Inside 3Q2022

Association of Corporate Counsel
BALTIMORE

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President's Message

Kimberly Neal

Dear ACC-Baltimore Chapter,

We are coming off summer with a very busy fall and thankful that most events planned will be in-person. It's nice to see each other again and to have quality time with the sponsors as well. We will kick off in-person lunches at the beautiful Ampersea in Harbor East, thanks to sponsor Miles & Stockbridge, and we will resume in-person socials with Jackson Lewis at one of our favorite spots, Citron. We booked a new and exciting venue for our annual Sponsor Social, Guilford Hall Brewery, and look forward to that event on October 11. Of course, ACC National's annual meeting will also be back in person this year in Las Vegas on October 24-26. The programming looks excellent, and the networking will be better than ever. We have all experienced so much change over the last couple of years and can benefit from connecting with other chapters to share stories of what continues to work in this new COVID-aware time.

As mentioned in my last update, we're also happy to celebrate our chapter's 25th anniversary. We will be adding some special touches to the Sponsor Social to commemorate the anniversary and will close out the year with fanfare as well. We are also using this year to consider and plan for marketing opportunities to ensure that the chapter continues to thrive for another 25+ years. Many of us have started to "up our game" with social media posts highlighting the wonderful opportunities afforded by ACC membership. With a more coordinated effort moving forward, we can and will attract new members and keep our currently dedicated members engaged.

I'd like to end this message by sending well-wishes to our incredible Secretary, Kristin Stortini. Kristin will be a mom in a few short weeks and by the time that this newsletter is shared. We will miss her for several weeks while she takes some deserved time focusing on that new role and look forward to welcoming her back later in the year when she assumes the Vice-President/ Treasurer position. Many hats for you, Kristin, but I know you will wear them all very, very well.

All my best,
Kimberly Neal

If you ever want to share any ideas or comments with the board, here is the current list of officers and directors:

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Tech Toolbox: Don’t Overlook Tacit Knowledge Management

By Greg Stern, Chubb, Independent Consultant

Personal knowledge management (KM) systems are a hot topic, but almost all of it is focused on explicit, or recorded knowledge. In this column, I recommend some ways that individual lawyers can develop personal knowledge management systems that also capture tacit knowledge — the knowledge that you or your colleagues have inside your minds, versus the explicit knowledge you may have collected.

Why is this important? At a corporate level, tacit knowledge comprises the vast majority of a company’s knowledge assets. It is one of the main forms of any company’s intangible assets, which are estimated to make up 84 percent of the value of all US S&P company assets. In 2019, companies’ intangible assets were estimated to be worth US $21 trillion, three times more than their tangible counterparts. There is, of course, no way to know how much value is contained in your own company’s tacit knowledge, but clearly it could be extraordinarily valuable.

Tacit knowledge management

On a personal knowledge management level, tacit knowledge management may be even more relevant. How often have you admired the way a colleague or outside counsel analyzed a complicated legal issue, had useful experience in a particular type of transaction, conducted a meeting, or demonstrated their note taking or task management prowess, wishing you could do any of those things nearly as well? Those skills are examples of tacit knowledge. And, believe it or not, those are examples of things that would be fairly easy to incorporate into your personal knowledge management system.

And please, do not rely on your ability to recall which colleague or outside counsel knew what. You may have a world class memory, but the way memory retrieval works depends on a complicated mechanism of retrieval cues, and those cues are not only more random than we suppose but are not always intuitive (and therefore readily available), even within our own minds. So, the fact that you discovered that a colleague had special expertise in sanctions law three years ago will not always leap into your mind just when you need it. You should develop reliable outside mechanisms to help.

The lowest hanging fruit involves simply using a tool that nearly everyone already has: your preferred contacts app. Whether it’s based on Microsoft, Apple, Google, or another company, we all use our contacts apps to capture phone numbers, physical, website, and email addresses, and even relationships and birthdays — but they also allow space for notes.

The lowest hanging fruit involves simply using a tool that nearly everyone already has: your preferred contacts app.

The trick is, whenever you happen to find out that a colleague or friend has expertise or background in an area that might be valuable to you, make a note of it in the note field in your contacts app. Those note fields are searchable in every major app, so in the future if you need to find out whether you know someone who has expertise in sanctions law, all you will need to do is search for them.

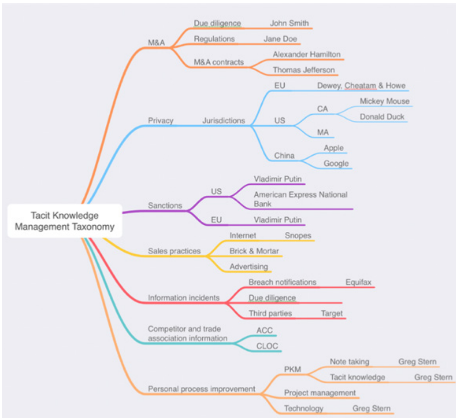
And, by the way, it isn’t very difficult to develop a shared contacts folder for your entire law department. That way, you could, for example, keep track of which outside counsel has special tacit knowledge that others in your department may need. You can also download most app content into spreadsheets, like Excel, to easily view each field.

Create a mind map

You may decide to become more sophisticated and systematic in organizing your tacit management assets. For example, instead of relying upon chance to find out that your colleagues have some unexpected expertise, you may want to actively search for colleagues with the expertise you may need, even before you actually need it.

