Fashion Law

Is Artificial Intelligence The Newest Trend in Fashion?

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Some of the best-known applications for artificial intelligence, or AI, range from autonomous vehicles to finance to medical diagnosis. But AI is rapidly expanding to every sector of the economy, including fashion. For a growing number of fashion companies, AI is already transforming the methods used to predict trends, create products and interact with suppliers and customers. Not surprisingly, AI advances raise unique new legal questions, chiefly in the realm of intellectual property and privacy.

What is AI?

Broadly defined, AI is computer technology that aims to simulate intelligent human behavior, or to perform cognitive tasks that ordinarily require human intelligence. The development of "strong AI" attempts to replicate human reasoning as closely as possible or even to create sentient machines (think Hal in *2001: A Space Odyssey*), while "weak AI" focuses on performing specific tasks that require capabilities similar to human cognition (think customer service chatbots that can answer a limited range of questions). Branches of AI include "machine learning" and "deep learning," which use algorithms to parse huge volumes of data to draw inferences and make predictions.

AI in the Fashion Industry

AI's ability to gain insights from vast amounts of data has many practical applications in the fashion industry. In an era of "fast fashion" and online influencers, designers, suppliers and retailers are under constant pressure to predict what consumers want and make it available almost instantaneously. Trends change within weeks or even days, not just a few times a year. While companies have access to large volumes of data about both individual consumers and entire markets, from sales figures to social media feeds to customer product reviews, human beings can't process all this data quickly enough for it to be useful, and their conclusions are inevitably influenced by their own biases and preferences.

> Copyright protection for fashion designs becomes more uncertain when AI is involved because the Copyright Act's "original work of authorship" requirement has been interpreted to mean *human* authorship.

Enter AI, which promises to do all these things faster and more accurately than humans. Perhaps not surprisingly, the fashion industry is already taking advantage of its capabilities.

AI as Stylist

AI is increasingly being used to predict what individual consumers and broader segments of the public will buy. For example, Burberry has been a pioneer in using AI for this purpose, gathering customer data through loyalty and reward programs that appear on salespeople's iPads when the customers enter a retail store, allowing them to make personalized recommendations. In a concept store in Hong Kong, Alibaba and Guess recently piloted a system called Fashion AI, in which "smart mirrors" analyze garments a customer is holding or trying on and suggest other items to go with them. Every garment in the store incorporates Bluetooth and RFID technology; the smart mirror even alerts store staff to bring selected items to customers.

Online startup Stitch Fix, which raised $120 million in an IPO last year, uses an AI "virtual stylist" to select items for its customers based on data about their preferences, including Instagram and Pinterest feeds and reviews of products purchased on the site. At a time when consumers themselves often don't have time to sort through all their options, these companies aim to use AI to make the shopping experience easier and more personalized, increasing customer loyalty.

AI as Design Assistant

Most recently, AI's image and data processing abilities have found their way into the design process itself. In January 2018, Tommy Hilfiger partnered with IBM and the Fashion Institute of Technology on the "Reimagine Retail" project, in which FIT students created new designs for the Hilfiger brand using IBM Research AI tools and a library of designs from past Hilfiger collections. The AI generated fabric patterns colors and silhouettes, which the students incorporated into their clothing designs. The AI did what would have been the time-consuming job of reviewing thousands of images and provided inspiration for the students' creativity. The winning student design was a plaid jacket that changes color in response to voice and social media input, also analyzed by AI.

Hilfiger also uses IBM's AI technology to analyze sales performance and customer reviews for each item in its collections and to predict future trends—and to aid in designing its collections. The available technology includes a color analysis tool, silhouette recognition tool and print tool, all of which allow human designers to access and combine vast numbers of images for inspiration. The software tools do the time-consuming work of analyzing trends and compiling data, allowing designers to focus on the » Page 11

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Non-Traditional Trademarks: The Elusiveness of Branding a Trend

OLIVERA MEDENICA

Earlier this year, fashion brand Steven Madden, Ltd. filed a declaratory judgment action against Jasmin Larian, LLC in a trademark dispute involving the latter's Cult Gaia "Ark" bag, a structured handbag made of interlocking rigid strips arranged in a half-moon shape. The dispute arose after Larian's counsel had sent a cease and desist correspondence to Madden requesting that it cease and desist from the marketing and sale of Madden's virtually identical "BShipper" bag. In its papers, Madden seeks a declaration that the "Ark" design is generic and not protectable because it "slavishly copies the traditional Japanese bamboo picnic bag design… from the 1940s."

Last year, Forever 21, Inc. also filed a declaratory judgment action after its receipt of several cease and desist correspondences from Gucci America, Inc. In its letters, Gucci accused Forever 21 of selling products bearing Gucci's blue-red-blue and green-red-green stripes for which it owns several trademarks for different categories of goods.

What makes these cases unique is plaintiffs' proactive litigation strategy in seeking to invalidate a competitor's non-traditional trademarks. These affirmative measures usually assert an argument that no fashion brand should have a monopoly over a ubiquitous fashion design. It also reflects a push back on increasingly aggressive litigation tactics by fashion brands seeking to blur the lines between a non-protectable fashion trend and protectable, though non-traditional, trademarks.

Fashion Trends v. Trademarks

Throughout history, fashion trends have reflected social attitudes toward class status, wealth, power and sexual identity. *Chopines*, for example, were an early version of the platform shoe that rose in popularity in 15th century Venice. They were originally used as a clog, or overshoe, to protect a wearer's shoes or dress from the muddy city streets. Some accounts indicate that they were initially worn by courtesans, with the height of the chopine intended to establish her highly visible public profile. Other accounts indicate that in later years, the chopine was worn by patrician Venitian women, with the height of the chopine commensurate with the level of nobility and grandeur of the wearer.

