INFORMATION LETTER

EDITORS: KAREN LIM AND JANET L. HOFFMAN

DECEMBER 2014

WE ARE PLEASED TO REPORT THAT FROSS ZELNICK was recognized as an internationally leading trademark firm in the December 2014 World Trademark Review *WTR 1000 Preview*. The publication stated that the firm "is regarded by many as the world's premier trademark outfit," with 16 individuals recommended in the New York tables of the *WTR 1000*, "the most, by a substantial margin, of any firm in any single section of the guide," with special mentions of **SUSAN UPTON DOUGLASS** ("key contact on prosecution matters") and **ROGER ZISSU** ("go-to lawyer for both plaintiffs and defendants in litigation"). Described as "equally proficient on US and international matters," the firm was recognized as "ideally placed to advise companies with worldwide portfolios."

WE ARE PLEASED TO REPORT that 20 of our attorneys received mention in the Super Lawyers New York Metro 2014 "Top Attorneys in the New York Metro area." Noted for Intellectual Property were Partners **LAWRENCE APOLZON**, **SUSAN DOUGLASS**, **DAVID EHRLICH**, **MARK ENGELMANN**, **JANET HOFFMAN**, **NADINE JACOBSON**, **RON LEHRMAN** and **JOHN MARGIOTTA**. Partners **DAVID DONAHUE**, **RICHARD LEHV**, **CRAIG MENDE**, **BARBARA SOLOMON**, **JAMES WEINBERGER**, and **ROGER ZISSU**, and Associate **ANNA LEIPSIC**, were listed for Intellectual Property Litigation. Featured as "Rising Stars" in Intellectual Property were Partners **CARLOS CUCURELLA** and **KAREN LIM**, and Associate **STACY WU**, with Associates **JASON JONES** and **HINDY DYM** listed under Intellectual Property Litigation. View original listing here.

WE ARE ALSO PLEASED TO REPORT that four of our partners – **SUSAN DOUGLASS**, **JANET HOFFMAN**, **NADINE JACOBSON** and **BARBARA SOLOMON** – were included in the 2014 edition of *Women in Business Law – The Expert Guides*. View original listing here.

PARTNER LAWRENCE APOLZON was quoted in an October 14, 2014 *World Trademark Review* article on the benefits and drawbacks of extending International Registrations to the U.S. under the Madrid Protocol versus domestic U.S. filings. The article can be found here.

PARTNER DAVID DONAHUE contributed the United States chapter to *The International Comparative Legal Guide: Copyright 2015*, published by Global Legal Group Ltd., London. David's chapter provides an overview of United States law concerning copyright subsistence, ownership, enforcement and exploitation, among other copyright-related topics. To view the chapter, please click here.

PARTNER RICHARD LEHV spoke on "Recent U.S. Trademark Law Developments" at the 14th International Trademark Conference, at the European Office for Harmonization in the Internal Market, in Alicante, Spain, October 23-24, 2014.

PARTNER KAREN LIM moderated the panel *What Did You Just Call Me?! – Disparagement Under the Lanham Act* at the National Asian Pacific American Bar Association (NAPABA) Convention in Scottsdale, Arizona, on November 7, 2014. The discussion focused on the efforts of all-Asian American band, The Slants, to register its name as a trademark before the U.S. Patent and Trademark Office, and the band's appeal of the USPTO's refusal which is pending before the U.S. Court of Appeals for the Federal Circuit.

PARTNER JAMES WEINBERGER was quoted in an October 5, 2014 *New York Times* article about litigation over trademark rights in the word "how." The article can be found here.

FROSS ZELNICK LEHRMAN & ZISSU, P.C.

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UNITED STATES

Copyright Decision: AEREO NOT ENTITLED TO COMPULSORY LICENSE UNDER SECTION 111 OF COPYRIGHT ACT

American Broadcasting Companies v. Aereo, Inc., Nos. 12–cv–1540, 12–cv–1543, 2014 WL 5393867 (Oct. 23, 2014)

On October 23, 2014, the United States District Court for the Southern District of New York (the "district court") held that Aereo, Inc. ("Aereo") was not entitled to the compulsory license under Section 111 of the Copyright Act, effectively putting an end to the tech startup's arguments that its near-simultaneous streaming of broadcast television programming fell within the Copyright Act.

As discussed in our September 2014 Information Letter, the Transmit Clause of the Copyright Act of 1976 gives copyright owners the "exclusive right" to "perform the copyrighted work publicly." 17 U.S.C. § 106. In June 2014, the United States Supreme Court determined that Aereo engaged in a public performance in violation of the Transmit Clause by streaming broadcasters' copyrighted works to the public without paying license fees.

Following the Supreme Court ruling, Aereo continued its legal fight, raising a new argument on remand to the district court that because the Supreme Court found Aereo similar to a cable system, Aereo could operate under the compulsory license, which allows cable systems to retransmit broadcast programming for a fee. *See* 17 U.S.C. § 111. On the broadcasters' motion for a preliminary injunction against Aereo, Judge Alison J. Nathan of the Southern District of New York rejected this theory, finding that "Aereo's argument suffers from the fallacy that simply because an entity performs copyrighted works in a way similar to cable systems it must then be deemed a cable system for all other purposes of the Copyright Act." *American Broadcasting Companies v. Aereo, Inc.*, Nos. 12–cv–1540, 12–cv–1543, 2014 WL 5393867, at *3 (S.D.N.Y. Oct. 23, 2014).

