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Digital Resale: Where New Technology Stumbles over Old Law

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A purchaser of an article of commerce expects to be able to freely sell it regardless of any intellectual property rights that it may embody. This expectation is respected in legal doctrines such as patent exhaustion and the first-sale doctrine. Thus, you may resell your iPhone or your recently purchased hardcover book regardless of the patents and copyrights that pertain to them. The resale of digital files, however, runs into a special barrier that ReDigi Inc. and its founders have encountered to their sorrow.

The ReDigi System

ReDigi was founded in 2009 with the goal of providing a marketplace for the resale of digital music files that had been purchased from iTunes. ReDigi required its customers to install its "Music Manager" software on their computers. Once installed, Music Manager would analyze the digital files intended for resale and verify that they had been properly purchased from iTunes.

The ReDigi user could then cause these files to be transferred to ReDigi's remote "Cloud Locker." To effectuate this transfer, ReDigi developed a new file-transfer method—which it called "data migration"—that broke the digital music file into small packets. ReDigi's system then created a "transitory copy" of each packet in the user's computer buffer and deleted that packet from permanent storage on the device.

The packet that had been copied into the user's buffer was then sent to ReDigi's server and deleted from the user's buffer. This buffer copy existed for less than one second. During the data migration process, the original digital file could not be accessed or played.

Once all the packets of the source file had been transferred to ReDigi's server, they were then reassembled into a complete music file. As a result of this process, the entire file never existed in two places at once. Or so ReDigi argued, for reasons that will soon be explained.

After the file had reached ReDigi's server but before it had been resold, the user could continue to listen to it by streaming audio from the Cloud Locker. Once the file was sold, ReDigi would give the new purchaser exclusive streaming access to the file and permit that purchaser to download it, at which time ReDigi would delete it from its own server.

Music Manager would continuously monitor the seller's hard drive and connected devices to detect duplicates of the music file. If Music Manager later detected a duplicate file, ReDigi would prompt the user to authorize ReDigi to delete that duplicate from her personal device. If authorization was not granted, it would suspend the account.

However, if the user retained previously made duplicates on devices not linked to the computer that hosted Music Manager, Music Manager would not detect them. Thus, a user could, prior to resale through ReDigi, store a duplicate on a compact disc, thumb drive, or third-party cloud service and access that duplicate post-resale.

ReDigi believed its migration process avoided copyright infringement issues by taking care not to create a complete duplicate of the music file until the original file had been deleted from the seller's computer.

Music Publishers File Suit against ReDigi

ReDigi's business plan threatened the hegemony of the music publishers, three of which promptly sued ReDigi for copyright infringement. A federal district court ruled in favor of the publishers in 2013.[1] ReDigi appealed to the Second Circuit Court of Appeals, which decided the case in December 2018.[2]

On appeal, the case drew attention from numerous industry groups, including the Copyright Alliance and the Motion Picture Association of America, and a cluster of 24 law professors, including Pamela Samuelson (Cal/Berkeley). The industry groups favored the music publishers while the law professors supported ReDigi.

Among the exclusive rights granted to the copyright owner by Section 106 of the Copyright Act[3] (the "Act") are the rights:

(1) To reproduce the copyright work in copies or phonorecords;
(2) To prepare derivative works based upon the copyrighted work;
(3) To distribute copies or phonorecords … to the public by sale, ….rental, lease, or lending.

"Phonorecords" involve sound recordings; "copies" involve all other content subject to copyright. Both terms are defined in Section 101 of the Act as involving "material objects" in which a work is "fixed" in a tangible medium of expression for more than a transitory duration.

The music publishers alleged that ReDigi's business plan was based upon flagrant infringement of their exclusive rights to reproduce and to distribute the music to which they owned the copyright. ReDigi argued that its methodology was authorized by the first sale and fair-use doctrines, which place limits on these exclusive rights of the copyright owner.

ReDigi's Defense

The First Sale Doctrine

Section 109(a) of the Act, 17 US 109(a), states:

> Notwithstanding the provision of section 106(3), the owner of a particular copy or phonorecord … is entitled .. to sell … that copy or phonorecord.

By referring to clause (3) but not clause (1) of Section 106, this statute gives the owner of a phonorecord the right to sell it but not to copy it.

ReDigi and the amicus professors engaged in strenuous gymnastics to argue that ReDigi did not make copies of the music files, but of course it did. It was of no consequence that an intermediate, short-lived buffer copy of each packet was created in the process.

The fact is that a music file was created afresh on the ReDigi servers, and that file was an exact copy of the file that had existed on the seller's device. No amount of obfuscation could hide that simple fact, and the Second Circuit saw what was obvious.

ReDigi and the law professors, perhaps recognizing the likely fate of their technical argument, mounted an interesting policy argument based upon the first-sale doctrine. The first-sale doctrine, they noted, is not expressed in the statute as a defense to copyright infringement, but as an absolute right of the owners of copies or phonorecords. Furthermore, the first-sale doctrine originated as a common law principle that became enshrined in the statute.

Construing this history as recognizing an absolute resale right, ReDigi and its amici argued that the owner of a digital phonorecord should have the same right to resell her copy as does the owner of a physical phonorecord. The copyright law, they urged, should be neutral as to the technology used to embody the copyrighted work.

The Second Circuit was not convinced. The three-judge panel opined that, since Congress crafted the statute so as to expressly permit distribution but not copying, it is up to Congress, not the courts, to expand the first-sale doctrine to permit the making of electronic copies.

Fair Use

Fair use is another common law doctrine that has been incorporated into the Act. The statutory language is general enough to grant the courts leeway in defining the contours of the doctrine. In most cases, whether a use is "fair" comes down to one question: to what extent does the use harm the market for the original work? If the copy is transformative in some way, as a parody may be, then the use is fair. If the copy is simply a commercial substitute for the original, the use is unlikely to be considered fair.

The Second Circuit concluded that the ReDigi service existed solely to compete with the copyright publishers and involved no transformative activity that might bring the fair-use doctrine into play.

The Technical Problem

As the court noted, Music Manager would never know if the user had made copies of the music file on a thumb drive or cell phone before engaging ReDigi to resell the copy on the user's computer. It is this ease of reproduction that caused parties not directly involved in the music business, such as the Motion Picture Associate of America, to file amicus briefs in support of Capitol Records. It seemed also to put the Second Circuit in a skeptical frame of mind when facing the seemingly valid policy arguments in favor of ReDigi.

The implications of this case extend well beyond the resale rights for a $1.00 music file. The same principles and problems could apply to attempts to resell far more valuable digital files including motion pictures, software, and proprietary databases.

ReDigi 2.0—A Technical Solution?

While the litigation proceeded, ReDigi implemented a different technical solution to the copying problem. With ReDigi 2.0, the original purchaser of the music file could cause it to be downloaded in the first instance to ReDigi's servers. ReDigi would then control access to the file. If the original purchaser of the file were to sell it, ReDigi would permit the new purchaser, but not the original one, to access the file.

If ReDigi 2.0 had stopped there, it might have solved the copying problem, but it did not. The new version allowed the original purchaser to download the music file to her computer. ReDigi attempted to justify this download feature as fair use. But this process created the possibility of duplicate files existing in the hands of two purchasers, a result that is not likely to pass muster as fair use.

In its ruling, the Second Circuit took note of ReDigi 2.0, stated expressly that it was not passing on its legal merits, but nonetheless issued an injunction forbidding ReDigi from offering it. This peculiar result stemmed from the litigation strategies of the parties, not the legal merits of ReDigi 2.0.

Analysis

ReDigi may have made a good faith effort to live up to the spirit of the copyright act, but the letter of the law was unbending. The public policy arguments advanced by ReDigi and the law professors—particularly the argument that that purchasers of electronic phonorecords should have the same resale rights as purchasers of physical phonorecords—seem persuasive.

The Second Circuit was unwilling to rule on the basis of these public policy arguments. However, ReDigi—which filed for bankruptcy in 2016 to ward off the $3.5 million judgment against it in the lower court—has announced its intention to appeal the case to the Supreme Court.[4]

For now, the ReDigi decision leaves a disparity between the purchasers of digital works and purchasers of physical works. Undoubtedly, creative minds will push the boundaries again, hoping to create a secondary market for digital works. Indeed, Apple has filed a patent application (later abandoned) for just such a service, and Amazon has obtained such a patent.[5]

A solution such as ReDigi 2.0, stripped of its capacity to enable users to download files onto their computers, may well succeed in claiming protection under the first-sale doctrine. Vendors of digital works should anticipate such developments and structure their licensing programs accordingly.

1. Capital Records v. ReDigi Inc., 934 F. Supp. 2d 640 (SDNY 2013).
2. Capital Records v. ReDigi Inc., 910 F3d. 649 (2d Cir. 2018).
3. USC Title 17.
4. *Hollywood Reporter*, March 5, 2019, available at *https://www.hollywoodreporter.com/thr-esq/supreme-court-will-be-asked-permit-resales-digital-music-files-1192295*.
5. Ringewald, "Secondary Market for Digital Objects," US Patent No. 8364595B1 (issued January 29, 2013).

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Milano Pizzeria Case Study: Hard Lessons Learned by Canadian Licensor

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Every now and then a case comes before the courts and serves as a stark reminder that good licensing practices and IP portfolio management are critical to any business. *Milano Pizza Ltd. v. 6034799 Canada Inc.*[1] (*Milano Pizza*) is certainly such a case, highlighting the need to develop rigorous practices when it comes to documenting the creation, acquisition, and licensing of IP assets.

Milano Pizza is the saga of a family business, operating since the early nineties, which initiated IP infringement proceedings against a disgruntled former licensee. To its utter dismay, it discovered that it could neither claim ownership of the copyright in the company logo it had been using for decades, nor establish that it ever had an enforceable licence in place with any of its 32 operating pizzerias that used the logo, let alone the defendant company. As a result, its copyright claims were dismissed entirely, and its registered trademark faces serious risk of being expunged.

This case is a wake-up call to licensors of IP assets who conduct their business affairs on nothing more than a smile and a handshake, perhaps with the imprudent thought that doing so will allow for a savings on legal spend and reduction in administrative burden. Of course, the reality is that such an approach to business is very likely to give rise to unnecessary disputes and expensive litigation, and may lead to the potential loss of exclusive rights to use key IP assets, including the core brand.

1. When the Facts Hit Your Eye Like A Big Pizza Pie

Milano Pizza Ltd. (the "Plaintiff") owned a business, self-described as "a group of independently owned and operated pizzerias", each operating under the trademark "MILANO PIZZERIA".

At the outset, there were six pizzerias operated directly by members of a single family, but by the mid 1990's, pizzerias were being sold to others to own and operate. In 1996, one of these, the "Baxter Location", was sold to an individual and subsequently to that individual's numbered company. In 2002, the Baxter Location was sold to the Defendant. That same year, the Plaintiff obtained a registration for the following composite trademark (the "Logo") in association with "take out restaurant services, with delivery", claiming a date of first use of March 1994:

MILANO PIZZERIA

In or around 2013, the relationship between the Plaintiff and the Defendant began to deteriorate, and had completely broken down by 2016. The Plaintiff contended that the Defendant's use of the Logo was subject to a written licence agreement, which Plaintiff purported to terminate on June 29, 2016. Subsequently, the Plaintiff commenced an action in the Federal Court of Canada concerning the Defendant's unlicensed use of the Logo at the

Baxter Location, including allegations that this act constituted (i) infringement of, and depreciation of goodwill attaching to, the trademark registration for the Logo, contrary to Sections 19 and 22 of the *Trademarks Act*; (ii) passing off contrary to the statutory codification of the tort in subsection 7(b) of the *Trademarks Act*, and; (iii) infringement of its copyright in the Logo contrary to s. 27 of the Copyright Act. In response, the Defendant sought to invalidate the trademark registration for the Logo, and sought damages and injunctive relief in regards to the Plaintiff's own alleged passing off.

The context of the Court's decision in *Milano Pizza* was a motion for summary judgment by the Defendants to have the Plaintiff's claims dismissed, and a cross motion by the Plaintiff for summary judgment on all of its claims with the exception of the copyright infringement. In Canada, the Federal Court will grant summary judgment when there is no genuine issue for trial with respect to a claim or defence. That is, where there is no legal basis for a claim or defence, or where the Court has all of the evidence required to make a fair and just determination, the matter can be decided without the need for a trial. Summary judgment is often considered inappropriate where there is conflicting evidence and issues of credibility remain.