In 17th century France, King Louis XIV regulated the wearing of red heels as an » Page 10

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Deceptive Pricing: Unlawful Trickery or Skillful Selling?

ANDREW LUSTIGMAN
AND MORGAN SPINA

Hard core shoppers love scouring department store racks in hopes of finding a fashion bargain. The thrill of finding that perfect garment and discovering that the "original" has been heavily discounted to a "sale" price elicits delight for many consumers. Retailers know that often translates into sales. But, in recent years, consumers have grown skeptical about the legitimacy of "original" prices on these comparative price tags, and some even file class-action lawsuits against large-scale retailers. In these lawsuits, consumers argue that retailers deceptively inflate the "original" price, or display "original" prices at which the goods were never sold, resulting in duped consumers. Even if these lawsuits don't make it to court, they frequently result in substantial monetary settlements in favor of plaintiffs and their attorneys.

Pricing Practices

There are several points to consider when analyzing the pricing practices of retailers and lawsuits that sometimes follow. First, retailers continue to employ comparative pricing tactics even though such practices are widely known to result in class actions because "compare to" and "originally sold for" techniques obviously connect with consumers and generate revenues. Perhaps retailers even consciously factor in the risk of lawsuits and settlement when adopting these strategies. Alternatively, some retailers are sufficiently confident that their pricing methods do not rise to the requisite level of deception capable of supporting a deceptive pricing lawsuit. Either way, the practice has not been deterred and deceptive pricing litigation is showing no signs of abating.

Second, when examining any trend in class-action litigation, consider the role that attorneys may play in effectuating that trend. Courts have approved significant attorney fees as part of settlements arising out of these deceptive pricing lawsuits, strongly encouraging attorneys to continue to bring new litigation.

Finally, it would be remiss to discuss the pricing practices of retailers without directing at least some of the focus toward the pervasive e-commerce industry. Online retailers, such as Amazon and Overstock, have garnered unwanted attention over the past couple of years regarding their use of comparative pricing. Given the size, exposure, and growth of the e-commerce industry, deceptive pricing litigation has extended to online retailers, in addition to the traditional brick and mortar targets.

Settlements

A recent class-action settlement reached by Neiman Marcus is representative of the traditional deceptive pricing suits plaintiffs tend to file against brick and mortar retailers. In 2014, named plaintiff Linda Rubenstein sued Neiman, alleging that the company misled consumers at its discount Last Call stores by putting a disingenuous original price on price tags to be "compared to" the discounted sale price. Rubenstein alleged that the goods were never actually offered for sale at the original price, as suggested by the price tag, and that the false higher price was designed to deceive consumers into believing they were getting a bargain by purchasing goods at Last Call.

A district court dismissed Rubenstein's claims under California's False Advertising Law, Unfair Competition Law, and Consumer Remedies Act. However, she appealed the ruling and the U.S. Court of Appeals for the Ninth Circuit reversed the dismissal last year, remanding to the district court for further proceedings.

In light of this, the parties reached a settlement, in which Neiman agreed to pay $2.9 million, with no more than $400,000 toward administrative fees/expenses, no more than $870,000 in class counsel fees/litigation expenses, and a class representative fee to Rubenstein not to exceed $5,000. The remaining $1,625,000 is scheduled for distribution among authorized class members.

Similar settlements have been reached by other brick and mortar retailers. In 2015, Michael Kors agreed to pay just under $4.9 million to settle claims » Page 12

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Reaching Millennials: The Need for True Transparency in Supply Chains

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Millennials are expected to inherit approximately $30 trillion in assets over the next 30 to 40 years. (*See* Jean Rogers, "Millennials and Women Redefine What is Means to be a Reasonable Investor," Institutional Investor, Oct. 20, 2016.) This transition of wealth will bring widespread changes in investing and consumer behaviors. When it comes to investing, millennials are "twice as likely as members of older generations both to invest in companies and funds that seek specific social or environmental outcomes and to shun investments in businesses that engage in unethical activity." With respect to their consumer behavior, 73 percent of global millennials are willing to pay extra for sustainable products, an increase from 50 percent in 2014. (Ryan Rudominer, "Corporate Social Responsibility Matters: Ignore Millennials at Your Peril," Huff. Post, last updated Dec. 6, 2017).

The power of millennial values has led to increased commercial and legislative efforts to promote transparency in supply chains. Demand for environmental, social, and governance (ESG) products—tools used to measure a company's ethical and environmental impact—has increased significantly in the past five years. (Casey O'Connor & Sarah Labowitz, *Putting the "S" in ESG: Measuring Human Rights Performance for Investors*, NYU Stern Center For Business And Human Rights (March 2017)). On the legislative front, the California State Legislature enacted the California Transparency in Supply Chains Act of 2010 (the California Act), which mandates that certain companies provide disclosures about how they are combating human trafficking and slavery.

Unfortunately, these commercial and legislative efforts are significantly flawed. Existing ESG frameworks employ inconsistent standards, are based largely on incomplete information disclosed by companies voluntarily, and reward transparency for transparency's sake. (*See* O'Connor & Labowitz, *supra*, at 20, 24–25). Additionally, the California Act requires only limited disclosures from companies, which—as recent cases show—has created obstacles to achieving greater transparency.

