The Katten
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Letter from the Editor

Welcome to the inaugural issue of The Katten Kattwalk, our quarterly newsletter that discusses relevant legal issues within the fashion industry.

Fashion Law is an amalgam of several different practice areas, much of it centering around intellectual property issues. The primary issues we see revolve around proprietary rights vested in intangible assets, such as their trademark or brand, unique trade dress, copyrighted fabric designs, design patents, utility patents, distinctive product trim, or configurations and personalities associated with the company, brand or products.

Whether you're a designer, an entrepreneur or just a fashion maven, we think that you'll find the content we provide throughout these pages to be educational, stimulating and relevant. We welcome your feedback on topics for future issues; please feel free to contact me anytime at karen.ash@kattenlaw.com. Enjoy!

Karen Artz Ash

In this Issue

Court Ensures Trademark Protection for Fashion Colors

by Karen Artz Ash and Bret J. Danow

Fashion designers were recently handed an important victory by the Second Circuit Court of Appeals when it ruled that a single color in the specific context of the fashion industry could acquire secondary meaning and therefore serve as a source identifier for a particular fashion brand.

The eyes of the fashion world have been on the Second Circuit Court of Appeals as it decided the case of *Christian Louboutin v. Yves Saint Laurent America Holding*. Famed high-fashion footwear designer Christian Louboutin had sued design house Yves Saint Laurent regarding footwear incorporating a red sole, claiming that such footwear infringed Louboutin's federal trademark registration covering a lacquered red sole on footwear.

The district court denied Louboutin's request for a preliminary injunction blocking Yves Saint Laurent from selling certain shoes with a red bottom. In its opinion, the district court stated that, with respect to fashion, colors serve an aesthetic function and, as such, may not be entitled to trademark protection in the same manner that colors can serve as a trademark for other types of products or services. In doing so, the lower court made an exception to the general ability of a brand owner to establish exclusive rights in a single color by refusing to extend such ability to certain apparel items. The district court's decision potentially invalidated Louboutin's trademark registration for a red sole on footwear.

Louboutin subsequently appealed the district court's findings to the Second Circuit Court of Appeals.

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In a decision issued on September 5, 2012, the court of appeals disagreed with the district court and held that when it comes to whether a single color can serve as a trademark, the fashion industry was no different from other industries.

The result of the decision is that a fashion house, just like companies in other industries, will be able to obtain exclusive rights to use a single color in a unique context (such as the sole of a shoe) if the color is so consistently and prominently used that it attains secondary meaning such that it identifies a particular brand and indicates its source.

Although the court of appeals reinstated Louboutin's trademark registration in and to a red sole on footwear, it limited such registration to a red sole that contrasts with the rest of the shoe. This holding seems to address the concern raised in the district court's decision regarding the functionality of colors and the unique characteristics of the needs of fashion designers by, as it relates to the case at hand, carving out an exception enabling third parties to use a red sole on a red shoe, thereby conveying a unitary, aesthetic impression. Therefore, while the court of appeals ruled in favor of Louboutin on the trademark issue, it affirmed the district court's refusal to grant the preliminary injunction that Louboutin had requested.

The end result of this heavily followed case is that there are no industry-specific limitations on the ability of a color to function as a trademark. Therefore, fashion designers will have the ability to develop a unique association between a non-functional color and their fashion products.

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New Treatment of Trademark Licenses in Bankruptcy

by Karen Artz Ash and Bret J. Danow

A recent decision by the US Court of Appeals for the Seventh Circuit created a split among the circuits with respect to a licensee's rights to continue to use licensed trademarks after a debtor licensor rejects the license agreement in bankruptcy.

Section 365(n) of the US Bankruptcy Code allows for an election by a licensee of "intellectual property" to continue using a licensed property post-bankruptcy provided that the licensee has satisfied certain criteria.

However, although the definition of "intellectual property" in the Bankruptcy Code expressly includes patents and copyrights, it does not include trademarks. This exception has supported the treatment by US courts of licensees of trademarks differently from licensees of patents and copyrights during bankruptcy.