2. Licensor + Licensee or Loosely Organized Buying Cooperative?

One of the central issues in dispute concerned the nature of the relationship between Plaintiff and Defendant, which the parties characterized very differently. The Plaintiff asserted that it and the independent operators of the Milano Pizzerias (including the Defendant's Baxter Location) were parties to licence agreements through which Plaintiff granted the pizzerias rights to use the Logo and related trademarks. The Defendant, however, maintained that the Plaintiff and the independent pizzerias merely collaborated in a loosely organized family business and buying cooperative and that Plaintiff, rather than being a licensor granting rights in the trademark, merely acted as a purchasing agent and coordinator.

While the Plaintiff maintained that there was a written licence agreement to which the Defendant was subject, unfortunately it could not produce the written agreement, its only copy believed to have been destroyed in a flood. Under Canadian trademark law, while a written licence agreement is always the best evidence of the existence of the licence, it does not need to be in writing to be valid and enforceable. The critical issue is whether the trademark owner has authorized the other person to use the trademark and that the owner has, directly or indirectly, control over the character or quality of the goods or services that the other person is providing in association with the trademark. The following factors were raised by the Plaintiff to substantiate its claim that it had sufficient control over the pizzerias such that a licence was in place:

- **Purchasing Commitment and Quality Control**: The Plaintiff alleged that in exchange for use of the trademarks, the pizzerias were obliged to purchase most of their supplies through a specific supplier designated by the Plaintiff. The Plaintiff asserted that this was sufficient to demonstrate that it held a level of control over the taste and quality of the food being sold at each location.
- **Investment in the Brand:** The Plaintiff argued that by using a single supplier, it received rebates, which allowed it to allocate more resources toward marketing and promotion of the pizzerias.
- **Territorial Restrictions on Operators**: The Plaintiff contended that because the pizzerias were precluded from advertising or accepting food orders outside of specified territorial areas, such geographic restrictions further underscored the Plaintiff's control over the pizzerias.

Conversely, the Defendant alleged that no such licence was in place and that the Baxter Location had at all times independently exercised complete control over advertising and marketing of the pizzeria. The Defendant advanced the following arguments intended to show that the Plaintiff did not exercise the requisite control required of a licensor:

- **Independent Control over Goods, Advertising, and Accounting**: The Defendant claimed it made its own choices with respect to menu items, recipes, and ingredients as well as advertising and marketing materials such as pizza box stamps and uniforms. It also pointed to its accounting practices, which differed from those of the Plaintiff.
- **Centralized Purchasing was Purely Voluntary**: The Defendant claimed the reason the pizzerias opted to use a single supplier was to obtain the financial discounts and rebates that could be applied to a common marketing and advertising budget. The Defendant stressed that opting-in was at all times "purely voluntary". To illustrate this, the Defendant provided receipts showing the

Baxter Location had on several occasions sourced its products from third parties.

- **Asset Purchase Agreement—absence of trickle down obligations**: The Defendant also relied upon the asset purchase agreement it executed when purchasing the Baxter Location. The Defendant pointed to the absence of any terms governing or restricting the use of the Logo, the name “Milano pizzeria”, “Milano pizza”, or any other intellectual property.
- **15 Years of Pizzeria Autonomy:** Lastly, the Defendant pointed to the fact that while the Plaintiff had approached the Defendant on numerous occasions to sign a licence agreement governing the use of the Mark, the Defendant had always refused to sign it on the basis that the Defendant believed the Plaintiff did not own the Mark and the fact that the Baxter Location had been running autonomously for the prior 15 years.

In the end, the Court noted that the affidavit evidence of the parties was irreconcilable, bringing the credibility of the witnesses into question. As a result, the court concluded there was a genuine issue for trial as to whether a trademark licence agreement ever existed, and if so, what the terms of such a licence may have been.

3. Intellectual Property in the Logo: The Copyright and Trademark Claims

Against the backdrop that the Court was unwilling to reach a conclusion as to the nature of the relationship between the parties, the Court turned to the claims of copyright infringement and the trademark claims of passing off and the depreciation of the value of goodwill. The Court first sought to make a determination as to: (i) whether the Plaintiff could show it had title over the copyright in the Logo (as an artistic work); and (ii) whether the trademark registration for the Logo was still valid and enforceable. As put forward by the Defendant, if the Plaintiff neither owned the copyright in the Logo nor owned a valid and enforceable trademark in the Logo, the Plaintiff’s causes of action collapsed.

(i) Copyright Claim

The Plaintiff alleged that the Defendant, by reproducing the Mark, was infringing the Plaintiff’s exclusive rights in its artistic work. In response, the Defendant asserted the Plaintiff had no right to raise a copyright claim given that the Plaintiff had no proof that it had valid title to the copyright in the Logo.

Again, the Court was faced with a fundamental conflict in evidence, this time in respect of the author of the Logo. The Plaintiff’s evidence was that one of its shareholder/directors created the concept or idea for the design in the early 1990’s and created a rough sketch which resembles the present Logo. In contrast, Defendant claimed the Plaintiff’s shareholder/director merely had but an abstract idea for the Mark[2] that did not attract copyright protection. The Defendant’s evidence was that the independent Milano pizzeria operators all contributed to the cost of hiring a graphic designer to develop a logo to give a more uniform appearance among the independent operators and to use in group-marketing efforts. The graphic designer prepared various logos which were put to a vote by the operators, who selected what ultimately became the design of the Logo. The Plaintiff’s position was that it had hired the graphic designer, but only to create a polished version of the shareholder/director’s design concept, and that it owned the Logo. The Defendants, however, insisted that there was never any discussion about ownership or licensing of the logo, or about any limitations concerning the operators’ ability to reproduce and use the Logo as they saw fit.

So, as with the issue of whether the licence agreement existed, there was an incongruity of evidence on this point as well. However, unlike the issue of the licence agreement in which the Court considered it appropriate to have a trial on the issue, the Court dismissed the Plaintiff’s copyright claim in its entirety.

Why? Because even if the Plaintiff’s version of events was correct, that still did not give it standing to make a copyright infringement claim. The Plaintiff had failed to lead any evidence that the shareholder/director had assigned the copyright in the Logo to the Plaintiff and, moreover, did not allege that any such assignment had ever taken place. Thus, the Plaintiff had no right to make a claim for copyright infringement as there was no evidence whatever that it owned any copyright in the Logo.

Why Written Assignments and Licenses of Copyright Matter: This scenario highlights the importance of licensors obtaining written assignments from the authors of the copyright-protected works which are licensed to others, particularly in light of the default copyright ownership regime in Canada. Under Canadian law, the author/creator of a work is generally the first owner of the copyright therein.[3] The primary exception to that rule is where the work was made by the author in the course of her employment, in which case s.13(3) of the *Copyright*

Act provides that the employer is the first owner of the copyright, subject to any agreement to the contrary between the author and employer.[4] However, where the author is not an employee of the purported licensor but an independent contractor, ownership of the copyright will remain with the author unless and until the author assigns the copyright to the licensor in writing.[5] The *Copyright Act* permits copyright to be assigned and that any interest in the right may be granted by licence, but provides that no such assignment or grant is valid unless it is in writing and signed by the owner of the right in which the assignment or grant is made,[6] Without such a written assignment, a nonemployee author/creator retains the copyright in the work, including the exclusive right to produce and reproduce the work, together with the other bundle of rights which constitute copyright under Canadian law. A person who has procured the creation of a work from a nonemployee contractor for good and valuable consideration but who fails to provide for a written assignment of the copyright may discover that she merely has an implied licence to use the work for the purpose for which it was intended, but not have any right to exclude others from producing or reproducing the work

Why Written Waivers of Moral Rights Matter: Good IP management in relation to works of authorship does not stop at the written assignment of copyright. Equally important is obtaining a written waiver of moral rights from the author. As soon as an author creates the work that is subject to copyright protection, the author automatically gains moral rights in that work. Under Canadian law, this means the author has: (1) the right to be associated with her work by name or pseudonym, where reasonable in the circumstances; (2) the right to remain anonymous; and (3) the right to the integrity of the work, which right is infringed if, to the prejudice of the honor or reputation of the author, the work is (i) distorted, mutilated, or otherwise modified; or (ii) used in association with a product, service, cause, or institution. An owner of copyright therefore needs to obtain the written waiver of moral rights from the author to ensure that the work can be used without any restrictions.

In summary, it is critical that a person owns the copyright in a work of authorship and who wishes to licence others to reproduce the work (the "Licensor") ensure that all person(s) who created such works assign their copyright to the Licensor and waive their moral rights (in favor of the Licensor), in writing. Obviously, a Licensor's ability to allow for uninhibited use and to enforce exclusivity is a major point of concern for Licensees, and a Licensor's inability to do so will tend to significantly decrease the value of the relationship, particularly in a franchising arrangement.

(ii) Trademark Claim

Turning to the trademark claims, the Plaintiff relied on its registered trademark for the Logo to pursue its claims for trademark infringement and depreciation of the value of goodwill in the registered trademark, and relied on its common law rights in the Logo in respect of its passing off claim. In response, the Defendant alleged that the Plaintiff's registered trademark was invalid as it contravened the following provisions of the *Trademarks Act*:

- The Mark should never have been registered because it violated the s. 12(1)(a) prohibition on the registration of marks that are primarily a name or surname of an individual;
- The Mark should never have been registered because it violated the s. 12(1)(b) prohibition on the registration of marks that are clearly descriptive or deceptively misdescriptive of a place of origin of the services in association with which the mark is used; and
- The Mark should be invalidated pursuant to s. 18(1)(b) as the Mark lacked distinctiveness at the time of the counterclaim because it was no longer an indicator of a single source.

The Defendant further argued that the Logo was not distinctive and that the passing off claim could not succeed.

(1) Registrability of the Logo

The trademark application for the Logo was filed in 1997 and was finally registered in November 2002 "after some initial reluctance on the part of the Trademark Office to register the mark." The Defendant alleged that because the word "Milano" is both primarily a name or surname and is also a the name of a city in Italy, it was not registerable as it triggered the two aforementioned s.12 prohibitions. Ultimately, the Court sided with the Plaintiff and did not consider the mark to have been unregistrable at the date of registration. The Court thus found in favor of the Plaintiff on this issue, and did not invalidate the trademark on the basis that it was unregistrable at the time of registration.[7]

(2) Distinctiveness of the Logo

The Defendant's second line of attack was that the registration for the Logo was invalid because it was not distinctive of a single source. The Plaintiff maintained that a written licence agreement had indeed been executed and, although a flood had destroyed its only copy of that agreement, the existence of the licence was nevertheless established by the conduct of the parties. The Plaintiff argued that the distinctiveness of the Logo had been maintained by virtue of that licence agreement, as all of the Defendant's pretermination use of the Logo inured to the benefit of the Plaintiff. When the Plaintiff purported to terminate the Defendant's licence in 2016, all subsequent use of the trademarks by Defendants was alleged to be an infringement of Plaintiff's exclusive rights. In response, the Defendants claimed that there was never any licence, written or otherwise, and that there had been substantial long-term unlicensed use of the Logo (as well as the formative trademarks and trade names) by each of the independent Milano pizzeria operators, including the Defendant.

As a result of the Plaintiff's inability to prove that the Defendant's use of the Logo was under licence, the Plaintiff could not establish that the Logo had remained distinctive of a single source. The Plaintiff's inability to proffer documentary evidence at its motion for summary judgment on the trademark infringement claim meant that it could not clearly show that the Defendants' use of the trademark had ever been subject to a licence agreement pursuant to which the Plaintiff had control over the character or quality of the Defendants' goods and services. Thus, there remained a live question as to whether the Plaintiff (by itself and through its licensees) was the only person using the trademark, both at the time the application for registration was filed and at the time the issue of distinctiveness was called into question by the Defendants. To the extent that there were in fact multiple users of the trademark not under licence from a single licensor, Plaintiff could not succeed in establishing that it was the person entitled to register the trademark in the first place. Thus, the Court held that the Plaintiff's claims of trademark infringement, depreciation of goodwill of the registered trademark and passing off were not suitable for summary judgment.

