

Case Study: Valuable IP Lessons from our \$8.1 Million Mixed Chicks Trademark and Trade Dress Victory

By Ken Parker¹

On November 2, 2012, a California jury returned an \$8.1 million verdict in favor of Mixed Chicks, LLC against Sally Beauty Supply LLC. The jury found that Sally Beauty had infringed the MIXED CHICKS trademark and the trade dress of Mixed Chicks' premium hair care products. The verdict was notable not only for its relatively large size in a trade dress enforcement litigation, but also because it included a finding of \$7.275 million in punitive damages along with \$839,535 in actual damages. The case provides some valuable lessons and practical tips for IP practitioners and owners of trademarks, trade dress, design and utility patents and copyrights.

Mixed Chicks and Its Products

Mixed Chicks is a small U.S. business that pioneered the multicultural hair care market niche by developing hair care products for mixed-race individuals and people with loosely curled hair. Their top selling products include leave-in conditioner, deep conditioner, and shampoo. Two of the Mixed Chicks founders are mixed-race women who have unique hair care needs that were not met by ethnic hair care products or mainstream products. Both women had combined many different retail products in attempts to meet their needs, a common occurrence for women of mixed race due to a dearth of product specifically for their type of hair. The founders decided to perfect their formulas and make their own products, and they named the product line "Mixed Chicks." Mixed Chicks introduced its first product in 2004, with follow-on products in 2005. The company applied for the MIXED CHICKS[®] trademark and received its registration in 2006. The company did not register its trade dress. Below is the family of Mixed Chicks products as it existed at the beginning of 2011:



The company was run out of one founder's home with no employees until mid-2008, when it rented a small warehouse. Sales revenue topped \$5 million in 2010, and continued upward in 2011.

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Mixed Chicks became a success for several reasons: its products were targeted to an untapped market that was thirsting for a product that worked for them; the Mixed Chicks name readily and quickly identified the product's benefits and target market; and it had quality products that worked. The company also invested heavily in advertising, spending more than \$2 million in advertising through the end of 2011. By 2011, at least according to some reports, Mixed Chicks had the highest name recognition in the multicultural hair care market niche.

Sally Beauty and Its Mixed Silk Products

Sally Beauty is the largest retailer of professional beauty supplies in the world, with more than 2,500 retail stores in the United States and more than \$1.9 billion in sales in 2011. Sally Beauty sells national brands like Clairol, Redken, L'Oreal and others, but also has some "house brands" that it solely owns and sells.

In 2009, Sally Beauty asked Mixed Chicks to sell its product to Sally Beauty. But for various reasons, including Sally Beauty's policies regarding returns to its suppliers, Mixed Chicks declined the opportunity.

In February 2011, Sally Beauty introduced a product called "Mixed Silk," with a leave-in conditioner, deep conditioner and shampoo for "naturally curly" hair. The shapes of the bottles and jars of the products were similar to the Mixed Chicks products, and there were other common design elements between the products, including clear pumps, translucent bottles, orange lettering, and similar color palettes for the contents of the bottles (which were visible because of the translucent bottles). Below is a side-by-side comparison of the Mixed Silk and the original Mixed Chicks products:



Sally Beauty introduced the Mixed Silk products nationwide, and also included in its launch materials an advertisement featuring two women that looked similar to the Mixed Chicks founders. For a time, Sally Beauty also programmed its website so that a user searching the phrase "Mixed Chicks" would receive listings of the three Mixed Silk products and no other products, without any disclaimers or "compare to" language making clear that the Mixed Silk products differed from the Mixed Chicks products and that there was no relationship between them.

Mixed Chicks' Suit

Mixed Chicks filed suit in the U.S. District Court for the Central District of California, asserting claims for trademark and trade dress infringement under the Lanham Act, as well as claims for trade dress and trademark infringement under California law.

The Trial and Verdict

The case went to trial in front of a jury in October 2012 and continued into November. Twenty witnesses, including five expert witnesses, testified over nine court days. The jury decided actual damages, the issue of willfulness, and whether punitive damages were warranted under California law.

