liz Claiborne; and **David Jacoby** and **Judy Roth** of Schiff Hardin.

While many may have thought the new law focused only on jewelry and toys, the September program highlighted how the legislation directly affects the accessories industry. Areas already or soon to be affected include:

- Reductions in permissible lead content in children's products;
- Restrictions on use of certain phthalates in children's toys and child care products;
- Mandatory testing and third-party certification of components in certain children's products;
- Required additional identification labels to allow tracking of sources and distribution of children's products;

- Required additional cautionary statements in advertising materials in certain toys and games;

- New “whistleblower” protections for employees;

- Increased penalties for violations and broader CPSC recall powers.

A copy of the written materials geared to the fashion and accessories industries, prepared for the program by Schiff Hardin, is available to Council members on the Accessories Council website.

New developments in this area are happening constantly. Since September, Schiff Hardin’s Consumer Product Safety Team has issued three alerts, providing an overview of the statute and reporting on further developments in labeling and advertising requirements for both catalogs and websites; certification requirements; and sale of non-compliant inventory. All three alerts are available at the Schiff Hardin website, www.schiffhardin.com.

In late November, the CPSC’s general counsel responded to a request from the American Apparel and Footwear Association seeking an opinion excluding all children’s apparel from the phthalate restrictions. The opinion says that adult apparel is excluded and that children’s apparel “generally” will not be considered a toy. However, it notes that costumes in a toy set or in other situations might be considered toys, and that sleepwear and bibs could be considered child care articles. In such cases, they would be subject to the phthalate restrictions. In early December, two groups sued the CPSC, arguing that sales of covered items with phthalate levels above those in the statute should be banned immediately, and not permitted to continue until February.

PEERING INTO AN UNCERTAIN FUTURE

"Can accessories save the holiday season?" Women's Wear Daily asked in a late November article. From their presses to the POS terminals, so to speak, but these are vexing days for all. While our crystal ball gets no clearer signal than anyone else's, we can pass along some things that we see happening already as a result of the economic downturn, and some legal lessons to be drawn from them.

Fraud and fraud claims Difficult economic times will increase the temptation for some folks to commit fraud. Cutbacks in staff at many organizations may make it easier for them to do so. Additionally, more rigorous attention to receivables and costs may bring to light existing irregularities, which otherwise would have gone unnoticed. It's bad enough if someone has stolen from you; it may get still worse if he or she did so in a way that impacted others, who in turn may make a claim against you. It's a good time to review systemic protections against fraud. It's also good to take a look at whether your insurance covers employee dishonesty.

Customer data rip-offs By the same token, fraudsters' efforts to steal customer data from transactions are unlikely to abate in a bad economy. Be aware that various states are adopting requirements for how customers' "personal information" is encrypted, and the regulations apply if you do business with residents of those states whether or not you have facilities in those states. A Nevada law took effect October 1, and a far more complex Massachusetts regulation, which may become a de facto national standard, comes into force next year. It goes beyond just customer information to include personal information of employees, too.

Enforcement of non-competes As businesses downsize, their departing employees may find new jobs with competitors of their former firms. Former employers may be more likely to seek to enforce non-competition and confidentiality agreements with departed employees to avoid losing customers. If you don't have such agreements, perhaps you should. (But see next article as to California!) You should ask prospective employees if they are subject to any restraints, too.

Creative alternatives Is the credit crunch crippling a company that otherwise is sound? There may be creative alternatives to bankruptcy. For example, suppose a company with solid results and a strong management team has defaulted on its debt, and ownership of the company has been assumed by its lender. The lender is not in the business of selling widgets and does not want to be, but the amount it will realize from a liquidation is small. It may be to everyone's advantage to create a structure in which the management team has an incentive to stay and work to turn the company around, the result of which will be an increase in the value the lender can recover through an ultimate sale. Think of it as the reverse of a private equity purchase.