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Specifically, the omission of trademarks has been interpreted by the Fourth Circuit as enabling a trademark licensor which has filed for bankruptcy to reject the entire trademark license agreement, thereby terminating the licensee's right to use the trademark (a right not available to copyright or patent licensors in bankruptcy). This interpretation has often left trademark licensees in a vulnerable position when its licensor files for bankruptcy because the licensee is left with only a pre-petition claim for damages, which remedy can fall far short of the actual financial injury that it may suffer.

The Seventh Circuit has now taken a very different approach. It looked at the definition of "intellectual property" in the Bankruptcy Code and held that the omission of trademarks does not mean that trademarks licenses are treated differently. Instead, it held that the exclusion may be construed to mean that the provision does not affect trademarks one way or the other and, as such, ruled that a trademark licensee does not lose the ability to use a licensed trademark when the license agreement is rejected by the licensor in bankruptcy.

Having effectively determined that trademark licenses could be categorized as "intellectual property" licenses, the Seventh Circuit held that the rejection of a trademark license by a licensor in bankruptcy constituted a breach of the license agreement in accordance with Section 365(g) of the Bankruptcy Code. By classifying the rejection of the trademark license as a breach, the Seventh Circuit ruled that in bankruptcy, just as outside of it, the non-breaching party's rights remain in place and the licensee could continue to use the licensed trademark.

As a practical matter, the decision potentially leaves licensees of rejected trademark license agreements in an untenable position since trademark licenses require that the licensor play an active role in approving the quality of products bearing the mark. In any event, the Seventh Circuit's ruling may support protection for a trademark licensee if its licensor seeks to reject the license agreement in bankruptcy. Given the split in opinion among the circuit courts, it is likely that the treatment of trademark licenses in bankruptcy has not yet been finalized and may end up in the US Supreme Court.

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An Eye for Fashion

Katten has one of the most comprehensive fashion law practices in the nation. Having served the industry for more than 30 years, we offer insightful advice on the many legal and business issues faced by national and international manufacturers, designers, marketers and retailers of textiles, apparel, footwear, jewelry and luxury goods.

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Fashion is an increasingly global industry, with international production and distribution playing a vital role in many companies' operations. We are well-equipped to advise and represent clients in every legal situation that affects their business—from worldwide patent and trademark prosecutions to joint enforcement actions; from factoring and lending to mergers and acquisitions; from private financings to public offerings, securities, and corporate governance compliance; and from the development of customs compliance programs to the litigation of cases before the US Court of International Trade and venues throughout the world.

LAWYER MONTHLY

Katten Named Trademarks Law Firm of the Year

Katten was named Trademarks Law Firm of the Year – USA by *Lawyer Monthly* as part of their 2012 Lawyer Monthly Legal Awards.

Katten has long been recognized as being on the cutting edge of trade identity protection. The firm's trademark attorneys and litigators are experienced in handling a wide range of matters involving trade names, trademarks, service marks, trade dress, logos, taglines, slogans, designs and domain names. The firm also represents clients with some of the most valuable brands in the world, including Microsoft, Motorola, Skype, Topshop and many others.

Fashion Licensing:
The Use of Licensing Agents

by Karen Artz Ash

Licensing agents are called on, from time to time, to help accomplish a wide variety of tasks. This, of course, depends on the type of field (i.e., the nature and complexity of the prospective licensed property), the relative sophistication of the parties seeking to exploit the future licensed property, the requisite experience required to exploit the particular property (e.g., if a unique manufacturing or distribution capability is necessary) and the geographical scope of the anticipated transactions, among other things.

In order to understand the capabilities and potential advantages of engaging a licensing agent, it is important to understand exactly what is an agent.

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Specifically, in the broadest legal sense, an "agent" is one who is empowered to act on behalf of another person or entity.

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This is a very broad, all encompassing definition, but it conveys the essence of an agency relationship. In the context of licensing, an "agent," who is empowered to act on behalf of his or her client, could be called on to do the following:

1. Work with his or her client to develop a strategic plan. This would involve identification of the appropriate ultimate retail channels, thereby facilitating the development of a marketing plan and determining the target entities or persons appropriate to accomplish such strategic plan.
2. Vigorously identify and actively pursue opportunities with potential partners who have the proper expertise, market positioning, personalities and experience.
3. Proactively exploit contacts in the proper markets.
4. Provide guidelines on realistic financial goals for the exploitation of one or more properties.
5. Broker and negotiate licensing arrangements.
6. Monitor performance under one or more licenses or, in some instances, satisfy performance requirements (such as performing quality control, handling payment collection, acting as a liaison, identifying persons to assume managerial or other positions that may be required under the licensing arrangement, effecting renewals or modifications, and negotiating open terms for renewal periods).