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ESG Measurement Frameworks

A 2017 report from NYU's Stern School of Business evaluated 12 leading ESG measurement frameworks—including the UN Guiding Principles Reporting Framework, Bloomberg Social indicators, and the Corporate Human Rights Benchmark—which issue rankings, reports, or certifications for particular companies based on ESG metrics. The report found that for all twelve frameworks, more than half of the social impact indicators focused more on a company's efforts than the impact of its those efforts. (O'Connor & Labowitz, supra). Three out of the 12 frameworks—all human-rights-focused ESG frameworks—focused *exclusively* on efforts rather than impact. One reason for this focus is that such frameworks—more so than investor-focused frameworks—"rely heavily on publicly disclosed company data as the basis for evaluation." *Id at 19.*

Because companies are incentivized to limit their disclosures to their efforts "rather than the higher-cost, higher risk analysis of the effectiveness of those efforts," the scope and significance of information disclosed will vary tremendously among companies. Unsurprisingly, the report found no consistent set of standards by which frameworks measure a company's social impact, nor a consistent definition for what issues—such as labor or human rights—constitute social impact. Additionally, the report noted that ESG frameworks reward transparency for transparency's sake; "companies are rewarded simply for the act of disclosing, rather than delivering particular outcomes." The lack of consistent and meaning metrics leaves consumers and investors ill-equipped "to capture the full picture of social considerations" when making their investment and consumer choices.

One of the most concerning findings in the report is that only 39 percent of ESG measurements examine companies' supply chains at allThe report noted that industry-specific frameworks are more likely to do so than frameworks applying to all companies regardless of industry.

The California Act

The California Act mandates that every retailer and manufacturer doing business in California

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with at least $100 million in gross annual revenue globally—disclose "its efforts to eradicate slavery and human trafficking from its direct supply chain for tangible goods offered for sale." Cal. Civ. Code §1714.43, subd. (a)(1). Under the California Act, each such entity must disclose the extent to which it:

(1) verifies its product supply chains to evaluate and address risks of human trafficking and slavery; (2) audits its suppliers to evaluate compliance with company standards for trafficking and slavery in supply chains; (3) requires its direct suppliers to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the country or countries in which they do business; (4) maintains internal accountability standards and procedures for employees or contractors; and (5) provides relevant training to company employees and management who have direct responsibility for supply chain management.

Although the statute mandates disclosure of whether a company performs audits or evaluations, it does not require them to perform audits or evaluations or to disclose any findings.

A recent U.S. Court of Appeals for the Ninth Circuit case, *Hodsdon v. Mars*, highlights the effects of this limitation. (891 F.3d 857 (9th Cir. 2018)). In *Hodsdon*, a California consumer brought a putative class action against Mars, a chocolate manufacturer, alleging that its failure to disclose on its product labels that its suppliers used forced and child labor violated numerous laws including California's Unfair Competition Law. The court dismissed all claims on the ground that Mars had no duty to disclose this information. The court noted: "Mars recognizes that its supply chains may be infected by *the worst forms of child labor*, but does not disclose this on its product labeling. However, in compliance with the California Transparency in Supply Chains Act of 2010…, Mars does disclose on its website its efforts to combat slavery and labor abuses in its supply chain."(Emphasis added).

In a number of California federal court cases, the court recognized that the California Act creates a "safe harbor" for companies from claims pertaining to failure to disclose information. (*See, e.g.*, *Wirth v. Mars Inc.*, 2016 WL 471234, at *9 (C.D. Cal. 2016); *Barber v. Nestle USA*, Inc., 154 F. Supp. 3d 954, 962 (C.D. Cal. 2015)). In California, "[w]here state or federal law has permitted certain conduct or considered a situation and concluded no action should lie," such a law creates a "safe harbor" from unfair competition claims. *Wirth*, 2016 WL 471234, at 6.

Because the California Act prescribes "who must disclose information about forced labor in their supply chains, what they must disclose, and how they must disclose it,"…California courts have held that the California Legislature created [such] a safe harbour." Thus, California's safe harbor doctrine has turned the California Act into a shield for companies against claims based on failing to disclose labor abuses in a supply chain. (*See, Barber*, 154 F. Supp. 3d at 962 ("Plaintiffs may wish—understandably—that the Legislature had required disclosures beyond the minimal ones required by §1714.43. But that is precisely the sort of legislative second-guessing that the safe harbor doctrine guards against.")).

Conclusion

Millennials have brought and will continue to bring an increasing demand for untainted materials. The burden is now on the companies to take meaningful steps to reduce the negative effects of their supply chains and increase supply of untainted products. To support this effort, entities issuing ESG findings should develop a clear and consistent set of standards that truly measure how company supply chains impact the communities and environments in which they operate, and legislatures should require more meaningful disclosures from companies to reduce demand for tainted materials and labor in supply chains.

Branding

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expression of political privilege. During his reign, only those granted access to his court were allowed to wear red colored heels. The color red was purportedly chosen by the King as emblematic of blood and his ability to crush his enemies. The King's heels were purportedly as high as five inches, and he issued an edict in 1673 that forbid anyone from owning heels higher than his.

The same ideals of social exclusivity, wealth and privilege are reflected in modern day trends, such as the Louboutin red sole shoe, the Birkin Bag, or Vetements' highbrow-lowbrow leisure wear. As anyone interested in purchasing these items will quickly discover, the wearer is as much interested in the aesthetics of the purchase as the ability to advertise her means to obtain it.