How do you start? One way of doing it that I have written before is to develop one or more knowledge taxonomies. In simple terms, this is a mind map or other branching representation of the areas of knowledge you believe will be of use to you. These should include not only legal areas, but also other areas of information that you may find useful, such as the various kinds of business your company conducts, technology systems it uses, competitor and trade association information, etc. It may also include personal process improvement areas in which you are interested.

Here is a simple mind map I created to illustrate the idea. Note that the mind map not only includes a taxonomy of personal and tacit knowledge management areas that a lawyer might find useful in doing their job, but on many of the branches, I have indicated people, companies, or law firms that have expertise in those areas.



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Note also that all modern mind map applications allow hyperlinks to be inserted into any node of it. So, for example, you could include a link to a law firm you use, to your contacts entry for that firm, or to a colleague within your company who has worked extensively with them. You can even include a link to a memo or another mind map, if you have one that goes into a particular topic area.

Mind maps can be arranged in a variety of ways. Outline mode is shown above.

Mind maps are easy to create. I like the app I used for this illustration, which is called MindNode, because it is available on Windows or Mac and also works great on an iPad or other tablet, where you can simply rearrange branches by dragging them around. But there are many good mind mapping applications available.

Another cool thing about mind maps is that most of the good ones are able to export mind maps as OPML files that will automatically convert to outlines in most full featured outline apps. In MindNode, you can also view the mind map and modify it by looking at the included outline feature, which for this mind map looks like this:

Do what works best for you

Obviously, mind maps aren't the only tool you can use for a tacit knowledge management tool. You could use any spreadsheet app, like Excel, Smartsheet, Numbers or Google Sheets, or a Word doc or a SharePoint instance, etc. The main thing is to develop a system that is easy for you to use and develop a personal knowledge management taxonomy in.

Recruit experts for your company

Once you have developed a taxonomy, it is time to locate experts inside your company or among your outside counsel who have expertise in that area. So, you might decide that you wouldn't want to have to scramble to find outside counsel experts in data breaches or sanctions *after* you discover you have a calamity to deal with, so you reach out to your colleagues and outside counsel in advance to locate individuals with that expertise. Then, you can put them in your contacts, spreadsheet, mind map, or other tool of choice so you will be better prepared when you need to tap into it.

Take initiative with your colleagues

When improving your own processes, don't just compile a list of tacit experts in those areas. Instead, consider interviewing colleagues who seem especially good at personal process improvement areas in which you are interested in learning their best practices. In my experience, people are usually very generous in that respect, and it will give them an opportunity to learn from you as well. Mutual support and sharing should be a part of every law department's culture. After all, a rising tide lifts all boats.

Greg Stern
Chubb

Employment-based Immigration: Where are we now?

By Kraig Long, Andrea Olsen-Leyden, Nelson Mullins

Immigration law and policy have seen drastic changes in the last decade with each new administration. The Trump administration limited many of the parameters by which foreigners could enter the United States, particularly for employment purposes. President Biden, on the other hand, made undoing the Trump administration's immigration reforms a key issue during his campaign. As a result, immigration reform became a hot-button issue during this past presidential election cycle.

Trump Administration H-1B Policy Changes

Former President Trump's immigration rhetoric was focused primarily on preventing immigrants from migrating to the United States. This rhetoric was encapsulated by four simple, yet divisive, words— "Make America Great Again." On Jan. 28, 2021, Trump signed the Buy American Hire American (BAHA) Executive Order. Though it did not change the existing requirements for any visa category, the order did increase scrutiny for H-1B visas. This visa category is for jobs that require a worker to apply a body of highly specialized knowledge acquired through a bachelor's degree or higher in a "specific specialty" or equivalent at the entry level. The executive order required the Department of Homeland Security (DHS) to "ensure that H-1B visas are awarded to the most skilled or highest paid petition beneficiaries." This directive resulted in a significant increase of requests for additional evidence to support the visa petitions

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beyond what was typically required and, even worse, a surge in denials of H-1B petitions. The Trump Administration also threatened to rescind the Obama-era regulation authorizing H-4 spouses of H-1B workers to work in the United States. This policy did not go into effect.

The Biden Administration

Soon after taking office, President Biden focused his attention on rescinding the more incendiary policies from the Trump administration. President Biden's first initiatives were to halt the construction of the border wall and attempt to put an end to the Migrant Protect Protocols that kept asylum seekers on the Mexican side of the border while awaiting their U.S. immigration court appointments. Moreover, business immigration has benefited from the change in administration. On Jan. 25, 2021, President Biden issued an executive order directly replacing BAHA and allowing the processing of H-1B applications to be prioritized by filing date as opposed to wage compensation and level of skill. The Biden administration also maintained employment authorization for H-4 spouses, directly contradicting Trump's attempt to dissuade foreign workers from seeking visas.

What can we expect in 2022?