As the district court noted, the United States Court of Appeals for the Second Circuit had already found that "Congress did not . . . intend for § 111's compulsory license to extend to Internet transmissions." *See id.* at *4 (quoting *WPIX, Inc. v. ivi, Inc.*, 691 F.3d 275, 282 (2d Cir. 2012) ("*ivi*")). Because the Supreme Court did not overrule *ivi* in its Aereo decision, to find that Aereo was entitled to the compulsory license of a cable system would fly in the face of binding Second Circuit precedent. *Id.*

The district court also rapidly disposed of Aereo's secondary argument, introduced on remand, that its streaming qualified as a "transitory digital network communication" and thus should be permitted to continue under the "safe harbor" provision of the Digital Millennium Copyright Act ("DMCA"), 17 U.S.C. § 512. *See id.* at *6. As the United States Court of Appeals for the Eighth Circuit has explained, Section 512(a) "limits the liability of an [Internet service provider] when it merely acts as a conduit for infringing material without storing, caching, or providing links to copyrighted material." *Recording Indus. Ass'n v. Charter Commc'ns., Inc.*, 393 F.3d 771, 776 (8th Cir. 2005). In reviewing this definition and Aereo's arguments, the district court found that Aereo had failed to explain how or why it satisfied the eligibility requirements for the Section 512 safe harbor, and therefore did not consider or evaluate Aereo's argument under the DMCA. *See id.* at *7.

Finally, the district court upheld its earlier ruling that Aereo's services posed a likelihood of irreparable harm to the broadcasters, *see Am. Broad. Cos., Inc. v. Aereo, Inc.*, 874 F. Supp. 2d 373, 397-403 (S.D.N.Y. 2012) valid. *Aereo*, 2014 WL 5393867, at *7. Aereo, on the other hand, after being found infringing by the Supreme Court, could not argue "about the loss of ability to offer its infringing product." *Id.* Accordingly, the balance of hardships tipped in favor of the broadcasters. *See id.* at 7.

After finding that Aereo neither qualified for a compulsory license nor fit within the DMCA safe harbor, and reaffirming its prior holding on irreparable harm, the district court preliminarily enjoined Aereo's near-simultaneous streaming services, "barring Aereo from retransmitting programs to its subscribers while the programs are still being broadcast." *Id.* at *10. Because the Supreme Court did not rule on the question of whether Aereo's provision of time-shifted content fit within the Copyright Act, the district court deferred questions on the legitimacy of that service for later briefing and argument on the scope of a potential permanent injunction against Aereo. *See id.* at *9.

Following this ruling, Aereo could not offer streaming services. However, on October 28, 2014, just five days after issuance of the district court opinion, the chairman of the Federal Communications Commission ("FCC") proposed a rule change that would classify online live television providers as "multichannel video programming distributors" like cable and satellite providers. *See* Tech Transitions, Video, and the Future, See Tech Transitions, Video, and the Future (Oct. 28, 2014). This potential change in classification could prohibit broadcasters from refusing to license their content to Internet television services and thus allow services like Aereo to bring over-the-air television to the Internet.

For Aereo, any such legitimacy would come too late, as the company filed for bankruptcy protection on November 21, 2014. While Aereo lost its battle with the broadcasters, it may have helped win a war for consumers interested in Internet streaming services. Spurred in part by the growth of unauthorized services like Aereo, broadcasters and cable companies themselves have been wading into the online television business. CBS, for example, recently announced that it would start Internet streaming. *See* Joan E. Solsman, *Watch out, HBO: CBS Launches Standalone Web TV Service*, CNET (Oct. 16, 2014). Univision quickly followed suit. *See* Janko Roettgers, *Make That Three: Univision Wants to Stream to Cord Cutters As Well*, GIGAOM (Oct. 16, 2014). Ultimately, it appears that Internet television is here to stay, whether offered through streaming services like Aereo or content creators like CBS and Univision.

- JIP

Territorial Principle: CO-EXISTENCE OUTSIDE OF U.S. MAY BE RELEVANT TO OBTAINING PERMANENT INJUNCTION IN U.S.

La Quinta Worldwide LLC v. Q.R.T.M., S.A. de C.V., 762 F.3d 867 (9th Cir. Aug. 6, 2014)

It is a fundamental principle of trademark law, both in the United States and internationally, that trademark rights are territorial. That is, trademark rights are secured and protected within a certain territory (usually, a country), and what happens outside that territory is generally considered irrelevant to trademark rights in the territory. A recent ruling by the United States Court of Appeals for the Ninth Circuit ("Ninth Circuit") has called that territoriality principle into question. In doing so, the Ninth Circuit has continued a trend where injunctions are becoming more and more difficult to obtain in trademark infringement cases.

La Quinta Worldwide LLC v. Q.R.T.M., S.A. de C.V., dba Quinta Real (*La Quinta*) involves a trademark dispute between two hotel chains. La Quinta is a U.S.-based hotel chain in operation since 1968 with more than 800 mid-tier hotels across the United States. Quinta Real is a Mexico-based hotel chain with eight luxury properties in Mexico, the first having opened in 1986. The dispute arose because Quinta Real had an interest in opening a hotel under the QUINTA REAL name in the United States, and had entered into a letter of intent for that purpose in 1994 and again in 2007, although a U.S. hotel never materialized. At the same time, La Quinta had been operating hotels under the LA QUINTA name in Mexico since 2007 without objection by Quinta Real, the senior user in the territory.

In 2009, La Quinta filed a federal lawsuit in Arizona seeking to enjoin Quinta Real from opening a hotel in the United States. After conducting a bench trial, the district court determined that there was a likelihood of confusion between the marks LA QUINTA and QUINTA REAL, and granted a permanent injunction against use of QUINTA REAL in the United States.

Quinta Real appealed, raising four arguments, namely: (1) the court lacked subject matter jurisdiction; (2) no likelihood of confusion exists; (3) La Quinta's suit was barred by laches; and (4) the district court erred in issuing a permanent injunction. 762 F.3d at 871.

The Ninth Circuit affirmed the district court on the first three bases of appeal, but reversed and remanded on the question of whether plaintiff was entitled to a permanent injunction. 762 F.3d at 880.