While a trend may be lucrative for a fashion house riding its wave, it does not necessarily mean that a brand, or source indicator, has been established within the traditional parameters of our trademark jurisprudence. Fashion design is ill-fitted for our intellectual property framework. From a copyright perspective, only features of a design that are conceptually separable from the utilitarian aspect of a design are copyrightable. Where clothes are functional, this leaves not much by way of copyright protection. As for design patents, they can in some circumstances protect fashion designs where the design is an invention that is both novel and nonobvious. But again, given that clothes have been around for a while, that may make it difficult to isolate aspects of the design that are innovative. Design patents are also costly and time intensive, which may not necessarily work given the potentially limited life-cycle of a trend.

Trade dress and non-traditional trademarks, however, present opportunities for protection that may not otherwise exist in other traditional intellectual property frameworks. A trademark is permanent, it endures indefinitely as long as the brand owner continues to use it. If a brand owner can establish design as a source indicator, it can serve as a powerful detractor against competitors seeking to piggyback on the brand's commercial success. But a trend may not necessarily be a trademark, and a trademark may not necessarily be a trend. Non-traditional trademarks can only fulfill their purpose if they function as a trademark, or source indicator.

Trademark Protection Extended To Design

In the past 20 years, courts have subtly shown a willingness to expand traditional concepts of trademark protection to fashion designs with trade dress and non-traditional trademarks. *Wal-Mart v. Samara Bros*., 529 U.S. 205, 207 (2000), was the first case in which the Supreme Court recognized that an unregistered trade dress could extend to clothing designs.

Plaintiff Samara was a designer of children's clothes who sued defendant Wal-Mart for selling knock-offs of plaintiff's fashion designs. In an opinion written by Justice Antonin Scalia, the court drew a distinction between two types of trade dress: product-packaging trade dress, or how the product is "dressed"; and product design trade dress, or how the product is designed (i.e. how it looks). The court held that product packaging trade dress can be inherently distinctive, and thus protectable as a trademark without a showing of secondary meaning. The court, however,

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found that "[d]esign, like color, is not inherently distinctive. Product design trade dress thus requires a showing of secondary meaning to be eligible for protection. When in doubt as to whether a trade dress is product packaging or product design, the court advised to err on the side of caution "and classify ambiguous trade dress as product design, thereby requiring secondary meaning."

The principles of *Wal-Mart* were quickly adopted by fashion brands. In *Adidas-Salomon v. Target*, 228 F. Supp. 2d 1192 (D. Or. 2002), Adidas claimed that various features of its sneakers, such as the three stripes on the side of its shoe, as well as its "shell toe" and back heel section, were distinctive and therefore served as source-identifiers. Target sold similar shoes, but with four stripes instead of three. Citing to *Wal Mart*, Adidas argued that its design constituted "product packaging" whereas Target argued it was "product design," thus requiring a showing of secondary meaning. The court agreed with Target, but ultimately found that Adidas had established secondary meaning and concluded that Target's shoes infringed upon Adidas' trade dress.

In *LVL XIII Brands v. Louis Vuitton Malletier*, 209 F. Supp.3d 612 (S.D.N.Y. 2016) plaintiff LVL XIII (pronounced "Level 13") sued defendant Louis Vuitton for trademark infringement, arguing that Louis Vuitton had infringed plaintiff's trade dress by affixing a metal toe plate on its sneakers. As in *Adidas*, plaintiff argued that its metal toe plate was distinctive product packaging that did not require a showing of secondary meaning. The court disagreed and found that it was instead product design trade dress because "the [claimed mark] serves a primarily aesthetic function: making [the plaintiff's] sneakers appear more enticing." LVL XIII was unable to show secondary meaning, and thus its trademark claim was unsuccessful.

In the famous Louboutin "red sole" case, *Christian Louboutin v. Yves Saint Laurent Am. Holding*, 696 F.3d 206 (2d Cir. 2012), the issue was not packaging or design, but rather whether color in a fashion design is protectable as a trademark. Louboutin had obtained a trademark from the *United States Patent and Trademark Office (*USPTO) on bright red lacquer placed on the outsoles of Louboutin's high heels. Yves Saint Laurent (YSL) also used red lacquer, but unlike Louboutin, matched the remainder of the shoe to the color of the outsole.

The U.S. Court of Appeals for the Second Circuit held that a single color, or the placement of a single color in a fashion design, can serve as a trademark if it acquires secondary meaning. It further found that Louboutin had established secondary meaning through extensive evidence showing over twenty years of advertising expenditures, media coverage and sales success. The court, however, did not find that YSL's monochromatic shoe infringed upon Louboutin's red sole shoe since Louboutin's trademark was limited to a red outsole in sharp contrast to the color of the remainder of the shoe.

While plaintiffs in these cases achieved various degrees of success, these outcomes unequivocally benefit future fashion brands seeking to protect designs beyond traditional two dimensional word or logo marks.

Which brings us back to the "Ark" bag and Gucci's three stripes. Even before the declaratory judgment action discussed above was filed, Cult Gaia's trademark application was denied registration at the USPTO based upon functionality. A determination that an applied-for configuration mark is functional constitutes an absolute bar to registration, regardless of any evidence of acquired distinctiveness. 15 USC 1052(e)(5), 1091(c). This determination was based upon the examiner's finding that Cult Gaia's design, which consists of a "half-moon shaped carrying-bag" is "merely an iteration or appropriation of a style of bag from the Japanese culture." In other words, if Cult Gaia were granted a trademark it would preclude others from designing vintage "generic Japanese lunch bag[s] common in fishing communities for decades."