The process of working with a client, identifying potential business partners, and negotiating and finalizing arrangements among several parties, requires significant time. This time commitment often approaches many months or even years from start to finish. Accordingly, while remuneration to the agent might come later, it must compensate for the time and effort already expended and, of course, compensation often is used as an incentive for the agent to secure the best possible deal for his or her client.

Business terms between an agent and his or her client may, therefore, vary depending on the type of licensing arrangement that is ultimately concluded. Typically, an agent will receive the benefit of some portion of royalties or profits that might be generated through the licensing facilitated by the agent. This financial "tail" typically would cover the duration of the initial contract term and would likely continue for the duration of any renewals, modifications or extensions. In some cases, the agent's share for any modified, renewed, or extended contract might change from the initial term, often resulting in a declining participation of the agent in the monies generated by the business relationship. Additionally, if an agent identifies an opportunity but does not conclude the license, if the parties ultimately execute the license, the agent is compensated.

In the fashion field, initial contract terms typically vary from three to five years (usually with an extra long initial year), with one or multiple renewal opportunities or options (each renewal period usually commensurate with the length of the first term), contingent on accomplishing minimum net sales and royalty targets. It also is not uncommon, if the start-up costs are high and new infrastructure is required, for the duration of a fashion license to be an initial long term period, for example, 10 years, with one or more measured renewal options. In such circumstances where a long-term relationship is put into place, there is usually an opportunity for one or both parties to terminate earlier if performance does not reach stated goals at various measuring time periods or consecutive annual periods. When an agent is involved, the compensation for the agent would likely be tied to the objectives and termination rights.

When there is an agent involved, this is factored into the economics of the transaction. Commonly, the allocation (as between the contracting parties under the license) for responsibility to the agent is expressly negotiated and set forth in the license(s). This may support a somewhat different royalty structure in order to allow for compensation of the agent.

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While agents often are called on to help expand product scope and market penetration for nascent brands, agents also may play a significant role in identifying "out of the box" opportunities for developed or well-known brands.

For example, a fine watch brand or leather accessories company might do well by targeting luxury brand automotive companies for prestige product placement, such as recognizable interior clocks or upholstery.

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Similarly, a prestige designer brand might be interested in exploiting down-market opportunities in the mass channel. These negotiations can be sensitive, as brand integrity is at stake. A wrong move with a poor partner could compromise the exclusivity of the prestige brand.

Perhaps the best known agency relationships are in the fields of entertainers and sports figures. Olympians often rely on the negotiated payments they receive for product endorsement to support their training; and when they are successful and emerge victorious at sporting events, they need to move quickly to capitalize on their accomplishments and often short-lived fame. Under these circumstances, agents are able to identify appropriate opportunities (avoiding conflicts with preexisting exclusive relationships), and move quickly to make the athlete's name and image instantly marketable. In some instances, the opportunities exist prospectively in advance—the "Wheaties" box Olympian, for example.

Licensing agents also are exceedingly valuable in servicing the estates of deceased personalities. Often, an iconic image or someone recognizable as typifying a certain level of style or "cool," for example, Humphrey Bogart or James Dean, can be packaged, merchandised and exploited long after the death of the legend. In some instances, the estates are able to profit at levels far greater than revenue generated during the person's lifetime.

In recent years, licensing agents have played a preeminent role in identifying and exploiting the potential of deceased personalities, and even in enforcing exclusive rights against unauthorized users of the name or image. A licensing agency may be so invested in the business of exploiting a personality's name and likeness that they are willing to bear the burden of legal expenses to make sure the world is free from violators of those properties.