Under the Lanham Act, courts have the "power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable." 15 U.S.C. § 1116. According to U.S. Supreme Court precedent, a permanent injunction is appropriate only where a plaintiff shows "(1) that it has suffered irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of the hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *eBay v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

In *La Quinta*, the Ninth Circuit remanded due to concerns about the district court's analysis of the balance of hardships. In particular, the court was concerned that the district court may not have considered whether it was equitable to bar Quinta Real from operating in the United States when La Quinta was permitted to operate in Mexico. As the Ninth Circuit explained:

> We are concerned that the district court's analysis does not discuss a fact we think relevant to weighing the equities in this case: That a permanent injunction in favor of La Quinta here would bar Quinta Real from opening a hotel in the United States under its own name, while at the same time La Quinta would remain free to open hotels and do business in Mexico as "La Quinta." We do not decide that this fact is determinative and we express no opinion on whether the district court should issue a permanent injunction after having taken account of all the relevant facts. But to our thinking this consideration is pertinent to whether a permanent injunction here against Quinta Real operating through its name in the United States is fair and equitable relief in light of the La Quinta hotel operations in Mexico. The omission of this consideration from the district court's analysis leaves us uncertain whether the district court considered all relevant factors in assessing the balance of hardships.

762 F.3d at 880.

On remand, as of this writing, the parties had submitted briefs to the district court on the issue, but the district court has not yet made any further ruling. Predictably, La Quinta's brief insists that the parties' coexistence in Mexico should have no bearing on the United States, arguing that the hotel industry, legal systems, language, and customs differ markedly in Mexico. Equally predictably, Quinta Real's brief on remand focuses on what it perceives as the "fundamental lack of fairness" if it is wholly enjoined from using the QUINTA REAL mark in the United States while La Quinta is permitted to continue its "unbridled march" south of the border in Quinta Real's "backyard."

Regardless of how the district court ultimately rules, the Ninth Circuit's ruling will likely have an impact on many trademark disputes. How far will district courts delve into issues concerning use, coexistence, and infringement in foreign jurisdictions in order to consider the equities of issuing an injunction in the United States? The answer could have broad-ranging implications for discovery and trial presentations. The Ninth Circuit's ruling should also cause companies to rethink coexistence strategies, since coexistence outside of the United States could potentially affect a company's ability to obtain an injunction in the United States.

- LPR

Trademark Trial and Appeal Board: FIRST SUCCESSFUL FRAUD CASE IN FIVE YEARS

Nationstar Mortgage LLC v. Ahmad, Opp. No. 91177036, --- U.S.P.Q.2d --- (T.T.A.B. 2014)

In a precedential decision released September 30, 2014, the Trademark Trial and Appeal Board ("TTAB" or the "Board") sustained a fraud claim for the first time since 2009.

Fraud in procuring or maintaining a trademark registration occurs when an applicant or registrant makes false, material representations of fact in connection with a trademark application or registration with the intent to deceive the U.S. Patent and Trademark Office ("USPTO"). Before the 2009 decision of the U.S. Court of Appeals for the Federal Circuit ("CAFC") in *In re Bose Corporation*, 91 U.S.P.Q.2d 1938 (Fed. Cir. 2009), parties could successfully object to applications or registrations by showing that the applicant or registrant made material representations of fact to the USPTO that it knew or should have known to be false. In *In re Bose*, the CAFC rejected the "should have known" standard, holding that such standard "erroneously lowered the fraud standard to a simple negligence standard." 91 U.S.P.Q.2d at 1940. Following the CAFC's 2009 decision, many parties have tried to prove fraud but have floundered in establishing "knowing intent to deceive," direct evidence of which is rarely available.

In the most recent precedential decision to rule on a fraud claim, applicant Mujahid Ahmad, without the help of an attorney, prepared and filed a use-based application to register the mark NATIONSTAR for "real estate brokerage; rental of real estate; real estate management services, namely, management of commercial and residential properties; real estate investment; residential and commercial property and insurance brokerage; mortgage brokerage; and business finance procurement services." Nationstar Mortgage LLC opposed, alleging fraud on the basis that Ahmad had not used the NATIONSTAR mark for any of the recited services before the filing date of the application and had submitted a fabricated specimen of use. In sustaining the opposition, the TTAB agreed that Ahmed's averments about his use of the NATIONSTAR mark for the recited services at the time he filed the application were fraudulent. Having ruled in Nationstar's favor on the "principal" fraud claim, the Board declined to rule on the "alternative" fraud claim regarding the allegedly fabricated specimens. Slip Op. at 30.

According to the record:

- Ahmad was licensed as a real estate agent in September 2004.
- Ahmad registered the domain names *nationstarmortgage.com* and *nationstarmortgage.net* on April 4, 2005 – the date of first use alleged in the trademark application – and registered three other *nationstar* domain names a few weeks later. But no content was displayed on the websites until February 2007.
- Ahmad incorporated NationStar Mortgage, Inc. in May 2006, but that company never did any business nor filed any tax returns.
- NationStar Mortgage, Inc. first obtained a mortgage broker license in October 2006, but neither Ahmad nor his company ever obtained real estate broker or insurance broker licenses.
- The only documentary evidence bearing the NATIONSTAR marks consisted of business cards, postcards and flyers allegedly distributed in late 2004 and early 2005. But the documents identify NationStar

Mortgage, Inc. as a mortgage broker even though the company neither existed nor was a licensed mortgage broker before 2006.

- Ahmad's fact witnesses (who also self-identified as Ahmad's "good friends") testified that Ahmad acted as their real estate agent but referred them elsewhere for insurance and mortgages.

The TTAB had no problem with the materiality element of Nationstar's fraud claim, holding that Ahmad's statements regarding use of the NATIONSTAR mark for the recited services as of the application filing date were material to the USPTO's approval of the application for publication, since "if it had been disclosed to the examining attorney that the mark was not in use for the identified services . . . , registration would have been refused." Slip Op. at 9.