Cult Gaia's outcome is reminiscent of Bottega Veneta International S.a.r.l.'s initial USPTO refusal for its well-known leather basket weave design. Bottega Veneta subsequently challenged the refusal and succeeded in obtaining a registration. *In re Bottega Veneta International S.A.R.L.*, 2013 WL 5655822 (TTAB 2013). The board's decision however was limited to the narrow description provided by Bottega Veneta (i.e. slim strips of leather, 8-12 millimeters in width, interlaced in a basket weave pattern at a 45 degree angle).

Should Cult Gaia choose to further prosecute its application, it could theoretically prevail in registering its mark if it can demonstrate that its design would not have a significant effect on competition. In other words, that there is no competitive need for others to use the particular half-moon design that is the subject of its application.

As for Gucci's three stripes, it remains to be seen whether Forever 21 will ultimately prevail in its declaratory judgment action. The issues raised in the Forever 21 case are particularly interesting to the extent they challenge Gucci's ability to transfer ownership of its three stripes across different products, well beyond the scope of its registration. It also raises the question of whether the decorative use of three stripes constitutes trademark infringement. Ultimately, resolution of the case will hinge on Gucci's ability to show secondary meaning, as proscribed by the Supreme Court in *Wal-Mart.* Forever 21 filed a summary judgment motion in July, and the matter is set for a hearing at the end of August.

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The **Importance** of Obtaining A **Strong Trademark** for Your **Brand**

BIANA BORUKHOVICH

Throughout my experience with individuals in the fashion world, I came to a realization that many of these extremely talented people do not really understand the importance of obtaining trademarks for their brand(s). Many of these same people believe that they will have time to file for their trademarks after they have embarked on their brand's journey. However, they fail to understand the consequences that may result from not taking proper legal steps and obtaining trademarks from the beginning.

Think about it, from the day a person is born, they are given a name that is registered with the government and used for identity purposes in order to differentiate and recognize that specific individual. Similarly, brands and companies need to be named in a manner that will work as an identity marker for their specific goods and/or services. Unlike people's names, business brands usually cannot legally co-exist under the same or similar name if they are within the same or similar industry. Therefore, obtaining a trademark registration at the onset of the business venture is ideal.

Some individuals believe that if they are able to obtain a certain business name (i.e. LLC or Corp), then the trademark for that same name should be available. Nevertheless, this is not the case. Business names and trademarks are not associated. A business name can be incorporated if there are no other businesses with exactly the same name in that state. On the other hand, when a trademark search is conducted, if a registered mark in the same class looks or sounds similar to the mark being searched, then there is a high probability that the trademark office will reject the pending mark based on likelihood of confusion.

This lack of knowledge can be damaging to a lucrative business and can cost a fashion company several thousands of dollars in order to recover from pitfalls that are associated with these mistakes.

Although many fashionistas may argue that they do not need to obtain a federal trademark registration in the United States because common law trademark rights arise from actual use of a mark and not the registration of the mark with the United States Patent and Trademark Office (USPTO), this argument fails to recognize that without a federal registration of a trademark, it is hard, if not impossible, for a company to:

- Recover profits, damages and costs for infringement, including the possibility of receiving treble damages in certain circumstances;
- Recover attorney fees in infringement actions;
- Sue for infringement in federal courts; and
- Block the importation of goods bearing an infringing mark via customs.

Also, if a mark is not registered with the USPTO, the owners of the mark cannot possibly properly protect their mark from infringers or individuals who simply have not been put on notice of this mark. By filing for a federal trademark, the registrants are putting the whole country/world on notice of its mark and the goods/services provided under this mark. In addition, the right to use the ® symbol in connection with the mark may deter potential infringers and put others on notice as well.

A company that fails to obtain a trademark for its fashion brand(s) also forfeits the ability to attain an incontestable status that a mark can achieve after five years of registration with the USPTO. This status serves to eliminate most arguments that the registrant of the mark does not have the exclusive right to utilize the mark. This sort of standing can eliminate many potential lawsuits in the future and save the business owner thousands of dollars in litigation.

One might ask what are other ways that trademarks can save money for a business? Well the answer is very simple. If you start using a brand name or logo for your goods and/or services and have not conducted a trademark search and/or filed to register your mark with the USPTO, you're taking a huge risk. This risk includes the possibility that (a) someone else is using the same or similar name, which is trademarked, within the same industry and, therefore, your mark would be denied registration by the USPTO if or when you apply, (b) someone else is using the same or similar name within the same industry and, therefore, some or all of your marketing efforts will be directed towards the other person's brand/company (c) someone else is using the same or similar name, which is trademarked, within the same industry and, therefore, you will need to re-brand in the future if the other company finds out that you are using a similar mark (d) someone else is using the same or similar name, which is trademarked, within the same industry and, therefore, they can sue you for damages OR (e) someone else starts using a similar brand name after you start using yours and files to register their mark with the USPTO before you do and, as a result, most likely you will need to file an opposition with the USPTO to get rid of this pending or registered mark. The foregoing processes can be costly and time consuming.

Hence, if you don't do your due diligence and file to register your mark with the USPTO, there is a chance one of the abovementioned dilemmas will arise, and you will be forced to spend more money than what you would have spent if you filed to register your mark early on in your business venture.

Also, one must always remember that time is money. It takes about eight months to obtain a trademark if no issues arise during the trademarking process. However, this time period may be extended drastically if the examining attorney finds an issue with your application or if another trademark owner opposes your mark from being registered. Thus, any business owner can understand that if they file for a mark early on and something goes wrong, the loss will not be as grave to their company as if something were to go wrong years down the line when they have expended large amounts of revenue into growing their brand. Thus, waiting to file for a trademark after the brand has been established is a BAD idea.