- The Biden Administration has been working on a reconciliation bill called **Build Back Better Act**. This bill would protect unauthorized immigrants and provide relief for family and employment-based immigrants who have been waiting years in green card backlogs. However, the bill has not seen much support from the Senate.
- The Biden administration's regulatory agenda for 2022 also includes a number of H-1B rules. The Department of Homeland Security (DHS) plans to publish a regulation on "Modernizing H-1B Requirements and Oversight and Providing Flexibility in the F-1 Program." Some aspects of the rule include providing "flexibility for start-up entrepreneurs" and addressing situations that United States Customs and Immigration Services (USCIS) defines as preventing the agency from accepting "a cap subject H-1B petition submitted more than six months in advance of actual need." Additionally, DHS will propose a revision of the Trump-era regulations relating to "employer-employee relationship,'" according to the rule summary. A regulation that raised H-1B denial rates to record levels. It is unclear what changes to employer-employee relationship USCIS may propose or whether it will address who qualifies for an H-1B specialty occupation. The Trump administration attempted to raise the minimum wage required by the Department of Labor (DOL) for H-1B applicants. This rule was never put into effect. The Biden administration requested information from the public on improving the "DOL" wage system. It is unknown whether the administration intends to make the system more accurate or if there are DOL officials who want to follow the Trump administration's path by requiring employers to pay H-1B visa holders and employment-based immigrants well above the market wage to price them out of the U.S. labor market.
- At least three fee rules are expected in 2022. A USCIS "fee schedule" rule will likely result in the agency raising various fees, though likely not to the extent the Trump administration attempted. "USCIS projects that its costs of providing immigration adjudication and naturalization services will exceed the financial resources available to it under its existing fee structure," according to the rule summary. "DHS proposes to adjust the USCIS fee structure to ensure that USCIS recovers the costs of meeting its operational requirements."

The big question in FY 2022: Will USCIS improve upon its FY 2021 processing totals, or will more employment-based green cards go unused? In an attempt to improve the situation, on Dec. 23, 2021, the State Department announced, "[C]onsular officers are now temporarily authorized, through December 31, 2022, to waive in-person interviews for" H-1B, H-3, L, O, P and Q visas. Though this may help increase the adjudication of H-1B visa applications, it remains an uphill battle.

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“Hashlets, Hasktakers and Hashpoints” – The Strange Quantum World of Cryptocurrency meets the *Howey* Test[i]

By George Ritchie, Gordon Feinblatt, LLC

It has been a rocky year for the cryptocurrency industry. The Federal Trade Commission has reported that cryptocurrency scammers have stolen over $1 billion from 46,000 people since the start of 2021. In February, 2022, the Justice Department announced the arrest of a husband and wife team who allegedly stole approximately $4.5 billion in Bitcoin. And the industry has seen the crash of popular stablecoins, whose value is generally tied to underlying currencies, and therefore considered a relatively secure way to exchange digital assets in the crypto economy. While the industry has thrown up a variety of legal claims over the last several years which are being litigated in many forums in the United States and elsewhere, the most commonly litigated claims remain federal securities fraud claims, often in the class action setting. A recent class action case in the federal district court in Connecticut shows how complicated the questions can be of whether and how cryptocurrencies and related crypto products are “securities” for purposes of securities fraud claims.

A short primer on when financial products qualify as securities for purposes of securities fraud claims is needed. In order for either the Securities Exchange Commission (SEC) or private individuals to maintain claims for securities fraud under the Securities Act of 1933 (“the Act”), the financial transaction must qualify as a “security” under the *Howey* Test, first articulated by the United States Supreme Court in a 1946 securities case called *SEC v. W.J. Howey Co.* 328 U.S.C. 293 (1946). In addition to more easily recognizable securities such as stocks and bonds, a security under the Act can include an “investment contract,” defined as “a contract, transaction or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party.” 328 U.S.C. 293, 298-99. In deciding that a leaseback agreement was an investment contract subject to registration requirements under the Act, the *Howey* court concluded that a transaction is an investment contract subject to federal securities regulations if 1) the transaction involves a monetary investment; 2) there is an expected profit associated with the investment; and 3) the money investment is a common enterprise and profit from the transaction comes from the efforts of a third party or promoter’s efforts. *Tcherepnin v. Knight*, 389 U.S. 332, 336, 88 S.Ct. 548, 19 L.Ed.2d 564 (1967)(summarizing the *Howey* factors).

The SEC has a short but generally successful history thus far of judicially imposed regulation of cryptocurrencies under federal securities laws. Prior to a SEC enforcement action against KIK Interactive, Inc., as issuer of a cryptocurrency called “Kin”, few courts had squarely addressed the question of whether cryptocurrencies meet the definition of investment contract under the *Howey* Test. On July 25, 2017, after Kik had announced its plan to issue Kin but before it made its distribution, the SEC issued its *Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO* (the “DAO Report”). Release No. 81207, 117 S.E.C. Docket 745, 2017 WL 7184670 (July 25, 2017); *see also* SEC Ex. 88, ECF No. 60-100. In the DAO Report, the SEC described its investigation into a German corporation’s sale of tokens to investors. The SEC determined that the tokens were securities, but no enforcement proceedings were initiated. 2017 WL 7184670, at *1, 8-12. The SEC “advise[d] those who would use ... distributed ledger or blockchain-enabled means for capital raising, to take appropriate steps to ensure compliance with the U.S. federal securities laws.” *Id.* at *1.