Entertainment personalities commonly lend their names (and talent) to fashion accessories and clothes. Indeed, some personalities such as Jennifer Lopez (J Lo) and Lauren Conrad, for example, have developed and lent their names and images to apparel and accessories marketed exclusively through a single retailer such as Kohls or JC Penney. Often, as they are represented by agents in their entertainment lives, they turn to agents to identify licensing opportunities, negotiate equitable terms and to administer the day to day execution of the licensing relationships. Under these circumstances, the agent also will make sure that new opportunities do not conflict with existing ones, and that photographs or likenesses used to promote the products are commensurate with the star's image and persona.

In the United States alone, the business of licensing has generated billions of dollars in licensing revenue, with that amount increasing exponentially each year. [International Licensing Industry Merchandiser's Association (LIMA) 2007-2011 Licensing Industry Survey]

The role of the licensing agent, in part, is to identify and capitalize on creating marketable opportunities for new brand properties and broadening the appeal for mature ones.

Floyd Mandell, National Co-Head of Katten's Intellectual Property Practice, was recognized by the online publication Law360 as a winner of its MVP award for intellectual property.

The MVP awards honor attorneys whose accomplishments in major litigation or transactions in the past year have set a new standard. Floyd and his team collaborated on several high-profile cases last year, involving some of the most famous brands/trademarks in the world and his cases were featured in many law journals, newspaper articles and blogs.

Karen Artz Ash was named Leading Trademark Lawyer of the Year (United States) in the 2012 ACQ Law Awards.

Hosted by *ACQ* magazine and the ACQ5 news site, the awards set out to recognize the achievements of those who are responding most successfully to the demands being placed on them in the new, post-recession business environment.

Court Cases Highlight Product Liability for Licensors

by Karen Artz Ash and Bret J. Danow

A common objective of a brand owner when entering into a licensing agreement is to ensure that its licensee assumes all responsibility for manufacturing the licensed products and all liability for consequences as a result thereof. While the typical trademark license includes certain indemnification provisions aimed at ensuring that the licensor achieves this objective, a few recent court decisions have highlighted instances where such standard indemnification provisions do not sufficiently protect licensors. Such decisions reveal an emerging issue with respect to product liability that brand owners engaged in licensing their trademarks must pay careful attention to, namely the possibility that they will be held liable for injuries resulting from the use of a product made by its licensee even when the brand owner is not directly involved in either the manufacture or sale of the products.

Specifically, recent court cases have held a non-seller trademark licensor liable for injuries resulting from defective or dangerous products sold under a license agreement under the so-called apparent manufacturer doctrine.

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This doctrine provides that one who sells or distributes a product manufactured by another as if it were its own, is subject to the same liability as if it were the actual manufacturer.

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The doctrine assigns liability to a non-seller trademark licensor on the basis that a trademark licensor plays a role in placing the dangerous product into the stream of commerce through its participation in the design, manufacture, marketing or distribution of the product. In particular, courts have found that when a licensor consents to the distribution of a defective product, its liability arises from several factors including the risk created by approving the unsafe product, the licensor's ability to eliminate the unsafe nature of the product, the consumer's lack of knowledge of the danger and the consumer's reliance on the trade name, which gives the impression that the licensor stands behind the product.

The application by US courts of this apparent manufacturer doctrine creates a potentially difficult balance between, on the one hand, the licensor's desire to control the use of the licensed trademark through quality controls and approvals and, on the other, its interest in avoiding imputed liability for defective products. A valid trademark license requires that a licensor maintain quality controls over the use of the mark and the products sold under the licensed mark. However, it is this very concept that potentially exposes the licensor to liability since it puts the licensor in the position of having expressly approved the use of a defective product.

Since a licensor is obliged to exercise approvals and quality control, in order to address this apparent tension with respect to potential exposure to liability claims, a licensor includes language in its license agreement which provides that the licensee's indemnification obligations prevail even if the licensor approves the design or product. In addition, the licensor should insist that it be added to a licensee's insurance policies as an 'additional insured.' Another protective measure would include requiring licensees and any permitted contractors to comply with all applicable consumer product safety rules.

Although these recommendations are not absolute protections, they are potential defenses in protecting a trademark licensor against defective product claims.

The Territorial Extent of Trademarks

by Karen Artz Ash and Bret J. Danow

Often a company develops a brand and secures trademark protection only to later receive notice from an entity claiming ownership of an identical mark in a limited geographical location. The question is then how the presumptive rights of nationwide exclusivity conferred on the owner of a US trademark registration interact with the prior non-registered, common law rights of a third party in a limited area.