Thus, the goal for most fashion companies should be to grow its brand to a point that its trademarks are associated with its products and/or services by customers at first glance. Once customers can recognize a brand, this means the brand acquired secondary meaning, which translates into that those trademarks being considered strong. For example, when a person speaks about the brand Gucci, everyone right away associates this mark with the fashion industry.

When a company has strong trademarks, it can police its mark from infringers on a much higher level. Without acquiring federal registration for their marks, many companies cease to build a strong brand because the global market becomes flooded with similar names that, in retrospect, weaken the strength of its mark and the potential to recover in an infringement case.

Understanding the importance of trademarks is the first step to growing a fashion brand. Nevertheless, understanding how to choose brand names that will be strong trademarks is equally important. In order to start a fashion line, a business owner must come up with a brand name and/or logo, which will serve as a mark that represents its goods and/or services. If the mark is unique, arbitrary, or fanciful, the mark is considered strong. If the mark is generic, descriptive, deceptive, or scandalous and immoral, the mark is considered weak.

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> Without a strong trademark, **a fashion company lacks control over its brand** and fails to protect its marks against **infringers**, making its business weaker and **susceptible to lawsuits**.

Weak Marks

Generic Marks. Generic marks are not available for trademark protection because generic marks are generally the very name of the product or service. For example, a company that sells bananas cannot use the word "banana" as their brand name, or if a company sells athletic shoes, they cannot trademark the word "shoes" or "sneakers."

Descriptive Marks. Descriptive marks describe the goods or services. An example of a descriptive mark would be if a computer software company used the name "Software Assistance" as their brand name. Descriptive marks cannot be registered without proof that the mark has developed secondary meaning in the eye of the consumer public. Secondary meaning is recognition among buyers, and can be shown by widespread advertising or a presence of more than five years in the marketplace, or a survey from the relevant consumer population.

Some descriptive marks that are known to the general public include After Tan, Chap Stick and Holiday Inn. Some marketing professionals prefer descriptive marks; so they put the marks on the Supplemental Register for five years (when secondary meaning is presumed) and thereafter, convert the mark to the Principal Register.

Furthermore, marks that are surnames or geographic locations are considered descriptive in nature. A mark that is primarily merely a surname is not trademarkable and would only be registered on the Supplemental Register initially. Only after the mark acquires secondary meaning can the owner of the mark transfer it to the Principal Register. A few examples of marks that were held by the USPTO as merely surnames include Dell (Dell Computers), Motts (Motts for baby food) and Marriott (Marriott for charitable services).

In addition, the USPTO prohibits its registration on the Principal Register of marks that are primarily geographically descriptive of the goods or services offered. A geographic location may be any term identifying a country, city, state, continent, locality, region, area, or street (i.e. American Airlines). Nevertheless, when geographic terms are used in circumstances in which it is clear that they are meant to convey some meaning other than geographic origin, registration must not be refused on the basis of geographical descriptiveness (i.e. "Swiss cheese" and "Italian spaghetti").

Deceptive Marks. Another type of a weak mark is the deceptive mark. Deceptive trademarks insinuate a component, ingredient, or objective that would mislead consumers. An example of this would be "Organic Aspirin" for a dietary supplement that is not actually aspirin (*Bayer Aktiengesellschaft v. Stamatios Mouratidis*). Additionally, deceptive marks that include geography are not protectable even if they are not material to the consumer's purchase, such as, "Florida Orange Juice," which is actually produced in California.

Scandalous and Immoral Marks. The USPTO bars registration of trademarks that consist or are comprised of "immoral, deceptive, or scandalous matter." *In re Mavety Media Gp.* held that in order to meet its burden and reject a trademark as scandalous or immoral, the USPTO must show that the mark is "shocking to the sense of truth, decency, or propriety; disgraceful; offensive; disreputable;…giving offense to the conscience or moral feelings;…[or] calling out [for] condemnation." Some examples of immoral or scandalous marks include "BULLSHIT" used in connection with a handbag line, "1-800-JACK-OFF" used for adult entertainment and "DICK HEADS" used in connection with restaurant and bar services.

Offensive Marks. Prior to a recent court holding, offensive marks were not trademarkable. An example of such a mark was "Khoran" for wines, which was refused registration with the USPTO because it was likely to offend the Muslim population when used to denote an alcoholic beverage. Nevertheless, on June 19, 2017, the Supreme Court held that the government may not refuse to register potentially offensive names because this law violates the First Amendment. Thus, offensive marks can be registered with the USPTO today.

Strong Marks

Arbitrary Marks. Arbitrary marks consist of words or logos that have a dictionary meaning before being adopted as trademarks, but that are used in connection with products or services unrelated to the dictionary meaning (i.e. "Apple" for computers). An apple is a type of fruit, and it couldn't be used as a trademark in the agricultural sector. However, it can be registered as a trademark in association with computers. Arbitrary marks are registerable without showing secondary meaning and are considered the strongest type of trademark.

Fanciful Marks. Similarly, fanciful marks are made-up terms invented for the single purpose of functioning as a trademark. These terms do not have a dictionary meaning but are considered strong trademarks because of their uniqueness. Some examples of fanciful trademarks include Kodak, Pepsi, and Xerox.

Suggestive Marks. A suggestive mark is a word that implies or indicates a characteristic of the product or service that is being sold. However, suggestive marks are different from descriptive ones because the consumer has to use some imagination to understand what the product is. Examples of suggestive marks include Microsoft (software for microcomputers), Citibank (financial services), Coppertone (sunblock) and JetBlue (Airline).