In 2019, the SEC initiated enforcement proceedings against Kik. After cross motions for summary judgment, the trial court in *Kik* held that cryptocurrency tokens are “securities” under the *Howey* test, thus triggering federal securities registration requirements. *SEC v. Kik Interactive Inc.*, 492 F. Supp. 3d 169 (SDNY 2020). The *Kik* court started its analysis by noting that in determining whether an investment contract could be a form of security, form should be “disregarded for substance and the emphasis should be on economic reality of the investment scheme.” *Id.* at 177. The *Kik* Court held the sale of “Kin” met all three factors of the *Howey* test. First, the Court found that that the crypto tokens constituted an investment of money from purchasers of the tokens. The Court further found that a common enterprise existed because there was “horizontal commonality” between the investors – that is, each individual investor’s fortune was tied with the fortunes of other investors by the pooling of investment assets. Central to this conclusion was the Court’s observation that “Kin Tokens are intended to be used for all transactions within a Kin ecosystem comprised of digital services that participate in the right and opportunity to innovate and compete for compensation in the form of Kin Tokens.” *Id.* at 179. As to the third factor under *Howey*, the court concluded that the company’s issuance of the crypto tokens came with the reasonable expectation of profits to be derived from the managerial or entrepreneurial efforts of others. On this last point, the *Kik* court emphasized the Company’s marketing and promotional efforts that value would increase as demand rose because of the limited supply of the cryptocurrency. *Id.* at 180.

Kik later settled the SEC matter, thus preventing appellate review of the court’s ruling. Nevertheless, the *Kik* ruling was seen as a blow to the crypto industry since it appeared to guarantee that, absent legislative action, cryptocurrencies would be forever subject to both

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SEC enforcement actions, and potentially to securities fraud claims, including class action lawsuits. Indeed, courts after *Kik* have reached the similar conclusion that cryptocurrency schemes should be considered investment contracts for purposes of federal securities law. *See e.g., Securities and Exchange Commission v. NAC Foundation, LLC*, 512 F. Supp. 3d 988, (N.D. Cal. 2021); *Securities and Exchange Commission v. Ripple Labs, Inc.* 2022 WL 748150 (SDNY). Not surprisingly perhaps, SEC enforcement actions have been on the rise after *Kik*. According to Cornerstone Research, in 2021 alone, the SEC brought a total of 20 enforcement actions against cryptocurrency companies, with 80% of those actions alleging that the respondents were engaged in the sale of unregistered securities.[ii]

A recent class action case involving cryptocurrency in the United States District Court for the District of Connecticut, *Audet et al. v. Fraser* 2022 WL 1912866, however, demonstrates how complicated a *Howey* analysis can be as the crypto industry spins off new products from the currencies themselves. Plaintiffs in *Audet* asserted fraud and related securities claims under Connecticut's Uniform Securities Act ("the Connecticut Act") relating to four cryptocurrency coins or products – "Hashlets," "Paycoin," "Hashstakers," and "Hashpoints." At trial, the court reserved ruling on defendant's motion for judgment, which included arguments that the cryptocurrencies were not securities subject to the Connecticut Act because the products did not meet Connecticut's version of the *Howey* test. The case was submitted to a jury, which returned a defense verdict on all counts. The jury specifically concluded that the none of the crypto products at issue were securities under *Howey*. Plaintiffs filed post-trial motions, which in part sought a new trial on the jury's *Howey* analysis. The trial court's opinion, which was just released on June 3, 2022, is instructive into how complicated a *Howey* analysis can be in the crypto world.

The *Audet* trial court reviewed the evidence submitted to the jury regarding the nature and purpose of each of the four products. According to conflicting trial testimony, Hashlets were either a computer used for mining cryptocurrency, including Bitcoin, or a percentage of the mining power at defendant's crypto mining "farm." WL 1912866 *3. Purchasers of Hashlets either purchased a specific share of the mining power at the farm, or they purchased a share of the profits generated by the mining activities. *Id.* Each Hashlet owner had the power to select different "pools" of data mining, and different payouts on the shares of Hashlets could be obtained based on the value of the different pools. WL 1912866 *4. Based on this evidence, the trial court concluded that a reasonable jury could have found that no horizontal commonality existed because Hashlet owners could make profits or sustain losses independent of the fortunes of other purchasers. WL 1912866 *13. The court further concluded that a finding of no vertical commonality was not against the weight of the evidence because there was no evidence that defendant directly benefitted from the data mining itself, and that defendant only earned fees via the sale of Hashlets. *Id.*

The trial court reached a different conclusion regarding Paycoin. According to evidence submitted at trial, Paycoin was a new cryptocurrency launched by the defendant and promoted and offered to investors as an investment scheme. The trial found that the weight of the evidence did not support a finding by the jury that Paycoin was not an investment contract under the *Howey* factors. Central to this conclusion was evidence that Paycoin was to be used within a crypto "ecosystem" created by defendant in which the coins could be traded and used to make purchases. WL 1912866 *15. This ecosystem tied the fortunes of the Paycoin purchasers to each other as the value of the coins rose or fell within the ecosystem. *Id.*

With respect to Hashpoints – which were described at trial was a form of "in-house credit" that could be traded for Paycoin, and Hashstakers – which was a specialized electronic wallet in which Paycoins could be housed – the trial court noted that the jury heard "very little evidence" about these products, and concluded that the mere fact each could be used for either the acquisition or holding of Paycoin was not sufficient to render these products investment contracts under Howrey. WL 1912866 *18.

Although some states have enacted regulations for the sale and trading of cryptocurrency, there is no uniform set of federal regulations specifically dealing with this rapidly evolving industry. While the trial court's decision in *Audet* with respect to the Paycoin product squares with the federal decisions in *Kik* and elsewhere, the complicated set of products and facts described at trial in *Audet* suggest that the crypto industry may develop products and services which fall outside of judicial enforcement of existing securities regulations on the industry.

George Ritchie

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[ii]SEC Cryptocurrency Enforcement: 2021 Update (cornerstone.com).