WARN Act notices If the conclusion has been reached to close down an enterprise, keep in mind that if it has more than 100 employees, federal law may require that they be given 60 days advance notice of the closing under the so-called WARN (Worker Adjustment and Retraining Notice) Act. Penalties for failure to comply are significant. California and Illinois have similar statutes; as of February, 2009, New York will, too. Be aware that the statutes are not identical to the federal one.

Attorneys at Schiff Hardin have experience in each of these areas. If you would like to know more, please contact us.

CALIFORNIA'S RESTRICTIVE COVENANTS

A recent decision of the California Supreme Court significantly limits the extent to which California law will permit the enforcement of restrictive covenants. Edwards v. Arthur Andersen LLP, 44 Cal.4th 937 (2008). Such provisions are common in employment and other contracts. If you do business in California or have employment or consulting contracts with California residents, you may need to review them.

Most states permit a contract provision to restrict someone's ability to practice a trade or business in competition with a former employer as long as the ban is reasonable, for example, as to time, breadth and geographic scope of the restriction. A California statute, Business & Professional Code Section 16600, bars such agreements except in limited circumstances (such as the sale of a corporation or if trade secrets are involved). The new California Supreme Court decision rejects a “narrow restraint” exception, which federal courts in California had developed to rein in Section 16600. As a result, the particular provisions in an employment agreement between an accounting firm and an employee, imposing various 12-and 18-month post-employment restrictions on working for or soliciting certain accounting work from certain of the firm's clients, or soliciting the firm's professional employees, were invalidated. The validity of many other restrictive covenants in California now is in doubt, but doubtless will be the subject of further litigation. Our colleagues in our San Francisco office will be following developments.

GIFT CARD CLASS ACTIONS

Three decisions this fall by the intermediate New York State appellate court that covers most of metropolitan New York other than Manhattan and the Bronx upheld the right of gift card holders to sue issuers over dormancy fees charged on the cards. Lonner v. Simon Property Group, Inc.; Llanos v. Shell Oil Company; Goldman v. Simon Property Group, Inc.

The Shell gift card accrued a dormancy fee of $1.75 a month after a year. The Simon Gift Card had a monthly dormancy fee of $2.50, deducted in the seventh month following purchase. A small legend on the back of the plastic gift card disclosed the fee. The fee also was mentioned on the tenth of ten printed pages included with a sleeve for the card, and on the back of the card sleeve itself.

In Lonner and Goldman, plaintiffs claimed the New York unfair and deceptive acts or practices statute, General Business Law Section 349, had been violated because the dormancy fee was not clearly and conspicuously disclosed. The Appellate Division finds these allegations sufficient to survive a motion to dismiss. In addition to actual damages (up to $50), the statute permits a plaintiff to recover alternative treble damages (up to $1,000), in the court's discretion, and reasonable attorneys' fees if successful.

In the Shell case, the complaint had been dismissed on the ground that it was pre-empted by Section 396-i of the New York General Business Law, which deals with gift certificates. The Lonner and Goldman cases also included claims that the disclosure of the dormancy fees failed to comply with GBL § 396-i. The Goldman decision holds that only the New York attorney general, and not a private citizen, can sue under GBL § 396-i.

The cases also involved claims that the dormancy fees constituted a breach of contract, in violation of an implied covenant of good faith and fair dealing. This claim also withstood a motion to dismiss, as did a claim in Goldman that the fees unjustly enriched Simon Property.

All the cases turn on whether the fee was disclosed adequately to consumers. General Business Law § 396-i says in part that “terms of a gift certificate or store credit shall be clearly and conspicuously stated thereon,” while Civil Practice Law and Rules 4544 bars the proponent of a consumer transaction contract (such as a gift card issuer) from relying on an agreement in court if “the print is not clear or legible or is less than eight points in depth or five and one-half points in depth for upper case type.” (The rest of this item is in 11-point type; this is 8-point type.) Because the named plaintiff in Goldman had been given the gift card by her employer, defendants also tried to argue it was not a “consumer transaction.” The court rejected this argument.