Conclusion

Many individuals fail to see that a trademark is one of the biggest assets of a company. In recent years, fashion companies that have filed for bankruptcy have been able to profit off their trademarks. Without a strong trademark, a fashion company lacks control over its brand and fails to protect its marks against infringers, making its business weaker and susceptible to lawsuits. Therefore, obtaining a strong trademark and branding that mark is key to a successful fashion business.

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Artificial

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creative process.

In addition to using an AI virtual "stylist" to select items for its customers, Stitch Fix has introduced a line of "Hybrid Design" items that it claims are created entirely by an algorithm, with humans only approving the designs. Stitch Fix's algorithms analyze images of existing items and comb through the texts of user reviews to identify attributes of items that customers want but that don't already exist in Stitch Fix's collections—and generate actual designs for these items.

Legal Issues, Key Takeaways

While the law hasn't specifically addressed, or even caught up to, the use of AI in fashion, practitioners who advise the industry should anticipate and prepare for the issues that are likely to arise, particularly in intellectual property and privacy.

Copyright

Copyright protection for fashion designs, already somewhat limited in the United States, becomes more uncertain when AI is involved in the design process, because the Copyright Act's "original work of authorship" requirement has been interpreted to mean *human* authorship. In the current *Compendium of Copyright Offices Practices*, the U.S. Copyright Office states that it will "refuse to register a claim if it determines that a human being did not create the work." Discussion of the human authorship requirement has focused not on machine creation but on the claim of animal authorship made in the "monkey selfie" case, Naruto v. Slater (N.D. Cal. Jan. 23, 2016). Nevertheless, this requirement suggests that a fabric pattern created with the help of AI, for example, may not easily be entitled to any copyright protection, although it's not clear how much AI involvement is required before a design ceases to be human-created.

In the UK, by contrast, rights in a machine-created work are owned by the developer of the software: Section 9(3) of the Copyright, Designs and Patents Act provides that "[i]n the case of a literary, dramatic, musical or artistic work which is computer-generated, the author shall be taken to be the person by whom the arrangements necessary for the creation of the work are undertaken." If a designer uses third-party AI technology as part of the creative process, there's a risk that the AI developer, who might be a contractor or an outside vendor, could own the rights in the resulting designs.

> Burberry has been a pioneer in using AI to predict what individual consumers and broader segments of the public will buy, gathering customer data through reward programs that appear on salespeople's iPads when the customers enter the store, **allowing them to make personalized recommendations for them**.

Given the uncertain state of ownership rights, contracts with AI vendors should clearly provide that (1) to the extent that designs created with the help of AI are subject to copyright or other protection, all rights are owned by the client, i.e. the fashion designer, not the vendor; and (2) even if the designs are not copyrightable, the vendor will not disclose them to third parties or use them without the client's authorization.

Counterfeiting

AI offers some good news for brand owners: its image processing capabilities can be used to verify authenticity and detect infringement. DataWeave, a provider of business solutions for retailers, offers a Counterfeit Products Detection solution that can identify counterfeit goods being sold online, images misappropriated from product catalogs, and unauthorized "white labeling," in which a brand name is removed and replaced with another.

Similarly, Entrupy offers a machine learning app for detecting counterfeit fashion items based on a database of authentic luxury items, which it claims is accurate 98.5% of the time. As these technologies become more reliable and more widely adopted, not only does detection become more easily streamlined, but losses from counterfeiting and their enforcement costs could be significantly reduced.

Data Privacy

Of course, the collection and use of consumer data underlying many AI applications raise privacy concerns. In addition, new AI technologies against the backdrop of fashion's brick-and-mortar presence present unique challenges. Most of the digital age has seen information collected through the web, but increasingly companies are aiming to merge the physical and digital shopping experience with technologies that consumers may not be fully aware of. For companies that do business in the European Union, the General Data Protection Regulation (GDPR), which took effect on May 25, 2018, requires greater individual control over the use of personal data and may drive companies toward "explainable AI," which is transparent about how it uses data. While California recently passed its sweeping California Consumer Privacy Act, the U.S. currently has no similarly broad regulatory scheme. As fashion brands and retailers collect and maintain increasing amounts of consumer data, they also risk liability and public backlash if the data is collected without the appropriate consumer permissions or misused.

The rise of AI heightens the need for fashion companies to have clear privacy policies and procedures regarding the collection and use of consumer data. In addition, the collection of digital information in the physical world should be closely reviewed to ensure that it is in line with applicable laws and best practices. Contracts with AI developers and vendors should be carefully drafted and reviewed in order to preserve the client's ownership rights in all data collected and protect the client from liability if flaws in the technology result in a breach or a violation of the law.

Conclusion

Given the rapid pace of AI development, the fashion industry will undoubtedly find new applications for it, raising new legal issues that can't yet be predicted. But while the law may take some time to catch up, AI is one fashion trend that's here to stay.

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Pricing

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brought under California's Unfair Competition Law, False Advertising Law, and Consumer Legal Remedies Act, alleging that clothing items sold in Michael Kors Outlet Stores are deceptively priced. Specifically, the complaint alleged that at least some of the clothing sold in the outlets was manufactured exclusively for sale in the outlets. As those items were never intended for sale at the manufacturer's suggested retail price (MSRP) displayed on the price tag, the sale "OUR PRICE" reflected a "phantom markdown." In addition to monetary payment, Michael Kors agreed to replace the terms MSRP with "Value" on all outlet price tags, displaying a sign in all outlets explaining the definition. As an alternative, Michael Kors Outlet Stores could elect to remove these "reference price" comparisons from any item sold exclusively in outlet locations.