The TTAB also had little trouble finding that Ahmad's averments regarding use were false. The Board found that Ahmad's testimony was entirely "lacking in conviction and credibility." Slip Op. at 28. For example, although Ahmad was the owner and president of NationStar Mortgage, Inc., he claimed not to know whether the company had any earnings. *Id*. He also professed not to know which advertising materials he had created himself and which had been created by outside vendors, or even who those outside vendors were. *Id.* at 22-25. The Board emphasized that Ahmad was not a licensed mortgage broker, insurance broker, or real estate broker at or before the time he filed his trademark application, and thus could not have legally held himself out as providing those services, which were among those recited in the application. *Id.* at 32. Ultimately, the Board refused to credit either Ahmad's testimony or the documents on which he relied, and concluded that there was no evidence that Ahmad had been using the NATIONSTAR mark before the application date. *Id.* at 29. (Interestingly, the Board did credit evidence that Ahmad had been providing real estate agency services prior to his application date, but those services are not recited in the application.)

As to whether Ahmad's false statements were made knowingly and with an intent to deceive the USPTO, the Board concluded that the evidence supported no other conclusion and that it was appropriate on the record to infer culpable intent: "The surrounding facts and circumstances provide clear and convincing evidence that applicant did not have a good faith reasonable basis for believing that he was using the NATIONSTAR mark in commerce for all the services identified in the application." Slip Op. at 33-34. The Board pointed out that Ahmad was participating in a strictly regulated industry and was aware of the licensing requirements in that industry. *Id.* at 29. The Board concluded that this case did not involve "a nuance of trademark law that applicant may have incorrectly interpreted," but rather "false statements about [applicant's] own industry and his own activities." *Id.* at 37. As a real estate agent, Ahmad was aware that "reading, understanding, and verifying the accuracy of documents that one signs is critical." *Id.* at 29. Thus, there could be no excuse for Ahmad's false declaration.

Having concluded that Ahmad made false, material representations of fact with the intent to deceive the USPTO, the Board sustained the fraud claim and refused to register the NATIONSTAR mark to Ahmad.

While it will be interesting to see whether this case restarts a line of successful fraud claims before the TTAB, we note one important practice point. Ahmad apparently attempted to avoid a fraud ruling by filing a motion to amend the filing basis of his application from use in commerce under Section 1(a) of the

Lanham Act, to intent to use under Section 1(b) of the Lanham Act after the opposition had been instituted. While the TTAB granted the motion early in the proceeding, it noted in doing so that "'amending the filing basis of the opposed application to Section 1(b) does not protect the application from the fraud claim.'" Slip Op. at 6. In the opposition decision, the TTAB "confirm[ed] that once an opposition has been filed, fraud cannot be cured merely by amending the filing basis for those goods or services on which the mark was not used at the time of the signing of the use-based application." *Id.* The TTAB also suggested that a change in the filing basis will not moot a fraud claim if made *after* an application is published for opposition, stating that "a fraud claim in an opposition notice is predicated on the opposer's belief in damage based on the application *as published*." *Id.* at 7 (emphasis added).

While it is still unclear whether any later corrections can cure fraudulent intent, the TTAB's statement, at the very least, suggests that where the fraud occurs at the application stage, an applicant's only chance to avoid a fraud ruling may be to make any necessary corrections *before* publication.

- LPR

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INTERNATIONAL

Benelux: USE OF "GG" MARK IN MODIFIED FORM LEADS TO REVOCATION OF TWO OF GUCCI'S INTERNATIONAL REGISTRATIONS IN BENELUX

Gerry Weber International A.G. v. Guccio Gucci S.p.A., A/12/04709 (Commercial Court of Brussels, November 22, 2013)

The Commercial Court of Brussels recently ruled that Gucci's two International Registrations for a version of the Italian fashion house's overlapping "GG" mark, which were originally registered in the 1970s and 1980s, could not be supported by use of the mark in the modified form currently in use. The earlier "GG" mark, subject of the International Registrations, is shown below on the left. The newer version protected by Gucci's 2011 CTM registration, currently in use in Benelux, is below and to the right.

The earlier mark consists of the double "G" letters in a wider, outlined font, the lower tips of the Gs "touching." The current mark presents the letters in a slightly narrower font, filled in and bold, and the lower tips of the Gs do not "touch."

Under Article 2.26 of the Benelux Convention on Intellectual Property, as well as under Article 15.1 of the Community Regulation (No. 2009/207/EC) and Article 12.1 of the Community Trade Mark Directive (No. 2008/95/EC), a trademark is subject to lapse or revocation if there has been no genuine use of the mark for a continuous period of five years. However, the Community Regulation and the Community Directive define "use" to include use of the mark in a form "differing in elements which do not alter the distinctive character of the mark in the form in which it was registered," or, in the language of the Benelux Convention, as translated, such differing elements must not "adversely affect" the distinctive character of the mark in the form registered.

German fashion company Gerry Weber brought a revocation action against the extension of Gucci's two International Registrations to Benelux, under Article 2.27.1 of the Benelux Convention providing that "[a]ny interested party may invoke lapse of the right in a trademark." Notably, Gerry Weber uses the design pictured below in connection with its women's apparel business.

During the proceedings before the Commercial Court, Gucci was unable to provide evidence of use of its mark in the particular format shown in its International Registrations. Gucci sought, instead, to rely on evidence of use of the mark in its modified form. Thus, the central question before the court was whether the above modifications to the Gucci "GG" alter or adversely affect the "distinctive character" of the earlier mark.

In theory, one effect of the provisions of the Benelux Convention and the Community Trademark Regulation and Directive allowing for modifications to registered marks is to enable rights holders to update their time-tested brands as tastes and styles evolve. Such updates are important, particularly as successful brands flourish over years and decades. This latitude is particularly relevant in the field of fashion, where a company's responsiveness to industry trends and consumer demands is essential, both in the products it designs and in the overall presentation of its brand, even as it maintains its core identity through consistent use of the distinctive elements of its marks.