The Anatomy of a Trademark Case

By James B. Astrachan, Donna M.D. Thomas, and Kaitlin D. Corey, Goodell, DeVries, Leech & Dann, LLP

A trademark infringement suit awarding *Variety Stores* $95 million dollars against Walmart is instructive as to what the courts in the Fourth Circuit require to establish trademark infringement and willful trademark infringement. *Variety Stores, Inc. v. Walmart Inc.*, 852 Fed. Appx. 711 (4th Cir. 2021)(unpublished).

While the large monetary award has been resolved behind the scenes through a confidential settlement following Walmart's successful appeal relating to the trial court's jury instructions concerning whether Walmart acted willfully, the magnitude of the award and the Court's explanation of what is required to establish trademark infringement are worthy of discussion. This is especially important for those who are called upon to advise their client about whether a trademark is clear and available for use. The analysis for clearing a trademark for use is similar to the analysis that applies to determining whether a client will succeed if it sues on the grounds of trademark infringement.

Variety Stores involved use by Walmart of the mark BACKYARD GRILL on barbecue grills and grilling supplies that it offered for sale in its stores. The dispute was whether Walmart's use of BACKYARD GRILL infringed Variety's rights in its federally registered mark, THE BACKYARD and its unregistered marks BACKYARD and BACKYARD BBQ.

While there are some significant rights that are reserved for those who own a federal trademark registration, as a general rule, the first user of a mark for goods or services in a territory establishes common law rights in that mark. *Emergency One, Inc. v. American Fire Eagle Engine Co., Inc.*, 332 F.3d 264, 267-68 (4th Cir. 2003). A common law user of a mark can prevent other users from subsequently adopting the same or a similar mark, for the same or related goods or services, in that territory if the use is likely to cause confusion. *See* 15 U.S.C. § 1125(a).

Variety owns a chain of retail stores that sell outdoor products such as lawn and garden equipment and barbecue grills. Walmart's product line is larger but it too sells barbecue grills. When Walmart decided to sell private label grills, it searched for an appropriate name to brand the barbecue grills.

Names similar to those used by Variety were considered by Walmart's legal department and were rejected. Walmart eventually landed on the mark BACKYARD GRILL despite being aware that Variety had registered THE BACKYARD for other goods/services (i.e. retail store services in the field of lawn and garden equipment and supplies), but not specifically barbecue grills. By failing to research what products Variety used THE BACKYARD mark on and relying solely on the goods/services covered by Variety's federal registration, Walmart overlooked Variety's use of the BACKYARD and BACKYARD BBQ marks for grills. Eventually, Variety sued Walmart for trademark infringement under 15 U.S.C. §§ 1114 and 1125, and for unfair and deceptive trade practices under North Carolina law.

To demonstrate federal trademark infringement under the Lanham Act, and generally under the common law, Variety had to establish that it owned a valid and protectable mark and that Walmart's use in commerce of its similar mark created a likelihood of confusion in the minds of an appreciable number of consumers and would-be consumers. *CareFirst of Md., Inc. v. First Care, P.C.*, 434 F.3d 263 (4th Cir. 2006). Courts in the Fourth Circuit are instructed to look to nine factors to evaluate, as a question of fact, whether trademark infringement exists:

1. The strength or distinctiveness of the mark;
2. the similarity of the two marks;
3. the similarity of goods or services the marks identify;
4. the similarity of the facilities (i.e. channels of trade) used by the parties;
5. the similarity of advertising used by the parties;
6. the Defendant's intent in adopting the mark;
7. the existence, or lack, of actual confusion;
8. the quality of Defendant's product; and
9. the sophistication of the would-be consumers of the goods or services.

George & Co. LLC v. Imagination Entertainment Ltd., 575 F.3d 383, 393 (4th Cir. 2009).

1. The Strength or Distinctiveness of the Mark

The strength or distinctiveness of the mark is one of the most important factors in a court's analysis because if a mark is weak, consumers are less likely to associate the mark with a source, so confusion will not result. Courts consider both conceptual and commercial strength, determining conceptual strength by categorizing the mark as (i) fanciful, arbitrary or suggestive, each of which is inherently distinctive and conceptually strong; (ii) descriptive, which is weak until secondary meaning is acquired; or (iii) generic, which is never capable of distinguishing the goods of one seller from another.

To determine commercial strength, or, in other words, an association of a mark with a source in the minds of consumers, courts evaluate advertising expenditures; consumer studies linking the mark to a source; sales success; unsolicited media coverage of the product or services; attempts to plagiarize the mark; and length and exclusivity of use. *Perini Corp. v. Perini Constr., Inc.*, 915 F.2d 121, 125 (4th Cir. 1990). The stronger the mark, the more likely it will be that consumers will associate it with a source and that a junior user entering the marketplace will cause confusion.

In *Variety*, Variety's BACKYARD mark was found to be commercially strong based on its continuous use of the mark since 1993, its expenditure of over $40

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million in advertising products and services under the mark (from 1993-2012) and its sales of over $64 million of products under the mark (from 2002-2015). The BACKYARD mark was also found to be conceptually weak based on the fact that such term was widely used in other marks, including several in the grilling industry.

2. Similarity of the Two Marks

In determining the similarity of marks, courts consider similarities in the appearance, sound and commercial impression/ meaning of the marks. In evaluating similarities, a court will give greater weight to the dominant or salient portions of the mark. For example, in composite marks comprised of distinctive and descriptive terms (such as Backyard Grill), the distinctive term (i.e. "Backyard") is accorded more weight than the descriptive term (i.e. "Grill") in comparing marks. In *Variety*, the marks were found to be similar because they had similar "linguistic design," featuring the identical dominant word "Backyard" followed by a descriptive word. In addition, the parties' marks employed similar color schemes.