Although the class action is allowed to proceed as to some claims in all three cases, significantly, none yet decides whether any particular dormancy fee is impermissible. The lesson is that even if the product is fine, how it's labeled can still get you in hot water.

CASE BRIEFS

An appeal from the ruling of the U.S. District Court for the Southern District of New York in Tiffany (NJ), Inc. v. eBay, Inc. that e-Bay had not violated Tiffany's trademark rights, discussed in the September issue, is proceeding. Tiffany filed its main brief on appeal in October and eBay responded just before Thanksgiving; Tiffany's reply brief is due in mid-December. The case has attracted amicus curiae (friend of the court) briefs the way honey attracts bees: the International Anticounterfeiting Coalition; the Council of Fashion Designers of America; Coty; and the Electronic Frontier Foundation all have submitted briefs . . . .

Thinking of getting a design patent? You may have to deal with an Egyptian Goddess — more specifically, the decision of the Court of Appeals for the Federal Circuit in Egyptian Goddess, Inc. v. Swisa. Unlike utility patents, which protect how something new works, design patents protect how something new looks. Design patents cost less, run out sooner and are less frequently sought than utility patents. Egyptian Goddess — which involved nail buffers — articulated a new test to decide if one design patent infringed another, by considering how an “ordinary observer” would view the differences between the two items in light of the prior art (that is, what existed before either one). A separate test, comparing “points of novelty” between the asserted infringed-upon and infringing designs, was dropped. . . .

RECENTLY PUBLISHED BY SCHIFF ATTORNEYS

“Who Takes What: The Parties’ Rights to Franchise Materials at the Relationship’s End,” **Clay A. Tillack** and **Mark E. Ashton**, Franchise Law Journal (Fall, 2008)

“Wanted, Dead or Alive: Publicity Rights,” **David Jacoby** and **Judith S. Roth**, IP Law 360 (November 14, 2008).

“Mexico’s Supreme Court issues first binding precedent on an author’s right to royalties, citing international human rights law,” **Daska P. Babcock**, International Bar Association Latin American Forum Newsletter (November, 2008).

“Jobe Highlights Issues in Anticounterfeiting Statute,” **David Jacoby** and **Judith S. Roth**, The New York Law Journal (August 15, 2008).

All of these items can be found on the Schiff Hardin website, www.schiffhardin.com.

in Fashion

WOMEN'S NETWORKING GROUP FABULOUS FASHION

The Schiff Hardin New York office hosted Fabulous Fashion NYC on December 3, an evening of networking and shopping for Schiff Hardin clients and friends. More than 70 invitees joined a dozen Schiff Hardin women attorneys at the event, hosted in conjunction with The Accessories Council.

In addition to a chance to mix and mingle with old and new contacts, the event included a presentation by personal shopper Evie Gorenstein on style trends. The 23rd floor reception area and south side conference rooms were converted into Atelier Schiff, and 14 vendors from the Council offered a wide range of items for holiday shoppers at healthy discounts. The Council provided a raffle prize, a gift bag from its recent ACE Awards event, with a market value of about $3,000.

Vendors participating were Bo Bags, Bounkit Jewelry, Butler Bag, Eenamaria, Marie-Lise Lachapelle, Melody Weir, Michelle Farmer, Molton Brown, Mundi Westport, Otrera, Oli & Lina, Pono, Robin Rotenier and V. Fraas.

The New York event followed a Women's Networking Group Fabulous Fashion event in Chicago on November 20, 2008 at the Trump International Hotel and Tower, featuring designers from the Chicago Fashion Foundation and an introduction to the Chicago Fashion Incubator.

Schiff Hardin LLP is a general practice law firm with 400 attorneys, founded in 1864.

The Accessories Council is a not-for-profit, national trade association that was established in 1995 with the mission of increasing consumer use and awareness of accessories.

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