However, the Commercial Court of Brussels did not agree, in this instance, that the modifications to Gucci's mark were mere updates that did not affect the mark's overall distinctive character. The court held that the respective marks were presented in a different style, and particularly that the two Gs failed to touch in the current format, in contrast to the earlier version. Such relatively small differences were deemed sufficient alterations to the mark's distinctive character, under Article 2.26.3(a) of the Benelux Convention, for the court to revoke the International Registrations for Benelux on the basis of non-use. Small modifications to marks composed of merely two letters may sometimes be considered to have a greater altering effect, as compared to more complex or lengthier marks. The court's decision also speaks to the interest, articulated in the Trademarks Directive, of requiring genuine use of a registered mark to "reduce the total number of trademarks registered and protected in the Community and, consequently, the number of conflicts which arise between them." Gucci's older International Registrations fell victim to the effort to "clean house," keeping the Register clear of marks that are not in use and making way for competing marks.

For trademark owners who wish to protect various iterations of their trademarks, this decision illustrates some of the perils of altogether abandoning use of an earlier, different format. The line that separates an acceptable "update" from an unacceptable alteration is not always consistent across courts and jurisdictions. The decision further underscores the importance of registering not only stylized versions of a core mark but, where possible, also securing registrations of the mark in standard characters, that impart broader protection. Otherwise, registrations for variations that are no longer in use in the particular format registered may indeed be vulnerable to revocation.

- KLD

Canada: CANADIAN FEDERAL COURT ADDRESSES CONCERNS OVER "USE AND REGISTRATION ABROAD" BASIS IN EXPUNGEMENT PROCEEDINGS

Coors Brewing Company v. Anheuser-Busch LLC, 2014 FC 716, July 18, 2014

Canada currently requires that a trademark application specify a basis, which can be one or more of the following:

1. Use in Canada (a date of first use must be specified upon filing);
2. Proposed use in Canada (a declaration of use must be filed prior to registration); and/or
3. Use and registration of the mark abroad.

With respect to the third basis, there was an open and hotly debated question as to whether the use outside of Canada must precede the Canadian application's filing date. In February 2013, the Federal Court in *Thymes LLC v. Reitmans Canada Limited* (2013 FC 127, February 6, 2013) confirmed that the use abroad *and* the foreign registration (or at least a pending foreign application) must exist at the time of filing in Canada in order for the basis to be valid. This decision created uncertainty, however, for parties that owned pre-*Thymes* registrations which issued from applications based on use and registration abroad where the use did not precede the filing date. The concern was that such registrations could now be challenged on the ground that the basis was invalid.

In July 2014, the Canadian Federal Court in *Coors Brewing Company v. Anheuser-Busch LLC* settled this question by holding that an existing registration may not be challenged on this ground. On August 16, 2010, Anheuser-Busch filed a U.S. application to register the mark GRAB SOME BUDS, based on intent to use. One month later, the company filed a Canadian application for the same mark, basing the application on proposed use in Canada. The company could not have claimed use in Canada or use and registration abroad, because these bases did not apply as of the filing date. Just ten days after filing its Canadian application, Anheuser-Busch commenced use in the U.S., and the U.S. registration for GRAB SOME BUDS was granted on March 8, 2011. On February 9, 2011, Anheuser-Busch amended its Canadian application to delete the proposed-use-in-Canada basis and to claim use and registration in the U.S. instead. The Canadian registration then issued on the latter basis. Coors subsequently applied to expunge Anheuser-Busch's Canadian registration. Relying on the *Thymes* decision, Coors argued that the GRAB SOME BUDS registration was invalid because use of the mark had not commenced in the U.S. at the time the Canadian application was filed. The Federal Court upheld Anheuser-Busch's registration, holding that *Thymes* applies only to opposition proceedings and not to expungement proceedings. Therefore, the Federal Court dismissed Coors' expungement action.

The Federal Court based its decision on the fact that the grounds upon which a Canadian trademark registration may be expunged are set forth in Section 18 of the Trademarks Act. Failure to comply with procedural filing requirements is not listed among these grounds. Also, while Canadian case law provides that a fraudulent, or innocent but material, misstatement could give rise to expungement, the Federal Court stated that Anheuser-Busch did not misstate the facts when it amended its Canadian application to claim use and registration in the U.S. Indeed, at the time of amendment, Anheuser-Busch had commenced use of GRAB SOME BUDS in the U.S. and owned a pending application in the U.S.

This decision reassures brand owners that their existing Canadian trademark registrations cannot be expunged due to lack of use abroad as of the Canadian filing date, as long as the claim of use and registration abroad is true when made. Soon enough, this issue will become moot, as amendments to the Canadian Trademarks Act were passed in June 2014. When the amendments take effect as expected in 2015, Canadian trademark applicants will no longer be required to state a basis or provide any use information.

- RNB

Court of Justice of the European Union: REGISTRABILITY OF THREE-DIMENSIONAL TRADEMARKS UNDER ARTICLE 3(1)(e) – CRITERIA CLARIFIED

Hauck v Stokke et al (Case C-205/13, September 18, 2014)

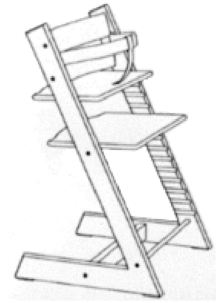
A recent Court of Justice of the European Union ("ECJ") ruling provides clarity on when to register three-dimensional product shapes as trademarks in the EU. *Hauck v Stokkeet al* (Case C-205/13, September 18, 2014) ("Tripp Trapp"). Tripp Trapp concerns the interpretation of Article 3(1)(e) of First Council Directive 89/104/EEC to approximate the laws of the Member States relating to trade marks ("the Trade Marks Directive"), which provides grounds for refusal or invalidation of signs which consist exclusively of:

- the shape which results from the nature of the goods themselves, or
- the shape of goods which is necessary to obtain a technical result, or
- the shape which gives substantial value to the goods.

The purpose of Article 3(1)(e) is to prevent registration of trademarks consisting exclusively of a shape which is inherent to the functionality of a product or which gives the product substantial value, since allowing otherwise would grant one entity a monopoly over the essential characteristics of such product.