3. Similarity of Goods or Services the Marks Identify

When the goods or services of the junior user compete for sales with the senior user's goods or services, the goods or services should be found to be substantially similar, and that factor ought to support a finding of infringement. In *Variety*, the marks at issue were used in connection with identical, competing grill products, thereby favoring a likelihood of confusion. But goods or services do not need to be identical or in direct competition in order to be considered similar. *George & Co.*, 575 F.3d at 397. Where goods and services are related in some manner and/ or the circumstances surrounding their marketing could cause consumers to mistakenly believe that the parties' goods/ services come from the same source, this factor supports a likelihood of confusion. For example, relatedness of goods or services can be shown by evidence that the goods/services are complimentary or that other companies offer both parties' goods/services under the same mark, such as banking services and mortgage lending services.

4. Similarity of the Facilities

The Court found that the facilities used by Variety and Walmart to sell their grills were similar. Both were found to compete in a similar manner in overlapping markets in at least 17 jurisdictions. Both were big-box stores selling a variety of merchandise. There were no basic differences between their modes of distribution. Because of the similarity in the facilities used to sell their merchandise, this factor favored likelihood of confusion.

5. Similarity of Advertising

Similar to evaluating use of facilities by both parties, courts also consider the marketing channels used. Courts assess how consumers encounter the marks in the marketplace, including the way in which products are advertised and where in the store you would locate the two products if they were being sold in the same store. For this factor, courts also consider the media used, the geographic area in which advertising occurs, the appearance of the advertisements and the content of the advertisements. *CareFirst of Md. Inc. v. First Care, P.C.*, 434 F.3d 263, 273 (4th Cir. 2006). In Variety, the parties' advertising was found to be similar (thereby favoring a likelihood of confusion) and Walmart did not dispute such finding on appeal.

6. Defendant's Intent in Adopting the Mark

A question posed by courts when evaluating whether a defendant was willful or acted with the intent to infringe the plaintiff's mark, is whether the defendant intended to capitalize on the goodwill associated with plaintiff's mark. *CareFirst*, 434 F. 3d at 273.

Intent can be a major factor in evaluating infringement, but like actual confusion, intent is not necessary to establish likelihood of confusion. Some courts have held that when a defendant adopts a mark with knowledge of the plaintiff's mark, a presumption of willfulness arises. *E.& J. Gallo Winery v. Consorzio Del Gallo Nero*, 782 F.Supp. 457 (N.D. Cal. 1991). But the Fourth Circuit has stated that the "intent of a junior user is relevant only if the junior user intended to capitalize on the goodwill associated with the senior user's mark." *CareFirst*, 434 F.3d at 273 (citing *Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 466 (4th Cir. 1996). The absence, however, of intent or bad faith renders this factor neutral because intent to infringe is an issue whose resolution may benefit the cause of only the senior user and not the alleged infringer.

In *Variety*, Walmart knew Variety owned a registration covering THE BACKYARD for retail store services in the field of lawn and garden equipment and supplies, but failed to investigate how Variety was using such mark (which investigation would have revealed use on grills) because it did not consider Variety a competitor. Additionally, Walmart's legal counsel advised Walmart not to adopt BACKYARD BARBEQUE or BACKYARD BBQ. While the Court instructed that a finding of bad faith would not necessarily flow from knowledge of an earlier mark alone, bad faith could be inferred in this case based on Walmart's actual or constructive knowledge of Variety's mark and its failure to further investigate the usage of such mark. V*ariety Stores, Inc.*, 852 Fed. Appx. at 720.

7. Actual Consumer Confusion

Evidence of actual consumer confusion will provide strong support for a finding of likelihood of confusion and is often considered the most important factor. *CareFirst*, 434 F.3d at 268; *Lyons P'ship v. Morris Costumes, Inc.*, 243 F.3d 789, 804 (4th Cir. 2001). However, failure to prove actual confusion is not dispositive of an infringement claim. Actual confusion is often established by survey evidence, but it can also be derived from anecdotal

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evidence. *George & Co.*, 575 F.3d at 398. In the context of survey evidence, a consumer must not be shown a side-by-side comparison of the two products.

In *Variety*, Variety did not produce evidence of actual confusion, but used experts to discredit Walmart's surveys, which were offered to prove the absence of confusion, but were claimed by Variety's experts to show confusion among 11% of the survey participants. Variety Stores, 852 Fed. Appx. at 721. Some courts have determined that survey evidence demonstrating confusion in 10% or more of consumers supports a finding that actual confusion exists. See *Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 467 n. 15 (4th Cir. 1996). In one case, for purposes of summary judgment, a confusion rate of 17% was found to constitute clear evidence of actual confusion. *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 159 (4th Cir. 2012).

8. The Quality of Defendant's Product

The determination that the quality of a defendant's products bearing the infringing mark is below that of plaintiff's products pertains to whether the plaintiff's reputation could be harmed by the inferior nature of the infringer's goods. *Banfi Products Corp. v. Kendall-Jackson Winery, Ltd.*, 74 F.2d 188 (E.D.N.Y. 1999). In Variety, this factor weighed in Variety's favor at the trial court level and was not disputed by Walmart on appeal, so the relevant facts are unknown. This factor is often treated as neutral in the analysis due to the absence of relevant facts.