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The fact that a party has obtained a federal trademark registration does not automatically eliminate another party's prior non-registered, common law rights.

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The party that was first to adopt the mark (the senior user) can seek to overcome the registrant's prima facie presumption of nationwide exclusivity by taking steps to ensure the right to use the mark in the specific geographic location in which it has established rights. This creates a limited exception to the exclusive nationwide rights conferred by a US registration. US trademark law does, on the other hand, reward the party who obtains a federal registration by "freezing" the geographic territory covered by the senior user's common law rights as of the date the so-called junior user obtained its trademark registration. The senior user may maintain its limited trademark rights but be constrained against future expansion.

The concept of defining the respective territorial rights of concurrent trademark owners turns on a question of fact, namely how to define the location in which the non-registered senior user has developed goodwill in its mark. The territorial scope of a trademark and its goodwill are typically defined in terms of the area from which customers are drawn, the geographic extent of advertising and the nature of the goods or services offered. Courts have traditionally established boundary lines based on commercial markets rather than state lines. For localized businesses, courts have often limited the territory of goodwill to a specific radius based on miles.

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Modern technology has given companies the ability to access distant geographic markets and to expose customers in diverse locations to their trademarks.

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However, the fact that a party has a website which can theoretically be accessed on computers outside of a particular location or, for that matter, operates accounts on national social media, does not, itself, constitute evidence that a trademark has attained any goodwill outside of the specific location in which the party operates.

Given that a party using a particular mark can later find itself cut off from expanding the territory in which it offers goods or services should provide ample motivation for parties to make federal trademark filings. Similarly, parties that obtain trademark registrations should be cautioned that there may be specific geographic exceptions to the otherwise national scope of their rights based on the existence of a more senior localized business.

Fashion Licensing: Issues Relating to Potential Licensor Liability for Defective or Dangerous Products

by Karen Artz Ash

Every properly crafted trademark license agreement includes indemnification flowing from the licensee in favor of the licensor (including affiliates, parents, subsidiaries, officers, directors, employees and customers) for the licensed products that are manufactured by or for the licensee. The exceptions to such indemnity usually are narrow and often limited to: (1) use of the licensed trademark in the approved manner; (2) business and advertising materials provided by licensor that must be used by licensee; and (3) product specifications established and required by the licensor. Assuming there are corresponding sections providing for the maintenance and extension of business and products liability to include the licensor, the indemnity exceptions—in particular item (3), above—may undermine or negate such indemnification.

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In the fashion area, the potential for dangerous or defective products would appear to be minimal. However, there is no shortage of potential claims or claimants.

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They can range from the underwire in a bra that can separate and puncture the wearer, for example, to an allegedly serious injury arising out of the structure or design of a shoe sole or heel. With respect to jewelry items and children's products, for example, consumer product regulations also might require additional levels of compliance and provide a basis for potential liability on the part of a licensor.

Accordingly, it is prudent to have an understanding of these issues—at least to be able to identify the issues—and address them as effectively as possible in trademark license agreements.

Recent Case Law Developments on Licensor Product Liability

Typically, liability for defective or dangerous products is determined as a matter of state law. In *Lou v. Otis Elevator Co.* [77 Mass. App. Ct. 571,458 Mass. 1108 (2010)], the Massachusetts Appeals Court affirmed a judgment holding a non-seller trademark licensor liable under the "apparent manufacturer" doctrine. This doctrine, also articulated in the Restatement of Torts, provides that one who sells or distributes a product, manufactured by another as if it were its own, is subject to the same liability as if it were the actual manufacturer. In this case, Kevin Lou (Plaintiff) had his hand

trapped between the skirt panel and step tread of an escalator in a department store. His hand was substantially severed and he suffered permanent injury. The escalator was manufactured and sold by China Tianjin Otis Elevator Company, Ltd. (CTOEC) under a license from the defendant, Otis Elevator Company (Defendant).

Defendant had previously entered into a trademark license agreement and a technical cooperation agreement with CTOEC. Under the license, Defendant granted to CTOEC, the right to use the Otis trademark within China. Under the technical cooperation agreement, Defendant agreed to furnish to CTOEC the "Otis Know How." This "know how" included product and engineering design, inspection methods, quality standards, and factory and management methods. Additionally, included in an amendment to the technical agreement was the inclusion of the "E510 escalator model," the same model that injured the Plaintiff in the department store.