The lack of a written trademark licence agreement means that the question of the distinctiveness of the Plaintiff's trademark will now have to be resolved at a trial. A trial judge will have to hear live witnesses give evidence about whether a licence ever existed, and if so, if it included terms providing that the Plaintiff had control over the character and quality of the goods/services provided in association with the Logo by the Defendant.

Why Quality and Control Provisions in a Trademark Licence Matter: In Canada, if a trademark is used by an entity other than the owner, the trademark's distinctiveness is impaired unless proper licensing provisions are in place which provide that the trademark owner has, directly or indirectly, control over the character or quality of the goods and services that are provided in association with the trademark. If a mark does not distinguish the goods and services of the owner from the goods and services of others, it cannot be afforded trademark protection under the law. An application for registration may be opposed on the ground that it is not distinctive, and a registered trademark may be invalidated if it loses its distinctiveness. Beginning June 17, 2019, the Registrar will be permitted to refuse registration on the basis that a trademark is not distinctive.

In *Milano Pizza*, because a live question remained as to whether the Plaintiff (by itself and through its licensees) was the only person using the Mark when the application for registration was filed and at the time the issue of distinctiveness was questioned by the Defendants, or whether there were in fact multiple users not operating under licence from a single licensor, the Plaintiff could not succeed in establishing that it was the person entitled to register the trademark in the first place. Thus, the validity of the trademark registration and, consequently, the issues of trademark infringement and depreciation of goodwill of the registered trademark that flow from the registration, were not suitable for summary judgment.

In short, the lack of a written trademark licence agreement containing terms that the Plaintiff has direct or indirect control over the character and quality of the goods and services sold by the independent operators' pizzerias left the Plaintiff vulnerable to the expungement of a Mark it had been using for decades.

4. Lessons Learned: Pitfalls and Best Practices when Licensing

The facts of the case illustrate several pitfalls into which licensors can inadvertently stumble if not careful, including:

- failing to properly document the creation of, and the transfer of rights in, key works (logo designs, software, advertising materials, menus Web site content) for use by the licensees, leading to uncertainty concerning the ownership of (and therefore the ability to enforce) the copyright therein;
- selecting trademarks for use that may not be registrable under the requirements of the *Trademarks Act*; and

- letting others use trademarks without a written licence agreement. Under Canadian law, a trademark must identify a single source of origin of goods/services or the seat of control over the character or quality of those goods/services. If a trademark fails in that regard, it is not distinctive and cannot be afforded exclusivity. A mark that fails to distinguish its owner's goods/services from those of others is not protectable as a trademark under the common law and cannot be registered as a trademark. Moreover, a registered trademark that becomes nondistinctive may be invalidated, and may be struck from the register by the Federal Court.

Best practices to avoid the hazards highlighted by the *Milano Pizza* case include:

- ensure your licence agreements are in writing, contain quality control provisions if trademarks are at issue, and refer to the all trademarks (including common law marks) and copyright-protected works that may be used by licensee;
- take advantage of the *Trademarks Act* s. 50(2) public notice provisions, which create evidentiary presumptions that the mark is being used under a licence with sufficient character and quality control provisions if the mark is accompanied by language such as "Mark is owned by [insert name of trademark owner] and used under licence by [insert name of licensee]";
- if your trademark is a design mark, register the copyright in the design mark as an artistic work with the Copyright Office;
- when selecting trademarks, particularly cornerstone marks that are intended to be used as core brands by franchisees or other licensees, obtain legal advice concerning the likelihood that you can obtain a registration before you start using the trademark. The value of a franchise system may depend on it.

1. 2018 FC 1112.
2. Ideas are not protected by copyright in Canada, rather it is the fixation of the idea in a work that gives rise to copyright protection.
3. S.13(1), *Copyright Act* (R.S.C., 1985, c. C-42) ("*Copyright Act*").
4. Even though the *Copyright Act* provides that the employer is the first owner of the copyright in an employee's work of authorship, as a matter of practice it is wise to paper the transfer with a confirmatory assignment (and waiver of moral rights) to preclude any argument that the s.13(3) was not operative in the circumstances, and to ensure that there is a documentary record for the purposes of introducing the transfer of the ownership into evidence.
5. S.13(4), *Copyright Act*.
6. S.13(4), *Copyright Act*.
7. Supra note 1 at 19.

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Infringement Report: Majority of Brands Suffered Trademark Infringement in 2018

Ronda Majure

Ronda Majure is vice president and global head of sales at CompuMark, a business unit of Clarivate Analytics. Ronda has worked in the trademark research and brand protection industry for over 20 years serving in various leadership roles. Currently, she manages a global team responsible for guiding top corporations and law firms around the world on complex trademark research and brand protection strategies.

Trademarks have evolved greatly since their origins. It was back in 13th century France where trademarks were used for the first time by bakers to identify their bread.[1] But ever since, they have undergone a huge transformation. Over the last few decades, the growing global economy, emerging markets entering the IP space, and business opportunities opened up by online global commerce have driven and shaped this transformation. This means more trademarks in more parts of the world. According to the World Intellectual Property Organization (WIPO), the number of trademark application filings is rising exponentially, with a 30% spike in 2017 compared to the year before. This rise equates to roughly 9.11 million applications filed.[2]

Looking at the landscape overall, these 9 million new marks are now part of the 75.6 million active trademarks worldwide—according to SAEGIS® on SERION®. As more marks enter the market, the challenge and complexity increases.

This increase can be attributed to a number of factors, including an expansion of China trademarks—the country was the reason behind the 30% increase in the number of trademark filings in 2017, with 5.75 million marks filed in China[3]—the proliferation of commercial activity on the Internet and social media, and brands filing marks across global markets.

In addition, the rise in the number of channels that organizations are operating in, such as ecommerce-driven marketplaces and social media, means there are more active trademarks in more places than ever before. When you consider the increased competition as a result of the expansion of the market, trademark attorneys, creative agencies, and marketers alike are running into challenges when creating and filing unique marks across jurisdictions that work both commercially and legally.

Trademarks represent the promise to the customer. But that's not the whole picture. Behind the scenes, a lot of work goes into developing names and transforming them into trademarks and in some cases the essence of a company. With the proliferation of trademark registrations globally, brand owners are finding it increasingly difficult to register a trademark that is unique and meaningful without infringing on an existing mark. On top of this, once they obtain a unique trademark, they must keep an eye out for infringement by others on their existing portfolios.

The trademark filing process (screening, clearing, filing, registration, watching, and brand protection) requires a significant investment of skills, time, and money. These processes, however, need to be carried out thoughtfully because not doing so can have severe consequences. If a proper search isn't carried out, for example, there's the danger that a proposed mark is being used by another organization. This could lead to a failure to secure the trademark, causing delays in getting to market.

It is also important to watch trademarks to ensure that other brands aren't infringing on your intellectual property. Again, having conflicting marks could lead to customer confusion, decrease in customer trust and ultimately negatively affect your brand equity and revenue. Getting this all right is becoming more important because of the intensively competitive market that businesses are operating in today and the corresponding increasing value of intellectual property around the world.

With the trademark ecosystem, there needs to be a balance between marks that are searched, cleared, filed and watched, and the challenges that in-house trademark counsel and trademark attorneys face, including budgets, time constraints, and the lack of the right technology.

To understand more about these challenges, as well as the environments in which trademark professionals operate, CompuMark—a flagship brand of Clarivate Analytics—commissioned independent research into the state of the trademark industry, surveying 350 in-house trademark counsel and external trademark attorneys across the United Kingdom, USA, Germany, Italy, and France.

Infringement Is here to Stay

It's not only the number of trademarks being filed that is on the rise. This year, one-third of respondents said infringement was on the rise from last year, with 81% of respondents having experienced infringement in 2018. This is almost a 10% rise from last year's research where 74% of respondents said they'd experienced infringement in the last year. The research also shows that infringement isn't just a one-off occurrence. Almost half of respondents experienced 1–10 instances of infringement in the last year, while 22% experienced 11–20 cases, and over 10% experienced 21–30 cases.

Trademark infringement can have a devastating effect on a brand—whether that's changing a name, logo or marketing material for a launch, or taking legal action against an infringing mark. More than the monetary impact, changing marks or having conflicting marks in the media or online can quickly cause customer confusion and can reduce trust in the brand.

Due to the resources required, it's often not easy to search and watch every single mark. In fact, only 20% of trademark professionals said they searched 76–100% of marks before filing them. Twenty-eight percent said they searched 51–75% of marks, while 38% said they searched 26–50% before filing. Budget plays a major role in this decision, with 28% of respondents saying budget helped them prioritize which marks to search.

This changes when it comes to watching behavior. Only 17% of respondents said they actively watched 76–100% of their marks, while the majority (38%) said they watched 26–50%. The way they prioritize which marks to watch depends greatly on anticipated revenue, investment in the brand and budget.

Despite brands' efforts to minimize the impact of potential infringement, 81% of respondents said they experienced instances of infringement in the last year, more than in the previous year. This represents a massive problem for brands, and the rise in incidents could indicate an upward trend. This finding is reinforced by the fact that 33% said infringement has risen in the last two years.

Looking at the specific cases in the 2018 research, 40% experienced 1–10 cases, while 22% experienced 11–20 instances. A further 12% said they experienced 21–30 cases.

Just as the types of trademarks being filed are expanding, so is infringement. It's not just traditional marks like business names that are being infringed upon, it's also social media names, industrial design, Web domains, and advertising campaigns. What this means for trademark professionals is that it is no longer enough just to monitor patent and trademark office (PTO) databases, but further afield too including common law sources.

Types of infringement experienced in the last year included Web domains (43%), business name (40%), social media name (38%), industrial design (35%), online marketplaces (33%), and advertising campaigns (32%).

The Price of Infringement

While instances of infringement are rising, it is the consequences that have a real bearing on the brand. Almost one-third of respondents have had to change the name of a brand as the result of an infringement.

In addition, almost three-quarters had to take legal action against infringements. The cost of legal action is high and can take a long time to resolve. In the United States, for example, litigation can cost between $120,000 and $750,000, sometimes even stretching into millions of dollars, depending on the intricacies of the case.

The consequences extend further than this, however. The top three effects of infringement have all increased this year compared to last year's research. They include:

1. Customer confusion (52%): this is up from 44% in 2017
2. Damage to brand reputation (42%): this is up from 33% in 2017
3. Reduced customer loyalty and trust (40%): this is up from 34% in 2017

Balancing the Budget

In the trademark process, having the budget to effectively search and clear new marks, while watching existing marks is critical—because the cost of infringement can often be damaging.

With the increase in filing behavior, there is the expectation that budgets rise in-line with those changes. This is the case among respondents; 54% said their budgets increased, compared to just 30% last year who said the same thing. This is a marked difference of 80%, again demonstrating that the importance of getting the trademark process correctly done is filtering through brands. Trademark budgets, however, are not developed or used in isolation and often form part of the wider brand protection budget.

When it comes to trademark clearance, one-quarter of respondents are spending 1–10% of their brand protection budgets while almost half spend 11–20% of their budget on this. During trademark screening, 46% spend 11–20% of their budgets on this activity, while 28% spend 1–10% of it here. When it comes to trademark watching, 21% of respondents spend 1–10% of their overall brand protection budget here. One-half spend 11–20% on watch activities, and 14% spend 21–30%.

This demonstrates that the trademark ecosystem doesn't operate in isolation. Just like there are numerous stakeholders in the process, there are also other elements to consider when looking at brand protection as a whole, including fraud, counterfeiting and piracy, and how these tie into trademark strategies.

What's on the Horizon?

The trademark landscape continues to transform, marks are evolving, applications are increasing, and infringement is an ever-present and growing issue.

While acknowledging the challenges within the trademark ecosystem, technology was highlighted as a solution. In fact, 59% of respondents said that better technology would help make the process of trademark research and protection more effective. This attitude was further reflected in the fact that 56% of respondents said technology would make the name creation process smoother. But trademark professionals also call out for improved communication and involvement from the beginning of name creation.

The appetite for better technology has eclipsed the need for bigger budgets. This can be interpreted in two ways. The first is there is recognition that technology has a bigger role to play in supporting trademark professionals and demand for it is growing. The second is simply that budgets are slowly evolving to meet the needs of trademark professionals; something that can be seen in the fact that budgets are seen less of a challenge in launching and clearing a new mark, and that they are on the rise. It could also mean that businesses are investing more in the trademark process, perhaps as a result of rallying by trademark professionals or because brands are recognizing the importance of the process and its effect on the wider business.