<u>Background</u>

The three-dimensional trademark at issue is a Benelux trademark registration of a sign in the shape of a children's high chair, called "Tripp Trapp," registered for "chairs, especially high chairs for children" in 1998 by Stokke A/S, a Netherlands company, and designed by Peter Opsvik of Peter Opsvik A/S (collectively "Stokke"), pictured below:



Stokke brought an action against a German company, Hauck GmbH & Co.KG, which manufactures and distributes two children's chairs, "Alpha" and "Beta," claiming that the Alpha and Beta chairs infringed Stokke's copyright and trademark registration in the Tripp Trapp chair.

Stokke Tripp Trapp Chair vs. Hauck Alpha Chair

Hauck brought a counterclaim seeking invalidation of the Tripp Trapp trademark registration. The District Court, The Hague, Netherlands ruled in favor of Stokke with respect to the copyright claim, concluding that the chair had a high level of originality and that Hauck's Alpha and Beta chairs infringed Stokke's copyright. The court also granted Hauck's counterclaim, invalidating the Tripp Trapp trademark registration. Hauck appealed the decision to the Court of Appeal, The Hague, Netherlands, which upheld both the copyright infringement ruling and the invalidation of Stokke's trademark. The Court of Appeal found that the aesthetic appearance of the Tripp Trapp chair gave it substantial value and that its shape was determined by the very nature of the product itself (a safe, comfortable children's chair), thereby invalidating the trademark.

<u>Decision</u>

Hauck then brought a cassation appeal against the copyright infringement claim before the Dutch Supreme Court, and Stokke filed a cross-appeal with respect to the trademark invalidation. The Court rejected Hauck's cassation appeal, but referred the following three questions to the ECJ with respect to the interpretation of Article 3(1)(e) in the context of the trademark invalidation claim:

1. Does the ground for refusal or invalidity set out in the first indent of Article 3(1)(e) (three-dimensional trademarks may not consist exclusively of a shape which results from the nature of the goods themselves), refer to a shape that is indispensable to the function of the product in question, or can it also refer to a shape that features one or more substantial functional characteristics of the product?

In response to the first question, the ECJ concluded that the latter interpretation is correct, namely, that the grounds of refusal should not be interpreted narrowly and may apply to a sign that consists exclusively of the shape of a product with one or more essential characteristics that are inherent to the function of the product and which consumers look for in competing products. The first interpretation, applying only to signs that consist exclusively of shapes that are indispensable to the function of the product, would leave producers of those goods "no leeway to make a personal essential contribution." Under that reasoning, the ground of refusal could only apply to shapes such as "natural products" which have no substitute, or "regulated products" the shape of which is prescribed by legal standards, both of which must be refused registration because they lack distinctive character anyway.

2. Does the ground for refusal or invalidity in the third indent of Article 3(1)(e) (three-dimensional trademarks may not consist exclusively of a shape which gives substantial value to the goods), refer to the motives underlying the relevant public's decision to purchase? Further, must the shape be considered the main or dominant value of the product, or can the shape be considered to give substantial value to the product if there are also other

elements of the product that give it substantial value? Lastly, in determining whether the value is "substantial," is the opinion of the majority of the public decisive, or is an opinion of a portion of the public sufficient?

With respect to the second question, the ECJ stated that this ground of refusal may apply to a sign consisting of a product shape having several characteristics, each of which give the product substantial value, and should not be limited solely to the shape of products having only artistic or ornamental value. The court noted that while the shape of the Tripp Trapp chair gives it significant aesthetic value, the shape also has other characteristics that give it essential functional value (safety, comfort, and reliability). The fact that the shape of a product gives it substantial value does not mean that other characteristics of the product may not also give it substantial value. Otherwise, there is a risk that products that have essential functional characteristics as well as significant aesthetic elements would not be covered by this ground.

With respect to the public's perception of the sign, the ECJ stated that while the perception of the relevant public is a relevant consideration in determining the essential characteristics of that sign, it is not a decisive factor. Further, other criteria may also be taken into account such as the category of goods, the artistic value of the shape, its dissimilarity from other shapes commonly used in the market, a substantial price difference in relation to similar products, and a promotional strategy focused on accentuating the aesthetic characteristics of the product in question.

3. May the first and third indents of Article (3)(1)(e) be applied in combination, such that a sign may be refused registration where the shape consists of elements in part resulting from the nature of the goods, and with respect to other elements, give substantial value to the goods?

The ECJ held that the first and third grounds for refusal in Article (3)(1)(e) are independent and may not be applied in combination. To refuse a trademark or declare one invalid, any of the grounds must be fully met.

While the ECJ provides some clarity on the interpretation of Article 3(1)(e), the decision still leaves several questions unanswered and its teaching may be difficult to apply in practice. For example, the ECJ provided little guidance on how to determine the substantial value of the product, and whether a consumer survey, for example, would be appropriate. Though companies may find the longevity of trademark protection for three-dimensional designs attractive compared to that offered under copyright and industrial design protection, this case serves as a reminder that companies should opt for a comprehensive protection strategy that includes a combination of trademark, copyright, and design protection.

- ABA

Court of Justice of the European Union: THE PARODY EXCEPTION (COPYRIGHT)

Deckmyn v. Vandersteen and Others (Case C-201/13)

With respect to EU copyright law, Article 5(3) of Directive 2001/29 ("the Directive") states that "Member States may provide for exceptions or limitations to the rights provided for in Articles 2 and 3 in the following cases… (k) use for the purpose of caricature, parody or pastiche."

However, the provision does not define "parody" or "pastiche," and further does not mandate that such uses are an EU-wide exception to copyright law. The provision merely allows Member States to provide for exceptions or limitations as they see fit.