Defendant contended that the "apparent manufacturer doctrine" is limited to the actual sellers of a product. The court disagreed. Because the Defendant had substantial participation in the design and manufacture of the product, it was found liable as a result of its own role in placing a dangerous product into the stream of commerce. Defendant argued that there was no contractual privity with the consumer. This also was rejected by the court.

In another case, *Burkert v. Petrol Plus of Naugatuck, Inc*. [2016 Conn. 65 (1990)], the Connecticut Supreme Court refused to apply the "apparent manufacturer doctrine" to General Motors Corporation because its role as a trademark licensor was extremely limited. Here, the court distinguished other cases where the licensor had substantial involvement in the design, manufacture or sale of the product (such as the *Otis Elevator* case).

In *Hebel v. Sherman Equip*. [442 N.E. 2d 199 (Ill. 1982)], the Plaintiff was working at Glenbrook Standard Station and Car Wash when his foot was caught in the car conveyor and allegedly mangled by the conveyor's drive chain. Plaintiff alleged that the car washing machine was designed, manufactured and sold by Defendant. While most of the machinery at the car wash was manufactured by Defendant, the actual conveyor was not. The machines prominently displayed Defendant's trade name and distinctive logo, however, Defendant's trademark was not on the conveyors.

Plaintiff argued that under the "enterprise theory" of liability, Defendant's use of the trademark for commercial purposes created the public impression that it was the actual manufacturer of the product. As such, the Plaintiff argued that liability should conform to public perception. The court did not agree and Defendant was not found liable.

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The "apparent manufacture doctrine" and the "enterprise theory of liability" are similar and are applied by different courts using slightly different factors in their analysis. In certain instances, the "enterprises theory" is also called the "stream of commerce theory." Essentially the tests are difficult to distinguish because courts consider similar factors to determine liability in both instances. All of the theories, however, focus on the type and degree of input from the licensor on the finished product.

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Enterprise Theory

Generally, the "enterprise theory" is based on two rationales: (1) companies that place products into the commercial arena and profit thereby; and (2) that such companies are in a better position than the injured consumer to prevent the injury from occurring. The "enterprise theory of liability" is a loss shifting rationale. In *Torres v. Goodyear Tire & Rubber Co*. [901 F.2d 750, 751 (9th Cir. 1990)], using the "enterprise theory of liability" analysis, the court ruled that trademark licensors who significantly participate in the overall process by which the product reaches its consumer, and who have the right to control the incidents of manufacture or distribution, are subject to liability.

Essentially the formulation of the theory varies from case to case, but courts have applied the test whenever a company/licensor is an integral part of an "enterprise" that places a defective product into the stream of commerce.

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Similar to other tests, some of the factors for enterprise liability include whether: the licensor retained the right to control the quality of the product, the licensor exercised such control, the licensor provided the design, the licensor monitored production, the licensor advertised the product or the licensor profited. These factors are all enhanced if the licensor also distributed the product.

Apparent Manufacturer Doctrine

This test is stringently focused on the licensor being the functional equivalent of the manufacturer, meaning the licensor substantially participated in the design, manufacture, marketing or distribution of the product. This test was used in the *Otis Elevator Co.* case discussed above.

What is clear is that there is a potential tension between a licensor's desire to control use of its name—in fact, valid licenses require quality control and approvals as necessary requisites—and the licensor's interest in avoiding imputed liability for defective products.

In *Kosters v. Seven-Up Co*. [595 F.2d 347 (6th Cir. 1979)], the court applied a theory resembling the "enterprise theory" but labeled it "implied warranty" liability. In this case, Seven-Up Co. (Defendant) was sued for injuries resulting from a poorly designed soda carton. Defendant had neither manufactured nor supplied the defective carton. In fact, Defendant did not even require its use by its business partner who bottled the soft drink.