Conclusion

Infringement, alongside trademark filing activity, is on the rise which means brands and trademark professionals need to ensure they are doing all they can, with the resources on hand, to mitigate risk. The consequences of infringement can be damaging, impacting customer trust and brand reputation, ultimately affecting the bottom line and costing brands money.

With over 12 million trademark applications filed worldwide last year, which according to WIPO indicators represents an increase of 26.8% from the year before, trademark research is becoming increasingly important. Therefore, as the amount of businesses filing trademarks keeps growing, the need for faster, simpler, and more effective ways to research will become more essential.

Neither the pace of change nor the incidents of infringement are likely to abate. As a result, trademark professionals should seek more efficient ways of tackling the trademark process, from search and clearance, to filing and watching. For the most part, this will include focusing on using more technology, but collaboration, more resources, bigger budgets, and more time will also play a role.

1. *https://gizmodo.com/the-strange-medieval-origins-of-modern-logos-1670331631*.
2. *https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018.pdf*.
3. *http://whoswholegal.com/news/analysis/article/34577/trademarks-2018-trends-conclusions/*.

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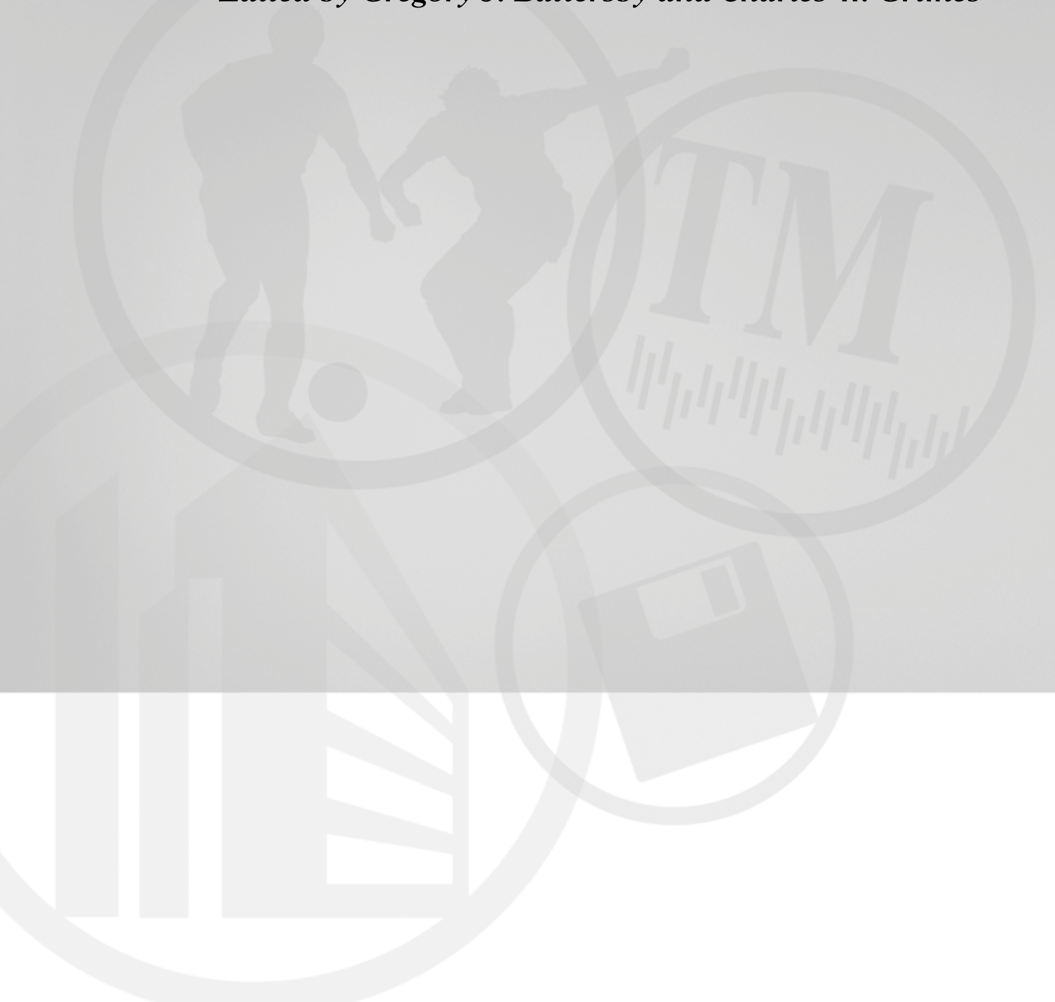

Wolters Kluwer

Licensing Markets

Patent Licensing

Christopher E. Loh

Protecting Patent Rights from the On-Sale Bar after *Helsinn*

On January 22, 2019, the United States Supreme Court in *Helsinn Healthcare S.A. v. Teva Pharms. USA, Inc.* held that the sale of a patented invention to a party who is obligated to keep the invention confidential can trigger the "on-sale bar" of the America Invents Act (AIA). This decision emphasizes the ongoing need for intellectual property owners to take care that certain commercial transactions involving their inventions do not interfere with their patent rights.

The On-Sale Bar Explained

The on-sale bar is a doctrine that prevents an inventor from patenting an invention that was commercially sold or offered for sale before a patent application for the invention was filed. The stated policy rationale for the bar is that one should not be able to commercially exploit his or her invention by offering it to the public first, only to later exclude the public from the invention by obtaining a patent on it.

To the frustration of some patentees, courts—including the Federal Circuit, the appellate court tasked with hearing patent-related appeals—have been reluctant to draw bright lines as to when the bar will apply. Thus, whether any given transaction will trigger the bar depends in large part upon facts specific to each transaction.

For example, in *Merck & Cie v. Watson Labs., Inc.*, 822 F.3d 1347 (Fed. Cir. 2016), Wieder Nutritional International, Inc. sought to purchase 2 kg of the chemical compound MTHF from Merck. Merck responded with a fax offering to sell Weider the MTHF for $25,000 per kg, delivered to Wieder's R&D facility, free of charge, payment due 60 days net. After some back-and-forth, Weider cancelled its order. Nevertheless, the Federal Circuit ruled that Merck's fax, "providing essential price, delivery, and payment terms—contained all the required elements to qualify as a commercial offer for sale," and on that basis invalidated a Merck MTHF patent. *Id.* at 1352.

Conversely, in *Meds. Co. v. Hospira, Inc.*, 827 F.3d 1363 (Fed. Cir. 2016), the Federal Circuit declined to apply the on-sale bar to a situation in which The Medicines Co. (MC) agreed to pay Ben Venue (BV) $347,000 to manufacture three commercial lots of the drug bivalirudin. Here, the Federal Circuit concluded that the subject of the sale was BV's contract for manufacturing *services*—rather than the patented lots themselves—and that, because the patented invention was not the subject of the sale, the bar did not apply. To support that conclusion, the Federal Circuit noted that BV's invoices specified "charges to manufacture" the lots; that MC paid BV only about 1% of the commercial value of the lots; that title to the lots never passed to or from BV; and that the MC–BV transactions were kept confidential.

The *Helsinn* Case

In *Helsinn*, both the Federal Circuit and the Supreme Court concluded that, under the AIA, the on-sale bar may apply to the sale of an invention wherein the details of the invention are kept confidential from the public.

In this case, the drug-maker Helsinn in 2001 entered into agreements with MGI under which MGI would purchase and distribute in the United States the FDA-approved 0.25-mg dose form of Helsinn's Aloxi® drug product. The agreements were disclosed publicly in MGI's 8-K SEC filings, though they were redacted to shield the dosage strength and price terms. Helsinn subsequently sought and obtained a patent covering the 0.25-mg dose. That patent was filed after the March 2013 effective date of the AIA, and thus was subject to the AIA's provisions.

The Federal Circuit (55 F.3d 1356 (Fed. Cir. 2017)) found that the disclosure of the MGI agreements triggered the on-sale bar under the AIA, noting that the agreements "unambiguously contemplated the sale by Helsinn of MGI's requirements of the claimed invention." Although the agreements were made prior to FDA's approval of the 0.25-mg dose, the Federal Circuit found this detail irrelevant, noting that "a contract for sale that includes a condition precedent is a valid and enforceable contract." Also, although the agreements required MGI to keep the details of the invention confidential, the Federal Circuit held that public disclosure of the *existence* of the sale was sufficient to trigger the on-sale bar under the AIA. Helsinn appealed.

In a January 22, 2019 decision, the Supreme Court affirmed the Federal Circuit. In so doing, the Supreme Court rejected Helsinn's argument that certain statutory language in the AIA had changed the scope of the on-sale bar. Specifically, the AIA bars patents for inventions that were "on sale, or *otherwise* available to the public before the effective filing date of the invention." According to Helsinn, the "otherwise" language required that the details of the invention had to be publicly disclosed in order to trigger the bar under the AIA. The Supreme Court disagreed, reasoning that the "otherwise" language was insufficient in the AIA to overturn "settled pre-AIA precedent" concerning the on-sale bar.

Considerations for IP Owners after *Helsinn*

The Supreme Court's *Helsinn* decision effectively affirms the status quo ante concerning the on- sale bar. IP owners should proceed on the assumption that the on-sale bar jurisprudence that applied before AIA applies equally to patents filed after the March 2013 effective date of the AIA.[1]

As illustrated by the above cases, there are no measures that in all instances will shield transactions from application of the on-sale bar. The following considerations should, however, be kept in mind for those who seek to avoid the bar:

- Parties may wish to enter into agreements that omit the typical hallmarks of a commercial sale or offer for sale (*e.g.*, definite price, delivery, and payment terms).
- Where the patented invention is a product, parties may wish to enter into agreements for services (*e.g.*, contract manufacturing services, programming services, testing services) rather than for products. In such agreements, the parties may wish to clarify that title to any patented or patentable material shall remain with the IP owner.
- There is a complementary patent law doctrine called the "experimental use" doctrine which, in some circumstances, may negate the on-sale bar. Although the experimental use doctrine itself is highly fact-specific—and too complicated to address here—parties to agreements concerning nascent inventions may wish to stress the experimental nature of that subject matter in the agreement.
- IP owners who contemplate entering into transactions with third parties concerning potentially patentable subject matter should consult with qualified patent counsel first. Some circumstances may warrant early patent filings, regardless of how the transaction is (or can be) structured.
- Last, prospective purchasers of a company with unpatented IP may wish to conduct due diligence into whether the company's IP is worth patenting, and, if it is, seek qualified patent counsel's advice as to whether any transactions between the company and any third parties might raise a potential on-sale bar.

Christopher Loh is a partner at Venable LLP, an experienced patent litigator and an award-winning author of publications on a range of intellectual property issues. His commentary and publications have appeared in Vox, Bloomberg IP, the National Law Journal, and the New York Law Journal.

1. Note that the Supreme Court's *Helsinn* decision does not address the situation in which the existence of the sale itself is kept confidential from the public.

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Trademark Licensing

Bryan J. Johnson, Jonathan Menkes and Nicole R. Townes

A Different Shade of Gray: Gray Market Goods and Recent Developments in the Cosmetics Space

Under the first-sale doctrine, once a trademark owner first authorizes its branded product to be sold to a consumer, the trademark owner's right to control the further re-sale of that product is generally said to be "exhausted", so long as the product is not "materially different" from the original.

A corollary to the first-sale doctrine is the concept of gray market goods (sometimes referred to as parallel imports). Gray market goods are those that are genuine, branded products that are first sold by a trademark owner in another country and then imported to the United States by a third party (without the trademark owner's consent) and are usually sold at a lower price than the U.S. version of the product.