The jury returned a verdict finding trademark and trade dress infringement and awarded \$839,535 in actual damages and \$7.275 million in punitive damages under California law. The jury found that Sally Beauty had intentionally infringed Mixed Chicks' trade dress and trademark, and found that Sally Beauty had acted with malice, fraud or oppression. Shortly after the verdict, Sally Beauty decided, on its own, to stop selling the accused Mixed Silk products, making post-trial injunction proceedings unnecessary. Within thirty days of the verdict, Sally Beauty elected to settle the case and paid Mixed Chicks \$8.5 million to do so.

Insights and Lessons

The Mixed Chicks case and verdict present many valuable lessons, some obvious and some not, for practitioners, IP owners, and litigators. A few of them are below.

IP Registrations Matter

First and foremost, IP registrations matter. The existence of a trademark registration, particularly one greater than five years old, creates valuable presumptions that are useful in court and make it easier to present a case, even against an able defendant. Copyright registrations can be even more valuable, allowing the recovery of statutory damages and attorneys' fees. Product-based companies should consider registering trade dress of prominent products. Such registrations are useful to avoid confusing instructions to the jury on issues like secondary meaning or distinctiveness of trade dress. Furthermore, consumer product companies should never forget the potential value of design patents in an IP portfolio. At the moment, the damages provision for design patent infringement offers distinct advantages over those of other statutes.

Failing to register primary trademarks can leave a company in the position of having to prove more than it otherwise would with a registration. For example, in a recent well-publicized lawsuit, Chroma Makeup filed suit over the Khroma Beauty line by the Kardashian sisters. (<http://www.businessweek.com/articles/2012-11-30/when-a-david-sues-the-kardashians>) The owners of the Chroma line do not have a trademark registration. This will likely make their litigation more difficult down the road.

Even small companies should constantly evaluate whether and how to register trademarks, copyrights and even trade dress. In doing so, particularly as to trademarks, small companies should keep in mind the "triage" system: always register primary marks, consider registering secondary marks, and evaluate tertiary (third-tier) marks to see how long they will be in use or whether they protect important revenue-generating products before registering them. For ease of reference, APPLE is Apple Inc.'s primary mark, IPOD is a secondary mark, and IPOD NANO could be considered a tertiary mark. But if IPOD NANO was slated to be used for a decade, Apple was wise to register it (as it in fact did in 2006).

Know (and Specify) What Product or Process You Are Clearing for Sale or Use

The economy is filled with companies operating in crowded product fields and companies that are in the business of making "compare to" products or products that are "evocative" of leading brands, particularly

in the consumer products space. These companies have to pay attention to the IP of the competition, and some of them even look at the market leader for design ideas and to consider openings left by failure to protect IP. Similarly, in patent-heavy industries and/or consumer products, competitors are constantly searching for gaps in patent coverage and designing around utility and design patents.

When designers or engineers are done with their design-around or comparative product, they often bring it to their legal department or an outside firm for product clearance. Similarly, designers may clear a trademark that is destined to go on a “compare to” product. Whether it is a trademark, a new product design or a method being practiced that is close to a patented method, it is very important for legal personnel to understand precisely what they are clearing and how it will be sold. For example, legal may clear a trademark for use, but not see *how it is used on a product or in advertising*. Particular uses of a cleared trademark on a product or in advertising may create different problems. For example, although the trademark office allowed registration of the MIXED SILK trademark, when the MIXED SILK mark was used on the products in question, the word MIXED was made prominent, while the word SILK was minimized. The trademark was also placed on similarly-shaped bottles of similar color with other similar features. Thus, if a lawyer simply cleared the MIXED SILK mark for use in a vacuum, that lawyer might not know the precarious context in which the mark was going to be used to create a misleading impression on the product relative to the MIXED CHICKS mark and trade dress. For this reason, it is good policy to review final products and final advertisements.

Both inside and outside legal personnel should know precisely what is being cleared including the context, and whether they are clearing all types of use or just certain ones. Clear and full communication between legal, marketing and advertising, merchandisers and designers is essential. Outside counsel should identify precisely what is being cleared and for what uses.

Institute a Policy of Periodic Post-Litigation Review by Different Decision-Makers

In every instance involving intellectual property of any kind, it is very wise to institute a policy that requires review of the merits of an infringement assertion after receipt of a complaint. It is generally best for this post-filing review to be made by different personnel than the personnel that initially cleared the products or processes for sale or use. The people that cleared it are inherently biased, and may not be able to objectively evaluate the merits of the infringement allegations in light of new information. In larger companies, this independent review is easier, but in smaller companies, it might be wise to spend at least some time and money with new counsel to “gut check” any assessment that the case is worth fighting.