The court found that when a trademark licensor consents to distribution of a defective product, its liability arises from several factors, including: (1) the risk created by approving the unsafe product; (2) the licensor's ability to eliminate the unsafe nature of the product; (3) the consumers lack of knowledge of the danger; and (4) the consumer's reliance on the brand which gives the impression the licensor stands behind the product. The focus of this case was on the notion that Defendant expressly approved the use of the defective carton and was thus liable. In this case, the required performance as a trademark licensor, namely, exercising approval rights, was the one action used against the licensor to support liability.

The issue of licensor liability arose recently in *Hannibal Saldibar v. A.O. South Corp.* [53 Conn. L. Reptr. 261 (Conn. Super. Ct., Dec. 30, 2011)]. In *Hannibal*, the Plaintiffs claim related to her father's death, following a diagnosis of pleural mesothelioma. He was exposed to products with asbestos-containing formulas used for dry set mortar made under a licensed patent.

The defendant, Tile Council of North America (Tile Council), sought summary judgment on the grounds that it was neither a product manufacturer nor a product seller. The court denied defendant's motion, holding that it considered the Tile Council to be significantly involved in the distribution, marketing, or manufacture of products and, therefore, could be susceptible to a judgment of potential liability under the Connecticut Product Liability Statute.

The case proceeded to trial. The jury awarded compensatory damages and loss of consortium damages. Additionally, the court awarded punitive damages on the theory that Tile Council acted recklessly and disregarded the safety of product users.

Consumer Product Legislation

Recent federal legislation enhanced the obligations of manufacturers and the oversight responsibility of licensors relating to the safety of products. Specifically, the Consumer Product Safety Improvement Act of 2008 (CPSIA) imposed, among other things, new testing and certification responsibilities. Enhanced testing and certification requirements for identified product categories now require that manufacturers and vendors of such goods confirm that the goods they market meet the requisites of the CPSIA. Supporting testing data also must be made available.

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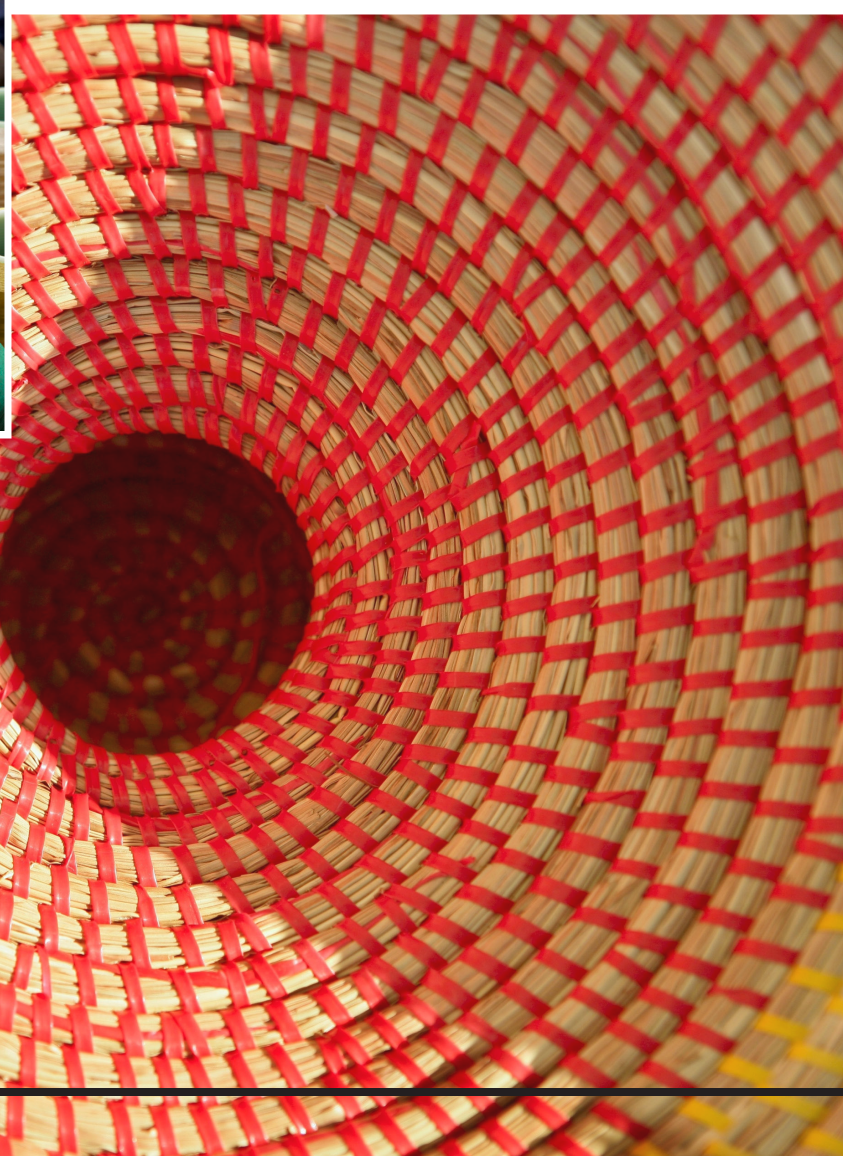
Manufacturers and vendors of products imported into, or distributed in, the United States that are subject to a product safety rule, must now issue a General Conformity Certificate (GCC). The GCC must certify, based on a reasonable testing program that each product complies with all product safety rules.