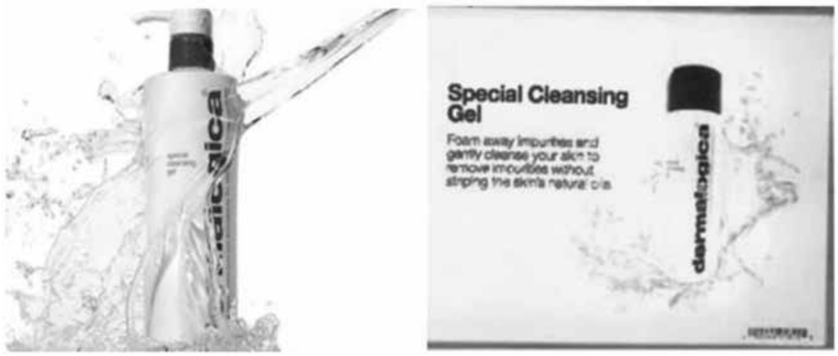
Section 526 of the Tariff Act prohibits the importation of trademarked goods without the explicit written consent of the owner. Section 42 of the Lanham Act, 15 U.S.C.A. § 1142, establishes authority for U.S. Customs Service to prevent entry of gray market goods into the United States. Section 42 applies to goods that are physically and materially different from the domestic product, and thus are likely to cause consumer confusion. Thus, like the first-sale doctrine, such unauthorized importation/sale of gray market goods is permitted so long as the products are not "materially different" from the U.S. version. The challenge for brand owners lies in persuading courts that the differences are in fact "material."

For decades, courts have wrestled with the question of what constitutes a material difference in the fashion and cosmetics space. For example, the court in *Davidoff & Cie, S.A. v. PLD International Corp.*, No. 00-2635-CIV, 2000 WL 1901542 (S.D. Fla. Sept. 25, 2000) found that selling fragrance products with the batch codes removed and replaced with numbers that did not correspond to any actual products was a material difference and affirmed a decision to grant plaintiff's request for a preliminary injunction. Similarly, in *John Paul Mitchell System v. Pete-N-Larry's, Inc.*, 862 F. Supp. 1020 (W.D.N.Y. 1994), the court held that "physical obliteration of the batch codes" on Defendant's gray market hair-care products was a material difference.

In contrast, the court in *Matrix Essentials v. Emporium Drug Mart*, 988 F.2d 587, 590 (5th Cir.1993) found that Defendant's gray market hair-care products were identical to Plaintiff's products despite Defendant's circumvention of certain quality control functions within Plaintiff's distribution system, and because there was no apparent or potential "defect" in the product that consumers would not be able to easily detect.

Dermalogica Sues Target

In a more recent case, Dermalogica brought a civil action against Target for Target's alleged unauthorized importation and sale of gray market goods bearing Dermalogica's trademarks. Dermalogica alleges that the products sold in Target's stores are gray market goods from Canada and are materially different from Dermalogica's U.S. products because 1) the Canadian product does not comply with FDA labeling requirements; 2) the product packaging in the United States provides that the product offers "UVA high protection" at a SPF grade 50, whereas the Canadian product does not; 3) The product packaging in the United States provides a "DRUG FACTS" section that includes "uses" and "directions" as required by the FDA, and these items are not included in the Canadian product; 4) The product packaging in the Canadian product includes different language to describe the product's characteristics, and includes a French translation, whereas the U.S. product does not; and 5) the product packaging for the Canadian product does not direct consumers to call the toll-free phone number for questions and comments, which is an FDA requirement.



Left: Dermalogica Marketing Materials; Right: Target's Marketing Materials

Dermalogica also alleges that Target's advertising for the skin-care products is false and misleading in that a consumer would likely believe that the product contains anti-acne products when in fact the products are only intended to be moisturizer, and this would be material to a consumer's purchasing decision. Furthermore, Dermalogica alleges that it has an extensive agreement system in place that prohibits the re-sale of such products to others, and this is intended to allow them to maintain quality control and provide consumer updates in the event of a product recall.

Dermalogica alleges Unfair Competition, False Designation of Origin, and False Advertising under the Lanham Act, as well as False Advertising, Tortious Interference with Contractual Relations, Tortious Interference with Prospective Economic Relationships, and Unfair Competition under California law. Dermalogica seeks a preliminary and permanent injunction as well as damages, and attorney's fees.

As of the writing of this article, Target has not filed its Answer to the complaint.

Practice Tips/ Takeaways

It is unclear whether courts will take a more expansive view of "materiality" such that trademark owners will be able to more easily stop the importation of gray market goods, or whether courts will retreat to the more narrow view of what constitutes a material difference and permit the importation of gray market goods in all but the most extreme cases, including where there is an actual or apparent defect that is not obvious to a potential consumer. In either case, brand owners should continue to remain vigilant with their brand protection policies and the impact of their global sales.

Nicole Townes is a partner in Knobbe Martens' Orange County office. She represents a wide range of companies in trademark, trade dress, copyright, false advertising, unfair competition, trade secret, and patent litigation. Her practice also includes trademark prosecution, worldwide trademark portfolio management and enforcement, as well as trademark opposition and cancellation proceedings.

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Jonathan Menkes is a partner in Knobbe Martens' Orange County office. He provides strategic trademark counseling and brand protection for clients across numerous industries, including fashion and apparel, food and beverage, healthcare, medical, CBD and legal cannabis, automotive, communications, financial, computer hardware and software, video games and e-sports, and extreme sports. His practice includes domestic and foreign trademark selection and clearance, trademark audits, unfair competition, false advertising, domain name disputes, and notice and takedown procedures on social media and other online platforms.

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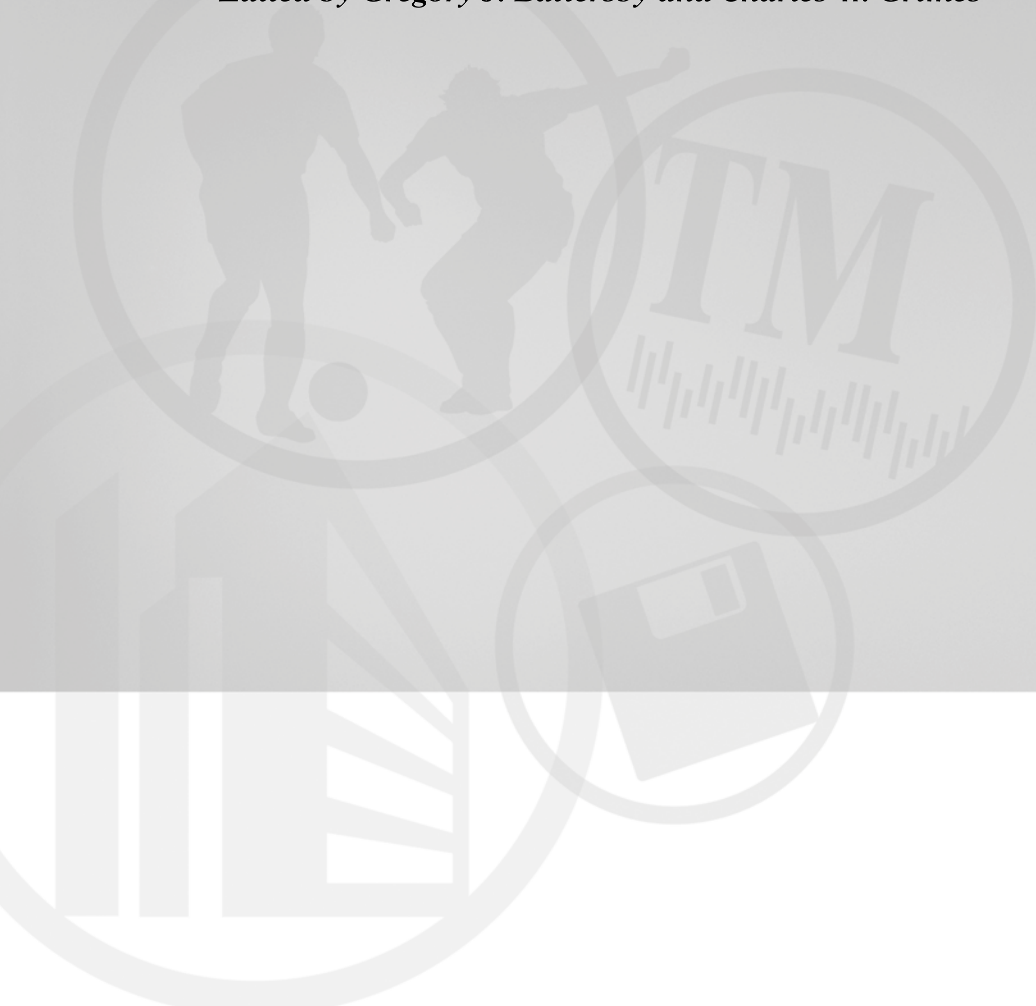

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Collegiate Licensing

Evelyn A. French

DOJ Reaches Settlement with Learfield IMG College over Alleged Unlawful Agreements Not to Compete

In recent weeks, the Antitrust Division of the Department of Justice (DOJ) announced a proposed settlement in its lawsuit against leading college sports multimedia rights provider Learfield IMG College. *See U.S. v. Learfield Communications, LLC, et al.*, No. 1:19-cv-00389 (D.D.C. Feb. 14, 2019). This proposed settlement comes only a few weeks after the DOJ approved the long-awaited merger of IMG College, LLC (IMG College) and Learfield Communications, LLC (Learfield). In its complaint, which was filed alongside the proposed settlement, the DOJ alleged that for several years IMG College and Learfield agreed to limit competition between one another for multimedia rights contracts for college athletic programs.

Background of the Complaint

With decreasing revenue drawn from public financing, major university athletic programs have turned to other revenue sources to fund their growing budgets. Multimedia rights are the advertising and promotional rights associated with the athletic teams. For example, if a university's football team has a post-game radio show that is sponsored by an advertiser, it is part of the university's multimedia rights. Due to their size, almost all major university athletic programs hire multimedia rights management firms to manage their print and digital advertising, game sponsorships, promotions, and other various sponsorship opportunities.

According to the complaint, prior to their merger, IMG College and Learfield were the leading multimedia rights management firms for college athletics. The DOJ alleged that in the absence of their unlawful coordination, IMG College and Learfield, along with smaller multimedia management firms, would have competed against each other to win multimedia rights contracts with major university athletic programs. Instead according to the DOJ, IMG College and Learfield began to coordinate under the guise of joint ventures, which denied universities the benefit of competition between the firms.

On one particular occasion, the DOJ alleged that IMG College and Learfield were both initially planning on submitting independent bids to a university but determined that it would be advantageous to not submit competing bids and instead submitted a joint bid. In the absence of competing bids, the university accepted the joint bid, which "offered less revenue to the school than at least one of [the] planned independent bids." The DOJ further alleged that when the firms unwound such joint arrangements, they would reach noncompete agreements in order to continue to limit competition.

The DOJ also alleged this anticompetitive behavior extended to smaller multimedia rights management firms. According to the complaint, in one instance, IMG College entered into a joint venture with a smaller firm, which led to the smaller firm agreeing to "not bid on any IMG's schools for over a year."

Principles of the Settlement

In settlement of the DOJ's claims of noncompete agreements, Learfield IMG College has agreed in the proposed settlement to the following prohibitions:

- It cannot communicate with other multimedia rights providers concerning any competitively sensitive information relating to a bid.
- It cannot participate with any competitor in any joint bid.
- It cannot propose a joint bid to any competitor.
- It cannot agree with any competitor that either the competitor or Learfield IMG College will not bid for any multimedia rights contract.
- Without the written consent of the DOJ, it cannot enter into, renew, or extend any joint venture with any competitor relating to the management of multimedia rights.

The proposed settlement permits, among other conduct, the following conduct by Learfield IMG College:

- It may communicate with a college, university, athletic conference, venue, or any other person (other than a competitor) seeking to contract for the management of such entity's multimedia rights.

- It may communicate with an actual or prospective advertiser.
- It may communicate with a competitor if the competitor was engaged in a joint venture with either Learfield or IMG College as of July 1, 2018, and the communication relates solely to the operation of the joint venture; or if the competitor and Learfield IMG College are engaged in a joint venture approved by the DOJ.

The proposed settlement would also require Learfield IMG College to ensure compliance by appointing an internal antitrust compliance officer. The antitrust compliance officer must then develop and implement compliance procedures and submit a written report on compliance.

This settlement agreement comes on the heels of a 15-month DOJ investigation of the merger between Learfield and IMG College. The DOJ's approval of the merger came with two significant conditions. First, Learfield IMG College will not have an exclusive negotiating window with its clients. Second, the noncompete clauses in Learfield IMG College employees' contracts are void.

With the merger conditions as well as the proposed settlement, the DOJ is clearly hoping that despite the merger, the world of college sports marketing will stay competitive. But only time will tell whether the smaller providers can indeed survive in this market.

Evelyn A. French is an associate at Mintz who advises clients, including trade associations, on antitrust and competition law. Evelyn also handles matters involving the Consumer Product Safety Act and other product safety laws.