In this case, the European Court of Justice ("ECJ") was presented with a situation in which the copyright owner's (Vandersteen and his heirs, hereinafter "Vandersteen and Others") works were used in a cartoon on a calendar as part of political propaganda distributed at a reception by Vlaams Beland, a Flemish nationalist political group. A member of Vlaams Beland, Mr. Deckmyn, disseminated the infringing cartoons in the form of the calendar for which he credited himself as the editor. Vandersteen and Others sued Deckmyn, alleging that his use of the cartoon constituted copyright infringement. Deckmyn, widely known for his anti-immigration stance, used a depiction of a 1961 comic book of Vandersteen and Others' *Suske en Wiske* series entitled "De Wilde Weldoener" (translation: "the Wild Benefactor") that depicted a philanthropist flying above a city and dropping coins over people, replacing the philanthropist with the Mayor of Ghent, and replacing the non-descript people underneath in the original image with those distinctly donning turbans and burqas. The plaintiffs not only considered this use copyright infringement, but asserted that it associated their protected material with a discriminatory message. Deckmyn defended on the ground that his use was a parody.

The Court of First Instance of Brussels first reviewed the case and ruled against Deckmyn's parody defense, holding that the calendars infringed Vandersteen and Other's copyright and no exception applied. Deckmyn appealed the ruling to the Court of Appeal in Brussels, arguing that the subject use was protected parody under Belgian law (Copyright law of 1994, Article 22.1.6). The Court of Appeal confirmed that Belgian law provides for a parody defense to copyright infringement, but referred the following questions to the ECJ in order to better assess what criteria to apply in considering the scope of Deckmyn's parody defense:

1. "Is the concept of 'parody' an autonomous concept of EU law?
2. If so, must a parody satisfy the following conditions or conform to the following characteristics:
    a. display an original character of its own (originality);
    b. display that character in such a manner that the parody cannot reasonably be ascribed to the author of the original work;
    c. seek to be humorous or to mock, regardless of whether any criticism thereby expressed applies to the original work or to something or someone else;
    d. mention the source of the parodied work?
3. Must a work satisfy any other conditions or conform to other characteristics in order to be capable of being labelled as a parody?"

The ECJ answered the first question in the affirmative, indicating that "the concept of parody … is an autonomous concept of EU law." Therefore, a parody exception is in existence under all national regimes. The court then discussed the next two questions by first pointing out that according to recital 31 in the preamble to the Directive, "exceptions to the rights set out in Articles 2 and 3 of that directive, which are provided for under Article 5 thereof, seek to achieve a 'fair balance' between, in particular, the rights and interests of authors on the one hand, and the rights of users of protected subject-matter on the other." In this context, the ECJ recognized that the authors had an interest in ensuring that their work was not associated with what they contended was a "discriminatory message," and that the defendant had an interest in freedom of expression.

The ECJ noted that the essential characteristics of parody are to (1) evoke an existing work, while being noticeably different from it, and (2) constitute an expression of humor or mockery. Beyond that, specific criteria may differ among Member States. Accordingly, that Art. 5(3)(k) is optional does not mean that the Member States which have chosen to implement the parody exception are free to determine its scope in an un-harmonized manner. Under this reasoning, the ECJ essentially refused to allow a Member State to require criteria for a parody exception that would narrow the scope of the exception beyond what may be enforced in other Member States.

The ECJ finally concluded that "[i]t is for the national court to determine, in the light of all the circumstances of the case in the main proceedings, whether the application of the exception for parody, within the meaning of Article 5(3)(k) of Directive 2001/29, on the assumption that the drawing at issue fulfils the essential requirements of parody, preserves that fair balance." The case will now be handed back down to the Belgian Court of Appeal in Brussels, which will decide whether such an exception would preserve "fair balance" between the rights of the authors and the parodists.

- JM

Peru: Administrative Court of Appeals Affirms Trademark Office Refusal of Nissan Application Despite Coexistence Agreement

Resolution No. 2005-2014/TPI-INDECOPI (July 25, 2014)

Peru's Administrative Court of Appeals recently affirmed a decision by the Peruvian Trademark Office refusing Nissan Motor Co., Ltd.'s application for NP300 covering, *inter alia*, cars, trucks, recreational vehicles, wagons, and parts thereof in Class 12. The Trademark Office concluded that Nissan's NP300 is confusingly similar to General Motors LLC's prior registrations No. 197311 for N300 and No. 197312 for N300 MAX , and No. 20130 for N300 MOVE, all covering "motor vehicles and parts" in Class 12.

Nissan appealed to the Administrative Court of Appeals, citing various other marks in Class 12 that include the number "300" (including L300, LEXUS NX300h, CROSSMAX CR 300, R-300, and T-300, among others), arguing that its "300" combined with the letter "N" and another letter is also capable of coexisting with the cited marks. In further support of its position, Nissan submitted a coexistence agreement with General Motors, in which both parties agreed to take "all necessary measures" to avoid consumer confusion relating to their respective marks and to "maintain such measures in the future."

Notwithstanding Nissan's arguments and the parties' coexistence agreement, the court sustained the Trademark Office refusal based on confusing similarity with the General Motors marks. It held that the addition of the letter "P" is insufficient to avoid consumer confusion between N300 and NP300, where the public could be led to believe that Nissan's mark is a variation of GM's. With respect to N300 MAX and N300 MOVE, the court held that "MAX" is laudatory and "MOVE" is frequently used in connection with motor vehicles, and that the distinctive element of these composite marks is N300.

Further, the court applied Andean Community Decision 486 on a Common Intellectual Property Regime, as interpreted by the Court of Justice of the Andean Community, stating that two marks' coexistence must not deprive consumers of their "right to choose freely between products on the market." While parties may, in principle, agree to the coexistence of similar marks covering goods in the same class, the competent administrative authority must ensure that such coexistence does not "adversely affect the general interest of consumers," and it is these consumer interests – not the wishes of mark owners – that are most important. Of specific concern to the court in this instance was the failure of the coexistence agreement to specify the actions the parties would take to avoid consumer confusion.