The post-filing review should include at least three components. Obviously these components can be formally and thoroughly reviewed in high-stake cases, or informally discussed in smaller matters. They are: (1) the merits of the assertions of the plaintiff IP rights holder; (2) whether the defendant should cease selling or using the accused method or process to minimize potential damages; and (3) independent of items 1 and 2, whether it is wise to explore selling or using non-infringing alternatives or alternatives that are more distinct from the IP asserted. It is generally better to consider these three items early on in the process. In addition, it is wise to re-visit these three issues no more than six months after the complaint was filed, and at least every six months after that. In these later meetings, the team should also discuss the issue of “has the plaintiff gone away, is the plaintiff going to go away, and if not, why not.” Unsophisticated defendants sometimes see plaintiffs as irrational nuisances who eventually go away, but if that is not happening after many months, it is important to figure out why and adjust strategy accordingly.

Always Know That Juries and Judges View “Design-Arounds” Differently than IP Lawyers Do

It is commonly stated among IP practitioners that design-around products are legal and proper, and a suitable way to safely avoid third-party IP rights. In patent cases, a key issue is whether the design-

around infringes the elements of the asserted patent. In trademark and trade dress cases, a key inquiry is whether there is a likelihood of confusion between the asserted trademark or trade dress and the accused trademark. Thus, strictly according to the law, identical words used as trademarks or even identical trade dress might be fine if the consumer does not confuse the sources of the products the words or trade dress are on.

Judges and juries, however, are not IP practitioners. Even an experienced judge only deals with IP issues sporadically unless he or she is in an IP-heavy venue. When it comes to the merits on summary judgment and especially at trial, non-IP practitioners (many judges and especially jurors) tend to look down upon any defendant that created a design-around or a mark that could be seen as a “rip-off” of an asserted trademark. So despite the legal propriety of such comparative marks or design-arounds, defendants accused of infringement should keep two things in mind: (1) defendants defending design-around or comparative products (a/k/a knock-offs) start off in a hole with most jurors and some judges; and (2) defendants’ themes must be carefully developed during litigation (including discovery) to bolster the message that such design-around products or knock-offs are legal and a part of healthy competitive behavior in America. Even if the second item is properly acted upon in litigation, it is important to keep in mind that makers of knock-offs or design-around products are probably always at risk with the average American jury. Jurors tend to hate “copycats.” The fact that the defendant had access to the original product design is almost never a good fact for the defendant, and in fact in copyright cases, access is a stated element in proving infringement.

Intent Matters

The intent to design around or create a “compare to” product matters to juries, and not in a way that helps defendants. In the context of trademark cases, this intent can arguably support the existence of one of the eight elements needed to prove likelihood of confusion. So, as a practical matter, in evaluating the exposure of a defendant, one must pay attention to the defendant’s access to the plaintiff’s product in designing its own product. This problem is, admittedly, less of a problem in utility patent cases, where the policy supporting design-arounds can be presented as supporting proper competition. But it is fair to say that in trade dress, trademark, and design patent cases, the defendant’s access or reference to the plaintiff’s product in the design process is a negative fact that must be carefully handled.

Many Differences Are Better Than One

For nearly twenty years in design patent and trade dress cases, I have heard defense lawyers emphasize differences in designs and trade dress. I have used this approach, as well. But experience suggests juries focus more on *similarities* between asserted design patents or trade dress, on the one hand, and accused designs and trade dress, on the other. They do not tend to focus on the differences. This difference between the way IP lawyers and lay people see trademarks, trade dress and design patents is marked and can greatly affect juror and even judge-based perceptions about a knock-off product. So, although it sounds obvious, one thing all designers, engineers and lawyers should keep in mind is that design-around and compare-to products should have as many differences as humanly possible to minimize the possibility of liability later. In the case of utility patents, although it is not quite as important, when it comes to dealing with your average juror, more is better in terms of difference.

Prosecuting or defending any type of IP litigation is costly. Given that expense, IP practitioners, IP owners and those accused of infringing would do well to keep the above lessons in mind when evaluating both their product developments and launches, as well as in handling their IP litigation.