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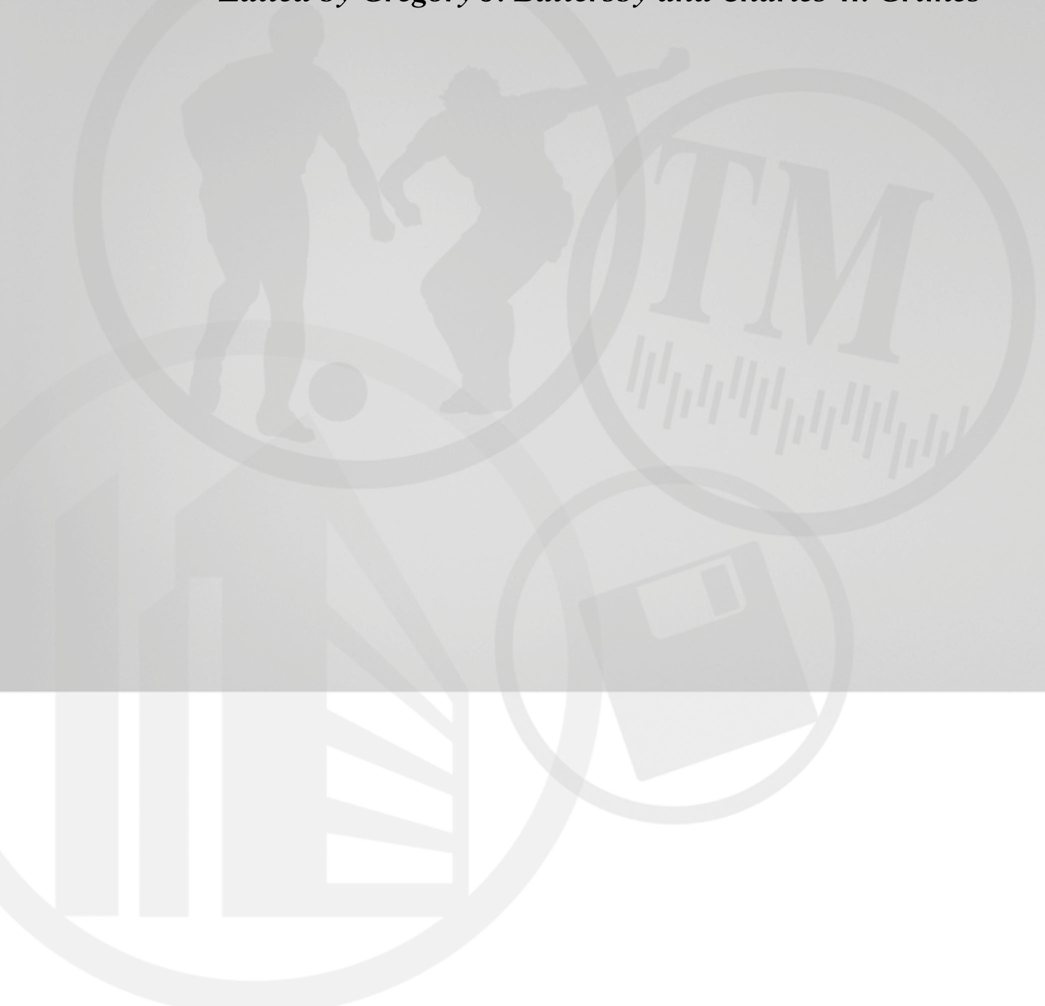


Wolters Kluwer

Fashion Licensing

Bita Kianian and Ian W. Gillies

No Apologies: *Nirvana v. Marc Jacobs*

On December 28, 2018, Nirvana LLC filed a lawsuit against designer Marc Jacobs in the Central District of California, alleging copyright and trademark infringement. *Nirvana LLC v. Marc Jacobs International, LLC, et al.*, 2:18-cv-10743 (C.D.Cal). Nirvana LLC is the legal entity which controls the band Nirvana's financial, legal, and business affairs. Nirvana LLC was formed in September 1997 by the band's two surviving members, Dave Grohl and Krist Novoselic, along with the Cobain Estate, controlled by Courtney Love. The lawsuit was triggered by Jacobs' new "Bootleg Redux Grunge" Collection, and alleges infringement of Nirvana's satirical smiley face design, created by Nirvana front man Kurt Cobain in 1991. The design was first introduced in 1992 and has since been licensed for use on numerous items, often appearing in yellow against a black background.

This is not the first time Nirvana has made headlines due to legal disputes. After Cobain's passing, Love was publicly at odds with Grohl and Novoselic for nearly two decades. Love sued the band members in 2001 to dissolve Nirvana LLC and gain control over the band's affairs. The band members countersued in an attempt to remove Love from the LLC. Love, Grohl, and Novoselic appear to have put their differences aside and now collaborate to protect the Nirvana legacy.

Nirvana's Smiley Face Design

Allegations behind Nirvana's Complaint

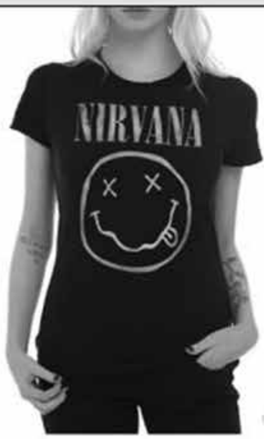
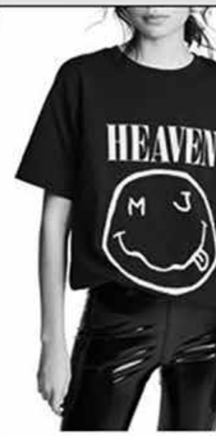
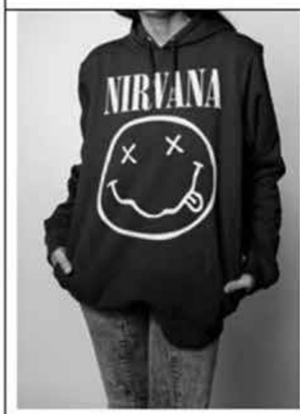
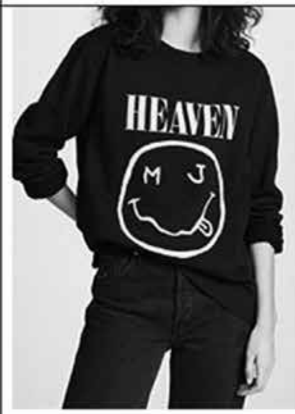
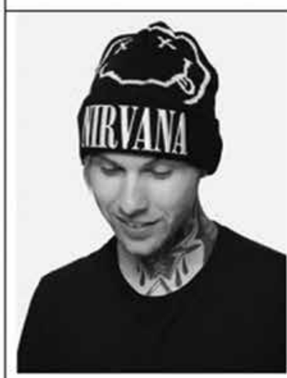
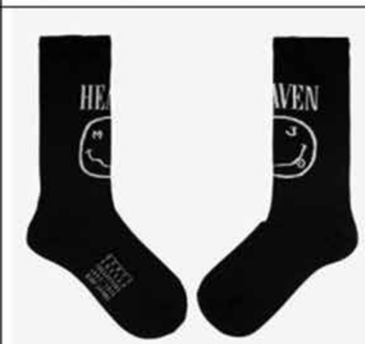
In its complaint, Nirvana alleges that Jacobs' "Bootleg Redux Grunge" collection features designs bearing a resemblance to the infamous Nirvana smiley face design. Nirvana further alleges that unlike the authorized Nirvana clothing found at retailers such as Hot Topic, Target, and Urban Outfitters, the items available from Jacobs' collection are not licensed by Nirvana.

In addition to its music royalties, Nirvana has earned a steady revenue stream from licensing merchandise. In its complaint, Nirvana claims to have used the smiley design continuously since 1992 to identify its music and licensed merchandise. The first use of the design appeared on a poster advertising the release party for Nirvana's *Nevermind* album. Since then, it has been licensed for use "on literally dozens of different t-shirt, shirts, hats, hoodies, bags, backpacks, glasses, wallets, and other items of merchandise." To support the claim that the two designs are substantially similar, Nirvana provided the following visual comparison of their licensed merchandise and pieces from the Jacobs' collection.

Nirvana's complaint further alleges that due to the extensive use of their design on licensed merchandise, the design has come "to symbolize the goodwill associated with Nirvana," and has given rise to both copyright and trademark rights because consumers viewing goods that bear the smiley face will assume those goods are endorsed by or associated with Nirvana. Additionally, Jacobs' use of his design is claimed by Nirvana to be "part of a wider campaign" by Jacobs to "evoke Nirvana in the minds of [consumers]" and associate the entire collection with "one of the founders of the 'Grunge' musical genre, so as to make the 'Grunge' association with the collection more authentic."

Financial Burdens of Unlicensed Merchandise

Unlicensed use of a band's trademark or copyrighted work on merchandise can be financially detrimental and substantial, especially for a dissolved band like Nirvana that no longer performs live or composes new music. Even for active bands that continue to tour and release new records, merchandise licensing can be a significant percentage of their income. According to Bob McLynn, the manager for rock band Panic! At the Disco, 30% of

Nirvana Licensed Merchandise	"Bootleg Redux Grunge" Collection
	
	
	

the profits earned from the band's most recent tour were attributable to the sale of merchandise. (*See https://www.rollingstone.com/music/music-features/inside-musics-merch-gold-rush-199554/*).

A recent global licensing survey released by the Licensing Industry Merchandisers Association (LIMA) found that in 2016, international music merchandise sales hit $3.1 billion total, a near 10% increase from the previous year. (*See https://www.billboard.com/articles/business/7801357/global-music-merch-biz-grew-to-31-billion-in-2016-study*; *https://www.licensing.org/research/licensing-survey/*; *https://www.asicentral.com/news/web-exclusive/february-2018/rise-in-music-merch-means-opportunity-for-promo-industry/*). Music has become an increasingly digital experience for consumers, and musicians are recognizing that fans desire something physical to connect themselves with the music they love. Bands have been largely addressing this market through additional merchandising. For example, three years ago rock band Fall Out Boy opened a pop-up shop in New York dedicated to selling the band's merchandise, to great success. Rap musicians Kanye West and Drake have followed suit, opening pop-up shops of their own that have been reported to earn $1 million in revenue (*See https://www.vogue.com/article/bravado-ceo-mat-vlasic-interview-kanye-west-pop-up-shops*).

This lawsuit comes over 25 years after Jacobs showcased his original Grunge collection in 1993. The original collection was not well-received by the general public and was rumored to have cost Jacobs his position at design house Perry Ellis. The original collection was likewise not well-received by Cobain and Love, according to some reports. Love was quoted in an interview with Women's Wear Daily as stating that "Marc [Jacobs] sent [Love] and Kurt [Cobain] his Perry Ellis grunge collection" and their response was to burn it because "[they] didn't like that kind of thing." (*See* WWD article at: *https://wwd.com/eye/people/courtney-love-on-birkins-and-sex-3189035/*). This previous history or any number of unknown factors might have placed "Something in the Way" of the parties from otherwise reaching an amenable agreement, leading to the present lawsuit.

Immediately prior to publication, Marc Jacobs filed a Motion to Dismiss alleging, among other things, failure to allege copyright ownership, copyright invalidity, lack of similarity between the disputed artwork, and copyright preemption of the non-copyright claims. The disputed "Bootleg Redux Grunge" collection items are still offered for sale on the Marc Jacobs website and other online retailers.

Ian Gillies, a partner with Knobbe Martens in San Diego, CA, uses his former career as an engineer, inventor, and professional musician to bring a unique perspective in representing similarly minded creative and inventive clients. His practice includes procurement of patents, trademarks, and copyrights for his clients. He provides counsel and due diligence related to intellectual property licensing, registrability, acquisition, and infringement risk.

Bita Kianian is an associate with Knobbe Martens in Orange Country, CA. Before joining the firm, Mrs. Kianian worked as a production engineer for local Southern California artists and designers. Her experience led her to law school fueled with a passion for helping creators and inventors protect their work. Her practice includes the procurement and enforcement of trademarks and copyrights for her clients.