This decision underscores that, in Peru, to overcome citation of a prior mark based on a coexistence agreement, it is not enough for parties to set forth their general intent or belief that the marks do not conflict. Rather, they must expressly identify the means by which their marks, goods and services are differentiated in practice. Specifically, coexistence agreements have been accepted where they describe with particularity the concrete measures undertaken by the parties to differentiate their marks and to avoid confusion. Such measures can include provisions undertaking to use the mark at issue in a particular manner, and promising to avoid using certain elements that would bring the mark closer to that of the other party. Other measures acceptable to the court would relate to the nature/extent of use such as restrictions to certain goods or services and limited channels of trade, and undertakings to avoid the goods or services, as well as the trade channels, utilized by the other party.

The rigors of a coexistence agreement in Peru can prove cumbersome, however, to parties accustomed to acceptance of looser agreements in other jurisdictions. While such agreements provide greater flexibility to both parties, if not carefully crafted they can fail to anticipate business changes and developments that are not foreseen at the time of execution. A Peruvian coexistence agreement especially can box a party into a very limited, specific position. The desire for future flexibility on the part of all parties, however, would need to be balanced against the more immediate need for securing a trademark registration. Generally, parties seeking protection for their trademarks in Peru should bear in mind that the Trademark Office has substantial discretion, supported by the courts, in accepting or rejecting "consents" (coexistence agreements), and requires detailed undertakings by both parties with respect to potential consumer confusion.

- KLD

United Kingdom: Trademark Owners May Secure Court Orders Against ISPs to Block Infringing Websites

Cartier International AG et al. v. British Sky Broadcasting Limited et al. (case No: HC14C01282, October 17, 2014)

On October 17, 2014, the High Court in London handed down a landmark decision ordering internet service providers to block or impede access to websites on the basis that they are structured to infringe trademark rights by selling counterfeit goods. Although blocking orders directed against copyright infringement have for some time been issued under Section 97A of the Copyrights, Designs and Patents act of 1988 (CDPA), this decision is thought to be the first time an EU court has issued such an injunction based on trademark infringement.

The case arose when several claimants (collectively "Richemont") sought an injunction against the five largest broadband internet service providers in the U.K. (collectively the "ISPs") to block or impede access to certain websites Richemont claimed were selling counterfeit goods and infringing its CARTIER, MONTBLANC, IWC, and other marks (the "Trademarks"). The defendant ISPs account for 95% of the broadband internet access for the U.K. Richemont's claim centered on third-party websites selling counterfeit goods ("Target Websites"), some of which made it very clear that they were selling "replica" goods.

The High Court based its jurisdiction on Article 11 of the 2004 Directive of the European Parliament on the Enforcement of Intellectual Property Rights (the "Enforcement Directive") which provides that "Member States shall ensure that rightholders [sic] are in a position to apply for an injunction against intermediaries whose services are used by third parties to infringe an intellectual property right." It held that the following threshold conditions must be met in order for a website-blocking injunction to issue based on trademark rights:

1. The ISPs must be intermediaries within the meaning of the third sentence of Article 11;
2. Either the users and/or the operators of the website must be infringing the claimant's trademarks;
3. The users and/or the operators of the website must use the ISPs' services to do that; and
4. The ISPs must have actual knowledge of this.

The High Court found that there was no dispute that the ISPs were intermediaries and that the Target Websites were infringing the Trademarks. Further, it held that the ISPs "have an essential role in these infringements, since it is via the ISPs' service that the advertisements and offers for sale are communicated to 95% of the broadband users in the U.K." Finally, there was no dispute that the ISPs had actual knowledge of the infringements as Richemont had so informed them via an email in March 2014.

Discussing the justification for ordering ISPs to block the Target Websites, the High Court noted the public interest in preventing trademark infringement, particularly where counterfeit goods are involved. It also noted that the "freedom of internet users to receive information . . . plainly does not extend to the right to engage in trademark infringement, particularly where it involves counterfeit goods."

In arguing against the injunction, the ISPs relied heavily on alternative measures available to Richemont. These included direct actions against the operators of the Target Websites (e.g. cease and desist letters and infringement suits), notice and takedown actions through the website hosts, and domain name seizures through UDRP actions. The High Court noted that letters to the Target-Website operators were simply ignored while registrant addresses outside of the U.K., such as in China, presented obvious difficulties to jurisdiction and enforcement. Further, the Target-Website operators could simply change their URL or IP address in response to any takedown or domain name transfer. On balance, the High Court found that none of the alternative measures available to Richemont would be equally effective, but less burdensome, than the requested blocking order. It made it clear, however, that rightsholders bear the cost and responsibility of monitoring offending websites and accurately updating service providers.

Regarding the likely effectiveness of blocking orders in cases of trademark infringement and counterfeit goods, the High Court relied on empirical data on the effectiveness of 97A orders. A report from a website-tracking company showed that in a one-year period, access to websites blocked by service providers under 97A orders decreased by over 71% in the U.K. In that same time period, access to those sites outside of the U.K. increased by over 27%. The High Court commented that "there is no reason to believe that the blocking would be materially less effective in reducing traffic to the Target Websites" and that "if anything, it is probable that it will be even more effective" due to the apparent lack of consumer loyalty to websites that sell counterfeit goods.

The High Court granted the orders substantially in the form sought by Richemont, with the following three caveats: (i) affected subscribers would be able to apply to the court for discharge or modification of the orders; (ii) the online notice that the website had been blocked would identify the party who applied for the blocking order and state that affected users have the right to apply to the court to discharge the order; and (iii) a "sunset clause" be set for the end to the blocking order after a defined period – the High Court suggested two years but left the issue open for argument by either side.

This decision provides brand owners with a powerful new tool in the fight against online counterfeiting. Further, because the technology to implement these orders is already in place to support 97A orders, requests from law enforcement, and parental controls, there will likely be little delay in implementation. Blocking orders allow brand owners to monitor the offending website and update service providers to combat circumvention techniques such as changing domain names or IP addresses. It remains to be seen, however, what other methods counterfeiting websites may employ to side step a blocking order. Time will also tell if requests for blocking orders based on other forms of trademark infringement will issue absent the weight of public interest involved in the sale of counterfeit goods.

– JDL

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