9. Sophistication of the Consumers

Confusion is more likely when the goods associated with the mark are inexpensive, and subject to impulse purchasing. This factor favors the plaintiff when the average unsophisticated consumer does not devote a great deal of care and consideration to choosing the goods. While wine has been held to be an impulse buy, barbecue grills, being more expensive and not consumable, should result in more selective decision making by the consumer. In Variety, this factor weighed in Variety's favor at the trial court level and was not disputed by Walmart on appeal, so the relevant facts are unknown.

These factors are not exclusive and sometimes courts will consider other circumstances. In considering all of the evidence and weighing the factors, the Court determined that a reasonable jury could find that Walmart infringed on Variety's mark. The jury found that Walmart willfully infringed Variety's mark and awarded Variety $95.5 million, including reasonable royalties of $45.5 million (based on 5% of Walmart's national sales revenue) and $50 million in disgorged profits. The Fourth Circuit vacated the jury's willfulness finding and monetary award due to the trial court's failure to instruct the jury on the meaning of willfulness and remanded for further proceedings (which ultimately led to a settlement of the case).

While willfulness is not a prerequisite for an award of profits in an infringement case, it is an important consideration in awarding profits. *Romag Fasteners, Inc. v. Fossil Grp., Inc.*, 140 S.Ct. 1492 (2020). In *Variety*, the Fourth Circuit agreed that infringement must be more than volitional (such as continued use after notice of a trademark claim) in order to be willful, and noted that willfulness has been defined in other cases and legal authorities to include acting with intent to infringe, cause confusion or benefit from the goodwill or reputation of the trademark holder, acting in bad faith or conduct involving reckless disregard of willful blindness. *Variety Stores*, 852 Fed. Appx. at 722-23. Although the jury's willfulness finding and award were vacated and remanded, the Fourth Circuit noted that a reasonable juror could find that Walmart's knowledge of Variety's Backyard mark and its failure to further investigate Variety's use of such mark amount to willful blindness and signify bad faith. *Id.* at 723. As a result, this decision provides a valuable lesson as to the importance of fully and properly searching a proposed mark for conflicts, including investigating the scope of use of preexisting marks, prior to adoption of the mark.

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OSHA's Heat Hazard Enforcement Program and How to Prepare Your Workplace

By Veronica D. Jackson, Michelle C. Johnson, Miles & Stockbridge

The Occupational Safety and Health Administration ("OSHA") recently unveiled a new National Emphasis Program ("NEP") for outdoor and indoor heat-related hazards. To best protect workers in hot working environments, particularly in a climate of ramped up enforcement, employers are wise to devote considerable attention to understanding heat-related hazards, appreciating OSHA's planned expansion of heat-related inspections, and preparing workplaces in response to the rollout of the heightened enforcement program. Especially with a summer of record-breaking temperatures, it is never too late for employers to devote energy to protecting employees from heat-related hazards.

The Need for Heat Stress Standards

The stated purpose of the NEP is to "protect employees from heat-related hazards and resulting injuries and illnesses in outdoor and indoor workplaces" and to set forth a "targeted enforcement component," reiterating OSHA's "compliance assistance and outreach efforts." Rather than relying on a more passive or reactive approach, OSHA aims to encourage early intervention by employers to prevent illnesses and deaths during high heat conditions. "High heat conditions," as described by OSHA, encompass both outdoor work during heat waves and work that takes place indoors near radiant heat sources, such as iron and steel mills.

In discussing the importance of the NEP, OSHA emphasizes that according to the U.S. Department of Labor's Bureau of Labor Statistics, "between 2015 and 2019, environmental heat cases resulted in an average of 35 fatalities per year and an average of 2,700 cases with days away from work." The actual number of heat-related fatalities is expected to be even higher due to unreported incidents and "improperly diagnosed" injuries and illnesses. Despite these statistics, no federal heat standard yet exists. In October 2021, OSHA initiated the lengthy rulemaking process by issuing an advance notice of proposed rulemaking on heat injury and illness prevention, which was followed by a public comment period allowing OSHA to gather additional information. This, along with the NEP, illustrates OSHA's prioritization of heat-stress regulation.

OSHA's Newest Enforcement Initiative

The NEP's goal is to reduce exposures to heat-related hazards that result in illnesses and injuries by targeting particular industries and worksites where employees are exposed to heat-related hazards and have not been provided adequate protection. Mitigation strategies, such as providing cool water, rest, cool areas, training, and acclimatization (gradually training the body to tolerate higher levels of heat stress), are key to controlling the health hazards associated with heat exposures. OSHA states that it will accomplish its goal via a combination of enforcement (which includes inspection targeting), outreach to employers, and compliance assistance.

Expanded Inspections

The inspection prong of OSHA's newest initiative charges compliance safety and health officers ("CSHOs") conducting heat-related inspections with reviewing OSHA 300 Logs and 301 Incident Reports for any entries indicating heat-related illnesses, reviewing records of heat-related emergency room visits and/or ambulance transport, interviewing workers for symptoms of heat-related illnesses (headache, dizziness, fainting, dehydration, etc.), and determining if the employer has a heat-illness and injury program addressing heat exposure. Per the NEP, employers should expect the following questions to be considered as a part of heat-related inspections:

- Whether there is a written program;
- Whether and how the employer monitors ambient temperatures and levels of work exertion at the worksite;
- Whether there is easily accessible cool water;
- Whether the employer requires additional breaks for hydration;
- Whether there are scheduled rest breaks;
- Whether there is access to a shaded area;
- Whether the employer provides time for acclimatization of new and returning workers;
- Whether a "buddy" system is in place on hot days;
- Whether administrative controls are used (e.g., earlier start times and job rotation) to limit heat exposures; and
- Whether the employer provides training on heat illness signs, how to report signs and symptoms, first aid, how to contact emergency personnel, prevention, and the importance of hydration.