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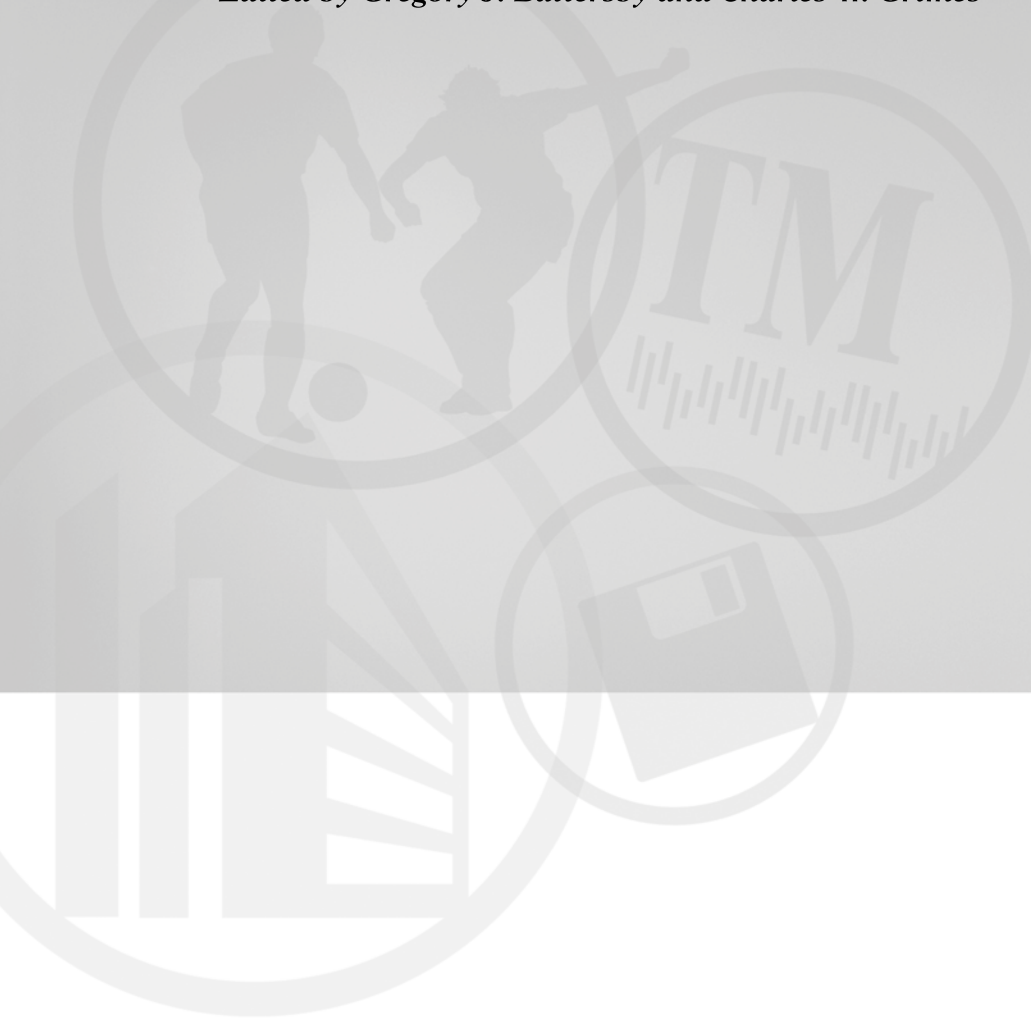

Wolters Kluwer

Music Licensing

Brandon W. Clark

Can I Use This Song in My Podcast? It Depends

According to Podcast Insights, there are currently over 660,000 podcasts in existence and over 28 million episodes available to listen to. This number is certainly growing as are the legal concerns and issues associated with hosting or producing a podcast. This article will provide some general guidelines and outline some of the rules around using copyrighted material in a podcast.

Copyright attorneys are increasingly being approached by people asking if they can use a specific song in a podcast and the answer is usually some iteration of "it depends", as is the case here, but I will start by discussing some common myths and misconceptions around the use of copyrighted materials.

Can I Use a Song if I only Use 15 Seconds of it?

This is one of the most common misconceptions. Unfortunately, this is not true and there is no bright line rule that says a use is an acceptable use as long as you only use 5, 15, or 30 seconds of a song. Any use of copyrighted material without permission is, according to U.S. copyright law, copyright infringement. It does not matter if you use one second or the entire song, using copyrighted materials without the consent or permission of the copyright owner, constitutes copyright infringement. As a caveat, there may be fair use considerations present that will be discussed below.

Can I Use a Song if I Provide Credit and Link to the Song in the Description of the Podcast?

Again, the general answer is "no". Simply providing credit to the artist, or copyright owner, does not allow you the right to use their work without permission or compensation. Providing attribution may be appreciated, and likely even a requirement of a license, but simply doing so does not eliminate your potential risk or liability of copyright infringement.

I am Not Making Any Money from it. Would That Be Considered Fair Use?

By far, the biggest misconception intellectual property attorneys hear on a day-to-day basis involves the issue of *fair use*. Fair use is a legal doctrine that allows a user to use portions of copyrighted materials for the purpose of commentary, criticism, reporting, teaching, and research without the need for permission from, or payment to, a copyright owner. Depending on the nature or subject matter of your particular podcast, and the specific use in question, one of the above categories might apply to your use. The fact that you are not making money from your podcast (yet—hopefully) does potentially play a role in the fair-use determination, but that factor alone is not determinative. Fair use is an affirmative defense to copyright infringement and judges use four factors to resolve fair-use disputes. None of the four factors are determinative and each situation is evaluated on a case-by-case basis. Thus, judges have a great deal of discretion when making a fair-use determination and the outcome of any given case can be hard to predict.

The four factors judges consider are:

1. The purpose and character of the use.
2. The nature of the copyrighted work.
3. The amount and substantiality of the portion taken.
4. The effect of the use upon the potential market.

Generally, the fact that you are not making money off your podcast is going to be weighed slightly in your favor, it is simply not going to be enough to be determinative in any fair-use analysis. There are going to be situations where fair use is applicable and it is unlikely that you would ever receive a lawsuit for humming a few seconds of a song or singing the chorus of a song if it comes up in discussion, but again, each situation is going to be analyzed on a case-by-case basis.

Now that some of the common misconceptions have been explained, what can you do?

There are still a lot of options to limit your potential liability while still putting out a great podcast.

Obtain a License from the Copyright Owner

Obtaining a license from the copyright owner is the best way to eliminate potential copyright liability. Generally, a license is going to take the form of a contract that gives you permission to use a specific song or copyright work in exchange for money or other consideration paid to the copyright owner(s). Most licenses are going to be negotiated with the artist themselves, or their relevant record label *and* music-publishing company. There has been an increase of podcasts licensing music, primarily for intro, outro, and theme songs. The copyright owners, however, do not have to give you permission to use a song, and simply requesting a license, does not mean you have received a valid license. There is no price guarantee and certain artists are going to charge much more than other artists for a license. If you are attempting to obtain a license for a well-known song, you can reach out to the copyright owner directly or contact a copyright attorney to assist you in that process.

If you do not have a considerable budget, you can simply search the Internet for stock audio sites that provide access to a wide range of songs and sound effects for you to use. There are a lot of great sites that are offering this service for very reasonable rates.

Use Royalty Free, Public Domain, or Creative Commons Content

A simple Internet search will also provide a significant number of sites that provide royalty free or creative commons songs for you to use. These sites generally have very few restrictions on how you can use the songs. Additionally, any song written prior to 1923 (as well as many written after that date) is going to be in the public domain, meaning it is no longer protected by copyright. If a song is in the public domain, you are free to use it in your podcast or any other format. Whether or not a song is in the public domain can be difficult to determine, but there are Web sites and attorneys that provide assistance with doing so.

And last but not least, you can always hire a musician(s) or local recording studio to create a song library for you to use.

As a general rule, if you are not sure, you will nearly always be advised not to use it. While podcast creation and listenership is growing rapidly, using *that* song is likely not worth the risk of finding yourself in the middle of a lawsuit. Taking some simple precautions now will likely help save you considerable time, energy, and resources later.

Brandon W. Clark is the Chair of the Copyright, Entertainment & Media Law Practice Group at McKee, Voorhees & Sease, PLC. For additional information, please visit www.ipmvs.com or contact Brandon directly via email at brandon.clark@ipmvs.com.

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Wolters Kluwer

Praxis

Counterfeit Corner

Jessica Carballo and Andrew Ferren

Counterfeits in the Digital Marketplace

Counterfeiting has moved beyond high-priced luxury goods to low-cost everyday items. Many of these fake products pose real dangers: face masks with arsenic; phone adapters that can electrocute you; computer chargers that fry your hardware; batteries that blow up. These counterfeits infiltrate online marketplaces, where they co-mingle with authentic products in warehouses and ship to unsuspecting consumers. With millions of goods leaving fulfillment centers every day, brand owners and consumers must wrestle with a billion-dollar problem: how do you police the largest marketplace in the world?

In January of this year, the U.S. Government Accountability Office filed a report detailing the results of a federal investigation in which 47 products were purchased from five online retailers, including Amazon and Walmart.com. (The Report, "Agencies Can Improve Efforts to Address Risks Posed by Changing Counterfeits Market" can be viewed at *https://www.gao.gov/products/GAO-18-216*.) All of the products were advertised as new, shipped from the United States, and sold by third-party sellers with customer ratings above 90%. Nearly half were counterfeit.

How does this happen? The five Web sites investigated have sizable "marketplaces," virtual storefronts that let people other than the hosting company sell merchandise. For perspective, according to the LA Times, more than half of the goods sold on Amazon are from these third-party sellers. ("Extra inventory. More sales. Lower prices. How counterfeits benefit Amazon," David Pierson, September 28, 2018). Anyone with an ID and a credit card can open a virtual storefront; few identifying details are required to set one up, and these details are regularly falsified. Since 2014, manufacturers from China (the world's largest maker of counterfeit goods) have been able to sell directly to consumers in the Amazon Marketplace. In fulfillment centers, where products are picked up for packaging and shipment, goods from third-party sellers and goods direct from brand owners regularly co-mingle. The resulting product pool is a mix of authentic and counterfeit goods, all sold as the same product and often for the same price.

Significant Impact on Companies Big and Small

Because of the way goods are sold and orders are processed, customers are unwittingly purchasing counterfeit goods online, sometimes with serious and possibly harmful consequences. Brand owners are also suffering. Smaller companies, from the makers of phone chargers to kitchen apparel, allege that counterfeits are driving them out of business. When the counterfeit product breaks or malfunctions, buyers often post negative product reviews. As more customers receive counterfeit products, negative reviews proliferate, brand reputation declines, and sales plummet. Brand owners are left with few options. For smaller companies, leaving a site like Amazon means losing access to hundreds of millions of customers.

Larger companies have the resources to police the Internet for counterfeit goods. Apple, for instance, has a team of specialists who investigate points of sale around the world and work to remove counterfeit products from the market. But even Apple has a hard time keeping up: during a nine-month period, the company purchased over 100 items sold as genuine Apple products on Amazon, and over 90% of them turned out to be fake. In the resulting lawsuit that Apple filed against the infringing wholesaler, Apple revealed its frustration with Amazon's response to the problem, writing that Amazon initially took weeks to provide any information about how it came to be selling counterfeit Apple products or details about its source, sales, or remaining inventory. "We are concerned that Amazon is not taking this issue seriously," Apple's attorney wrote.

Where Do Brand Owners Stand?

Amazon maintains that it has a zero-tolerance policy for counterfeits and is investing in technology designed to weed out counterfeit goods but is nevertheless being criticized for not doing enough. The company is currently fighting multiple lawsuits from brand owners alleging that it is complicit in rampant trademark infringement that has resulted in loss of consumer goodwill and sales revenue.

So far, brand owners have been largely unsuccessful in their pursuit of a legal remedy to the online counterfeiting problem. But if online retailers aren't responsible for the counterfeit goods they sell, then who is? And what are we to do about it? Brand owners may be limited in their ability to push back against the weight of counterfeit goods, but consumers could advocate for change by withholding their cash. If half of the goods we put in our carts are counterfeits (leaving us at best in need of a refund, and at worst with a burning hole where our house used to be, or an infection from counterfeit lip gloss, or vision loss from counterfeit solar eclipse glasses), then why are we clicking to begin with?

Jessica Carballo, associate at Goulston & Storrs, advises clients regarding intellectual property protection and transactions. She also advises clients on matters related to mergers and acquisitions, corporate governance, corporate financing, and compliance.