Other information must be provided, as well, including: (1) identification of each importer, domestic manufacturer or private labeler; (2) identification of the applicable product safety rule for each product; and (3) identification of third-party labs used for supporting testing. The GCC must be provided or made available (electronically) to each distributor or retailer of the product. At request, it must be made available to the Consumer Product Safety Commission.

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In view of these enhanced obligations, licensors are well-advised to include contractual provisions requiring specific compliance by its licensees (as well as enforceable indemnification for licensee's failure to comply).

Drafting Tips

From a licensor's perspective, its objective is to have the licensee assume all responsibility for manufacturing and all liability for the consequences of those choices. Because a licensor must exercise approvals and quality control, it is best protected by:

- Including language that strongly states that indemnity prevails even if the licensor approves the design or product.
- Making sure licensor is added to all insurance policies as an "additional insured."
- Making sure the licensee is adequately insured and provides proof of insurance (and renewal notices).
- Making sure licensee and its vendors (if contractors are permitted) comply with CPSIA and all Consumer Product Safety legislation, including the proper insurance of all GCC documents and modifications.
- Making sure the licensee and all vendors indemnify the licensor for product defects, and inaccuracies or misrepresentation in the GCC documents.
- Requiring product testing by the licensee with no direction or requirements (other than an adequacy) on types of testing and details of testing.

The topic can be tricky, as licensors want to retain a balance between their intellectual property needs and the danger of potential liability.

Spotlight on Karen Artz Ash

Katten Muchin Rosenman LLP

Fashion law inspiration...

I have always loved fashion. My mother did some modeling and she was a frustrated fashion designer who never had the opportunity. She always dressed elegantly, even when going to the supermarket. She still does. I wanted to be a fashion designer when I was very small and later became interested in being a lawyer. I found a way to combine both of these passions.

Runway shows...

I get to see what the client is all about. What excites them. What the trend is. How other people respond to the shows, the designer, the products. I get to see my clients' competition too. It is all part of loving the entire aura and environment.

Personal style...

Eclectic. Quirky but professional at the same time. Definitely not staid or lawyer-like. I want to inspire confidence but make an impression. I want to feel good about how I present myself. I always wear a client's products when I go to see them.

Favorite designers...

My eclectic style dictates that I choose my wardrobe and accessories—pocketbooks and shoes are very important to the overall look—from a range of designers. I represent many designers so it is hard to identify a single favorite. Most designers have something I love.

Thoughts on clients' current issues...

There is currently a tension between the need to exploit and maximize the value of a fashion brand and the need to preserve a high price point and exclusivity in the types of retail venues the products are sold. Many brands do manage to have volume and exclusivity, such as Louis Vuitton, for example. On the other hand, many other fashion brands see the opportunity to affix their label, or more commonly a variation of their label, on more down-market products. A fashion house must be careful so as not to undermine the value of the principal exclusive brand by associating the name with lower price points, quality and channels of distribution.

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Katten is a full-service law firm with one of the most comprehensive fashion law practices in the nation. We provide innovative advice on the legal and business issues faced by national and international manufacturers, designers, marketers, licensors, licensees and retailers of fashion items including a full range of apparel, footwear, jewelry, cosmetics and luxury goods.

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