Additionally, Ann Taylor, Burberry, and The Gap have all reached similar settlements in cases based on similar claims.

High-Payout Settlements

Standing out from the crowd of settled lawsuits are two noteworthy settlements with startlingly high monetary components. Both JC Penney and tween brand Justice agreed to pay over $50 million to settle deceptive pricing class actions. In the JC Penney case, the plaintiffs alleged that the retailer tricked millions of shoppers by displaying fake "original" prices on "sale" merchandise. In the Justice case, the plaintiffs alleged that the retailer marked items as "40% off," when in reality the items had never been offered for sale at the full advertised price.

These eight-figure settlements have attracted the attention of certain commentators, suggesting that such large settlement amounts undoubtedly fuels further litigation. Notably, in the JC Penney case, the court approved attorney fees of $13.5 million, approximately 27 percent of the settlement fund. The potential for plaintiff's attorneys to reap such a significant upside is surely one of the driving forces in the ongoing pursuance of deceptive pricing litigation.

No Sure Thing for Plaintiffs

Bringing a deceptive pricing lawsuit against a retailer is not a slam dunk for plaintiffs, as retailers have had success in defending them. Last year, the U.S. Court of Appeals for the First Circuit upheld the dismissals of two deceptive pricing lawsuits brought against retailers Nordstrom and Kohl's Department Stores. As with many of these cases, the plaintiff alleged that the listed "compare at" price was deceptive. The district court of Massachusetts, however, found that the plaintiff had "failed to plead a legally cognizable injury" separate from the alleged deceptive act, and therefore dismissed the claims. Although these dismissals provide what is presumably a welcome reprieve for retailers in a sea of large settlements, it is important to reinforce that deceptive pricing lawsuits continue to be filed, and retailers continue to agree to substantial monetary settlements rather than take the risk of having a class of consumers certified against them.

Online Retailers

Of course, with the ubiquitous e-commerce industry forever changing the way in which consumers purchase goods, it is no wonder that claims of misleading sales practices have infiltrated the online retail business. Amazon, the largest online retailer in the world, has attracted some unwanted attention in this area, both in the United States and abroad.

Criticism of Amazon's pricing techniques in the United States reached a peak in 2017 when nonprofit organization, Consumer Watchdog, released a study in support of its assertion that Amazon uses phony reference prices to entice consumers to purchase goods believing they are receiving a generous discount when that is not actually the case. In this study, Consumer Watchdog found that Amazon displayed reference prices (e.g. "was," "sale," "before-sale," "strikethrough") on 46 percent of the products surveyed. Further, 61 percent of all reference prices were higher than any observed price charged by Amazon in the recent past 90 days, and simultaneously, 38 percent of all reference prices were higher than any price charged by Amazon in observed history. Thus, Consumer Watchdog argued that in that 38 percent of cases, Amazon's "was" (or before-sale) prices were "entirely fictitious."

Consumer Watchdog flagged this issue with the Federal Trade Commission (FTC) during the FTC's assessment of Amazon's purchase of Whole Foods last year. The organization implored the FTC to examine Amazon's pricing practices alongside the FTC's "Guide Against Deceptive Pricing." Defending itself against Consumer Watchdog's accusations, Amazon asserted that the study was "deeply flawed" and that the conclusions reached by Consumer Watchdog were "flat out wrong." Ultimately, the FTC gave the green light to Amazon's purchase of Whole Foods and declined to comment on this issue, effectively leaving Consumer Watchdog's claim unresolved.

This was not the first time Amazon confronted a challenge to its pricing practices. In 2015, Amazon was the defendant in a deceptive pricing suit filed in California in which the plaintiff claimed that Amazon determined its list prices by using the highest price the item has ever sold for, when a more accurate comparison would have been the item's "prevailing market price." Amazon escaped further public litigation of this action—but not ultimate responsibility— when the Southern District of California dismissed the action and compelled the case to arbitration.

The court found that the plaintiff agreed to arbitrate the dispute when she was notified of Amazon's privacy policy and conditions of use at checkout, and chose to finalize her purchase. Arbitration proceedings are private, and therefore not subject to media scrutiny. As arbitration eliminates a consumer's right to legal vindication, Amazon's arbitration agreement has acted as an effective aid to combatting deceptive pricing class actions against the world's largest online retailer.

Amazon has not been so successful in dodging similar accusations abroad. Last year Canada's Competition Bureau levied a $1 million fine against Amazon Canada for using deceptive price listings. In a news release, Canada's Competition Bureau stated that Amazon often displayed a regular price, or "list price," reflecting significant savings for consumers. The bureau asserted that Amazon relied on its suppliers to provide those list prices without verifying their accuracy, thus potentially resulting in misleading price comparisons between inflated and inaccurate original prices, and the purported "sale" prices.

Conclusion

Although deceptive pricing litigation is not necessarily a new phenomenon, it continues to pose an issue to retailers, both storefront and online retailers alike. As part of settlement agreements, some retailers have agreed to reform their pricing practices so as to make clear to the consumer the true value of the product they are purchasing and any actual savings. That said, plaintiffs continue to file deceptive pricing lawsuits, and retailers engaging in comparative pricing techniques continue to be confronted with the practices they employ. This litigation trend appears to have staying power.

Standing out from the crowd of settled lawsuits are **two noteworthy settlements** with startlingly high monetary components. Both JC Penney and tween brand Justice **agreed to pay over $50 million** to settle deceptive pricing class actions.

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