Andy Ferren is an intellectual property lawyer and business counselor at Goulston & Storrs. Clients rely on him for legal and practical business guidance in matters involving intellectual property, commercial transactions, general corporate issues, and nonprofit operations and compliance. Andy also helps clients to protect and manage their trademarks, copyrights, trade secrets, and other intellectual property in the United States and other markets through a variety of registration, enforcement, and defense efforts. He works with these clients to develop and execute strategies that maximize the value of their intellectual property assets.

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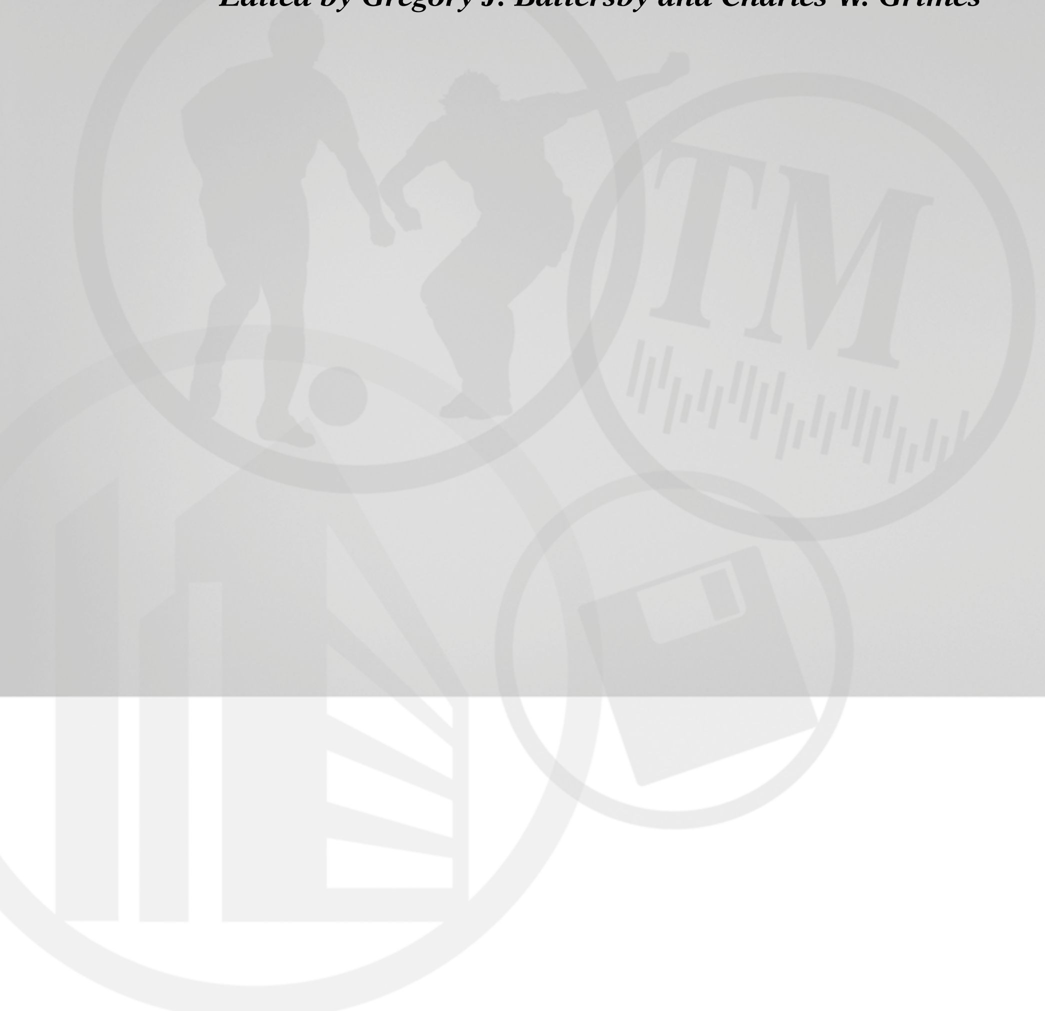

Wolters Kluwer

Retail

Amy Ralph Mudge

Shopper Doesn't Dig Kate Spade's Reference Pricing

Kate Spade New York, a fashion brand that has defined urban cool for almost two decades, began as an unfunded startup run by a husband-and-wife duo in 1993. When the pair sold the company to Liz Claiborne in 2006, the company was worth $124 million. When it was sold to Tapestry Inc. in 2017, it was valued at $2.4 billion. Not bad for an upstart family business.

With the enormous success of the brand, Kate Spade outlet stores opened nationwide, selling the company's ubiquitous handbag lines as well as several lines of accessories and apparel. Although many consumers view outlet stores as retailers offering discounted merchandise, a recent dispute has a plaintiff saying that is not necessarily the case.

If a Discount Falls in the Forest …

One of the Kate Spade outlet stores is the epicenter of a recent class action lawsuit brought by San Diego shopper Kristen Schertzer, who went after Kate Spade in California's Southern District in February 2019. According to Schertzer's allegations, the company was in the habit of creating a fictitious reference price on the tag of the product, which it labeled as "our price." It then used signage near the product to offer steep discounts (in Schertzer's story, up to 70 percent off). "However, the reference price is total fiction," Schertzer claimed.

According to the complaint, false reference pricing occurs where a retailer creates a fake regular, original, and/or former reference price, and then offers an item for sale at a deep "discounted" price. This practice of false reference pricing is prohibited by California and federal law.

Schertzer is suing the company for violation of California's Unfair Competition Laws, False Advertising Law, and Consumer Legal Remedies Act. She argues that Kate Spade's allegedly false reference pricing "is a sham price disparity that misleads consumers into believing they are receiving a good deal and induces them into making a purchase." Schertzer requests that the court halt Kate Spade from using this pricing mechanism and enjoin the retailer from making allegedly misleading price comparisons in its labeling and advertising.

Takeaways

Although Schertzer outlines a detailed investigation into the prices and pricing practices of Kate Spade, one of her assertions about the company's approach is interesting, specifically as it relates to the relationship between the reference price and sale prices displayed on outlet merchandise.

"The merchandise sold at Kate Spade outlet stores is created specifically for Kate Spade outlet stores," Schertzer notes. "Thus, the only market price for the Kate Spade outlet store merchandise is the price at which the merchandise is sold at the Kate Spade outlet stores." Because the Kate Spade outlets feature exclusive products, Schertzer argues, in the absence of a historical price drop, the reference price and the sales price must be the same categorically.

Food for thought for outlet operators.

Amy Ralph Mudge is co-leader of BakerHostetler's Advertising, Marketing and Digital Media team. She routinely represents top-tier companies before the Federal Trade Commission (FTC), the National Advertising Division (NAD) and the Children's Advertising Review Unit (CARU), as well as in private, federal and state class action defense, consumer protection, and antitrust litigation.

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International Licensing

Brendan Coady and Ooma Khurana

Repealed—IP Exemption to the Competition and Consumer Act 2010

The so called "IP exemption" (Section 51(3) of the *Competition and Consumer Act 2010* (CCA)) has historically provided a carve out for IP rights holders for agreements and arrangements in Australia which would otherwise breach certain restrictive trade practices provisions under Part IV of that Act. The IP exemption applies to conditional licensing or assignment of intellectual property rights such as patents, registered designs, copyright, eligible circuit layout rights, or registered trademarks.

The IP exemption has now been repealed by the *Treasury Laws Amendment (2018 Measures No. 5) Act 2019* (the Act). The Act does **not** provide for "grandfathering" of existing agreements or arrangements.

IP Rights holders will now have a six-month window (expiring September 12, 2019) in which to review the terms of their existing licensing and assignment arrangements to ensure ongoing compliance with anti-competitive conduct prohibitions under Part IV of the CCA and avoid potentially significant penalties.

What Is the IP Exemption?

Until now, Section 51(3) of the CCA has provided an exemption for certain licensing and assignment agreements in relation to intellectual property (IP) rights which would otherwise breach restrictive trade practices prohibitions under the CCA. In particular, the IP exemption has prevented the application of cartel conduct prohibitions (price fixing, output restrictions, market sharing, and bid rigging) as well as restrictions on arrangements including exclusive dealing, which are illegal where they may substantially lessen competition in a market.

The IP exemption has not, however, been available to avoid the application of prohibitions on misuse of market power, misuse of market power in a Trans-Tasman market or resale price maintenance.

The IP exemption has extended to conditional licensing or assignment of intellectual property rights such as patents, registered designs, copyright, eligible circuit layout rights, and registered trademarks. Although there has been some debate about the scope of the IP exemption, in practice it has provided a safe harbor for provisions of certain arrangements that may otherwise have attracted scrutiny as anti-competitive practices. These include license terms such as those imposing territorial restrictions, field of use restrictions, and volume restrictions. They may even include quality requirements and other provisions commonly found in franchising agreements and trade mark licenses.

What Is Changing and Why?

The Parliament has now passed legislation repealing Section 51(3), removing the IP exemption from Part IV of the CCA.

This change adopts recent recommendations of the Productivity Commission in its *Intellectual Property Arrangements Inquiry Report* (December 2016) and the *Competition Policy (Harper) Review* (March 2015) suggesting that commercial transactions involving IP rights should be subject to the same competition laws as other commercial transactions involving property and assets. Removing the exemption is proposed to bring Australia into line with comparable jurisdictions such as the United States, Canada, and Europe, which do not provide IP exemptions in their competition laws, and in the long term it is intended to improve competition and innovation in the Australian intellectual property sector.

No Grandfathering …

The change will apply to a license granted, an assignment made, or a contract, arrangement, or understanding entered into on or after the repeal of the IP exemption. The change, however, also extends to conditions or provisions within a license, assignment, or contract, arrangement, or understanding which was entered into *before* the repeal of the IP exemption. This is because it is an offence to "give effect to" a prohibited arrangement.

In other words, there will be no grandfathering of existing contracts, arrangements, or understandings which were entered into in reliance on the

IP exemption. Existing licensing or assignment arrangements which currently fall within the scope of the IP exemption will therefore need to be promptly re-examined from a competition law perspective, to ensure they comply with all relevant prohibitions under Part IV of the CCA. This is particularly important where arrangements are between competitors or those deemed to be competitors.

What Do Licensors Need to Do?

Industries most likely to be impacted by the change include those in which IP rights are routinely licensed or assigned conditionally. This will include the life sciences, pharmaceutical, biotech, medical device, technology, and telecommunications industries in particular.

If you currently have conditional IP licensing or assignment agreements in place which may breach the restrictive trade practices provisions of the CCA (for example, IP licenses which impose territorial restrictions, volume or field of use restrictions, patent or other IP settlement agreements involving pooling or cross-licensing arrangements, or arrangements which impose restrictive license conditions) it will be necessary to re-examine those agreements from a competition law perspective, to ensure ongoing compliance. Agreements between competitors in settlement or resolution of IP disputes will likely require particular attention.

For any new IP license, assignment, or contract, arrangement, or understanding, it will now also be necessary to ensure that any potentially anti-competitive impacts have been considered in the same manner as for any other commercial transaction.

How Long Have Companies Got to Act?

The Act provides for a six month "grace period" before changes to the CCA will take effect. This grace period expires on September 12, 2019. The Government believes this will give "individuals and businesses time to review existing arrangements to ensure compliance". In practice, however, many businesses may find this provides a limited timeframe in which to review and assess their existing arrangements and, if necessary, vary those arrangements or make an application to the ACCC for the necessary authorizations. Although there has been some suggestion by the Government that the ACCC will issue guidance on the application of the law to IP arrangements, it is unlikely that any class exemptions will come into effect before the expiry of the grace period.

Potential penalties for breach of restrictive trade practices prohibitions under the CCA are significant (for corporations, maximum penalties are the greater of: $10 million; three times the value of the benefit; or (if that value is not calculable) 10% of annual turnover in the preceding 12 months).

It is therefore recommended that businesses and individuals act as soon as possible to commence reviewing their existing agreements and reach out for assistance where required.

Brendan Coady has more than 20 years' experience as a commercial lawyer with a particular focus on technology, telecommunications, intellectual property, and competition law. Brendan has advised telecom companies, technology developers, communications infrastructure companies, and government agencies on a wide variety of commercial and regulatory matters. He can be reached at brendan.coady@maddocks.com.au

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