CSHOs who are already investigating for other purposes are asked to open or refer a heat-related inspection whenever they observe hazardous heat conditions, where they see heat-related incidents recorded in the OSHA 300 Logs or 301 Incident Reports, or where a heat-related hazard is brought to the attention of the CSHO. Further, on "heat priority days," defined as days during which the heat index is expected to be at least 80°F, CSHOs are encouraged to inquire into the presence of any heat-related hazard prevention programs. In a similar vein, programmed inspections are expected to take place on days when a heat warning or advisory for the local area exists. OSHA also encourages follow-up inspections where heat-related fatalities occurred or citations were issued, to

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confirm implementation of appropriate abatement measures.

Targeted Industries

While heat-related hazards clearly touch on construction and related industries, the OSHA Instruction describing policies and procedures for implementing the NEP narrows its focus on a selection of less obvious non-construction industries as well. These industries include, but are not limited to:

- Cattle Ranching, Crop Production, and Farming;
- Bakeries and Tortilla Manufacturing;
- Petroleum, Coal, Iron, Steel, and Fabricated Metal Manufacturing;
- Motor Vehicle and Aerospace Product Manufacturing;
- Grocery and Related Product Merchant Wholesalers;
- Lawn and Garden Equipment and Supplies;
- Support Activities for Air, Rail, Water, and Road Transportation;
- Postal Service, Couriers and Express Delivery Services;
- Waste Collection, Treatment, and Disposal;
- Skilled Nursing Facilities;
- Automotive Repair and Maintenance;
- Water and Sewage Systems;
- Office Administrative and Business Support Services;
- Investigation and Security Services;
- Educational Support Services;
- Restaurants and Other Eating Places;
- National Security and International Affairs; and
- Employment/Temporary Staffing Services.*

The chosen industries of focus are those OSHA believed to have the highest exposures to heat-related hazards and resulting illnesses and deaths. Businesses within these industries will generally be used for OSHA's programmed inspection.

*OSHA does acknowledge that the employment/temporary staffing service industry is different than most as heat-illness hazards may occur at a high-hazard host location rather than at the employer's site itself, so employers in this industry are not automatically included in the targeted list for programmed inspections.

Authority for Heat-Related OSHA Violations

Lacking a federal heat standard, OSHA relies heavily on the General Duty Clause ("GDC")—Section 5(a)(1) of the Occupational Safety and Health Act. 29 U.S.C. § 654. The NEP states that any proposed citation for a heat-related health hazard shall be issued under the GDC when all elements of a violation have been established, emphasizing that CSHOs should explain the relationship between the workplace operations and exposures and the potential for heat-related illnesses. A sample Alleged Violation Description ("AVD") for a heat-related illness 5(a)(1) violation is located in the Appendix of the NEP. The sample language highlights the importance of noting with particularity all sources of heat (e.g., environmental temperature measurements and information on any heat-generating equipment) and all workplace conditions or practices that expose employees to a likelihood of heat-related illnesses including specific exertions (e.g., performing heavy roofing work or wearing impermeable protective clothing). The alleged heat-related hazard descriptions should not include the employer's failure to implement specific abatement measures (e.g., acclimatizing workers to the heat, failure to provide cool drinking water, or training employees on heat stress).

Impact on State Plans

Many states have elected to operate their own OSHA-approved workplace safety and health programs, rather than opting into the federal OSHA program. These state plans are monitored by OSHA and must be at least as effective as OSHA in protecting workers and in preventing work-related injuries, illnesses, and deaths. OSHA encourages, but does not require, state plans to adopt the NEP. However, state plans must submit a notice of intent indicating whether they already have a similar policy in place, intend to adopt new policies and procedures, or do not intend to adopt the Instruction. State plan responses will be published on OSHA's website.

Current State Law Efforts

On the state law front, only a select few states have passed their own heat stress standards (California, Minnesota, and Washington). Nonetheless, it appears several states intend to make heat hazards a central focus in the coming years. This includes the state of Maryland, which in 2020, passed House Bill 722. The bill tasked the State's Commissioner of Labor and Industry, in consultation with Maryland's Occupational Safety and Health Advisory Board, with developing and adopting regulations that require employers to protect employees from heat-related illness caused by heat stress. Those regulations are due by October 1, 2022.

How to Prepare and Comply

To best meet the demands of the NEP, employers should proactively evaluate the presence of heat-related hazards in their workplaces. Written programs should be developed addressing various mitigation strategies as outlined above. Employers can also now take advantage of the OSHA-NIOSH Heat Safety Tool App, which provides information related to the heat index on any given day, along with information regarding symptoms from heat-related exposure. While the future of federal heat-hazard enforcement is not entirely clear, it is apparent that for the foreseeable future, heat stress standards will be a point of emphasis for state and federal regulators, and employers should do what they can to prepare and respond accordingly.

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Miles & Stockbridge's labor and employment attorneys are well versed in navigating compliance with OSHA standards. Should you need any guidance on how to properly prepare for OSHA's ramped up heat stress enforcement efforts as discussed herein, please reach out to our labor and employment practice group for further assistance.

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