

Avon loses its cosmetic appeal



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Trademark disputes over beauty products can sometimes be downright ugly. A case in point is the opinion issued by the U.S. Court of Appeals for the Ninth Circuit in *Rhoades v. Avon Products, Inc.*

In *Rhoades*, a company called *DermaNew* sued *Avon Products, Inc.* (*Avon*) for a declaratory judgment that the trademarks for its hand-held microdermabrasion devices and related skin-care products did not infringe on *Avon's* similar products. “Microdermabrasion,” the Ninth Circuit explained for those not well-versed in skincare products, “is a cosmetic procedure popular in spas and doctors’ offices in which the dead outermost surface layer of the skin is partially or completely removed by light abrasion.”

At issue ultimately in *Rhoades* is whether *DermaNew's* various products and slogans, including “*DermaNew*”, “*KeraNew*”, “*GemaNew*”, “*DermaNew Institute*”, “*If It is Not DermaNew, It Is Not Personal Microdermabrasion*” and “*DermaNew Palm Microdermabrasion System*”, infringe upon *Avon's* skin-care product line called *ANEW*. The particular question before the Ninth Circuit was whether the federal district court had jurisdiction to hear the case.

The district court had summarily dismissed the case without permitting *DermaNew's* counsel a chance even to respond to one of *Avon's* principal arguments. The district court was convinced that the dispute should be decided by the Trademark Trial and Appeal Board (TTAB), given that *Avon* had opposed five of *DermaNew's* trademark applications and had requested cancellation of two other *DermaNew* registrations with the U.S. Patent and Trademark Office (PTO). The district court was convinced that *DermaNew* brought its federal court case “for an improper motive” and that the matter “should be back where it belongs” – namely, before the TTAB.

The Ninth Circuit flatly disagreed. In the opinion of the court of appeals, *DermaNew* had sufficiently alleged a “reasonable apprehension” that it would be subject to liability if it continued to manufacture the products in question and its trademarks were not valid. *DermaNew's* allegations, according to the Ninth Circuit, were adequate for *DermaNew's* request for a declaratory judgment of noninfringement to state a “case or controversy” as required by Article III of the U.S. Constitution for a federal court to hear the case.

In particular, the appellate court noted three alleged facts that showed the requisite “reasonable apprehension”: “1) *Avon's* lawyer specifically threatened a trademark infringement suit at a meeting; 2) *Avon's* counsel wrote a letter threatening ‘additional proceedings or litigation’; and 3) *Avon's* counsel told *DermaNew's* counsel that *Avon* would not give up its right to damages.” “Under the circumstances of this case”, the Ninth Circuit reasoned, “*DermaNew's* perception of threats was more than reasonable”, particularly given that *Avon's* threats of infringement litigation came “on the heels of years of unsuccessful and tense settlement negotiations, and after *Avon* initiated seven actions in the TTAB.”

The Ninth Circuit was not persuaded by *Avon's* arguments that *DermaNew* acted in “bad faith” by virtue of its “ever changing cast of counsel” and by opposing filing the federal suit in order “to evade” TTAB “discovery.” The court of appeals observed that “*DermaNew* may have had strategic reasons for bringing this action, but that should not affect whether *DermaNew's* complaint alleged a case or controversy that established jurisdiction.”

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Also unavailing was Avon's contention that its threat of litigation should be ignored because it was contained in a letter related to settlement discussions. The appellate court acknowledged that such a letter would not be admissible to prove DermaNew's ultimate liability for infringement, but nonetheless ruled that the letter could be used as proof to demonstrate "threats to satisfy the jurisdictional requirements of an action for declaratory relief."

The court of appeals further held that the district court abused its discretion in dismissing the case based upon the pending TTAB proceedings. The Ninth Circuit acknowledged "that some circumstances might justify deferring a declaratory judgment case when related TTAB proceedings are pending", such as when the district court action only involves the issue of whether a trademark is entitled to registration. In Rhoades, however, the potential infringement claims called for the district court "to resolve

much or all of" the registration issues and the federal court was "particularly well-suited to handle the claims so that parties may quickly obtain a determination of their rights without accruing potential damages."

Finally, the Ninth Circuit ordered that, upon remand, the case be assigned to a different district judge. Of particular significance was that the original district judge had found "improper motive" on the part of DermaNew when, in fact, the court of appeals saw no basis in the record for that finding.

Rhoades is a reminder to parties engaged in settlement discussions related to trademark infringement claims to be careful what they say if they wish to avoid a case in federal court. The Ninth Circuit's opinion also demonstrates that, notwithstanding pending proceedings before the PTO and TTAB, federal court always remains a viable option for a "makeover" of a trademark dispute if TTAB proceedings are, for whatever reason, unattractive.