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SEPTEMBER 2005

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**J**OHAN MARGIOTTA AND ROGER ZISSU won summary judgment dismissing all remaining claims in *Polar Bear Productions v. Timex Corporation*, Case No. CV00-141-M-SEH (Dist. Montana). Brought in to handle an appeal, John and Roger represented Timex Corporation in its successful challenge to a jury verdict from the U.S. District Court for the District of Montana that had awarded plaintiff Polar Bear Productions, Inc. \$2.415 million for Timex's copyright infringement of a kayaking video entitled "PaddleQuest." On appeal, the Ninth Circuit vacated the entire profit award of \$2.1 million as unduly speculative and cut the damage award by another \$200,000 on the same grounds. The Ninth Circuit also reinstated an earlier-dismissed claim for trademark infringement under Montana statutory law. On summary judgment, John and Roger successfully secured dismissal of that claim.

**M**ARIE DRISCOLL successfully represented Wyeth in an opposition against Walgreen. The TTAB found that A THRU Z ADVANTAGE was confusingly similar to FROM A TO ZINC.

**O**N MAY 27, 2005, TAMAR NIV BESSINGER was a guest on "Event Talk," an Internet radio show on [www.meetingsradio.com](http://www.meetingsradio.com), an Internet radio station for the meetings industry. Tamar discussed how event planners can protect their ideas and intellectual

property when pitching ideas to new clients and doing business. A transcript of the show will be available on our website, [www.frosszelnick.com](http://www.frosszelnick.com).

**I**N THE AUGUST 1-8, 2005 ISSUE OF *NEW YORK* MAGAZINE, ROGER ZISSU AND MARIE DRISCOLL were again listed among the “New York Area’s Best Lawyers.”

**W**HO’S WHO LEGAL – The International Who’s Who of Business Lawyers has named another Fross Zelnick Attorney, **DAVID EHRlich**, to its list of recommended New York attorneys in its trademarks section. David joins Ronald Lehrman, David Weild III, Roger Zissu, Marie Driscoll, Michael Davis, Susan Douglass, Janet Hoffman and Peter Silverman on that list. The publication selects its recommended attorneys by polling attorneys and clients in the field. The list of trademark attorneys is also available as a separate book entitled **The International Who’s Who of Trademarks Lawyers**.

**D**AVID DONAHUE spoke at the Practising Law Institute’s “Bridge the Gap II” program in New York City on August 19, 2005, presenting a “Copyright and Trademark Primer.”

**W**E ARE PLEASED TO WELCOME **ALLISON SINGH** as an associate in the international group. Allison comes to us from Saidman Design Law Group where she was an associate since February 2004. Previously, Allison was an associate at Pennie & Edmonds from September 2003 through January 2004, as well as during the summer of 2002. Prior to that, Allison worked at the American Red Cross as an Office of General Counsel Law Clerk from January through September 2003. Allison is a 2002 *cum laude* graduate of Georgetown University Law Center. She received her Bachelor’s Degree at Dartmouth College in 1997 *cum laude*.

**FROSS ZELNICK LEHRMAN & ZISSU, P.C.**

# Information Letter

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## UNITED STATES

### COPYRIGHT DECISIONS

- Contributory Infringement; New Technologies
- Fair Use Defense

### GRAY MARKET GOODS/PARALLEL

#### IMPORTS

- Applicability of U.S. Copyright Law

### TRADEMARK DECISIONS

- Fraud Cases Under *Medinol Ltd. v. NeuroVasx, Inc.*
- Internet Pop-Up Ads

### Copyright Decision: CONTRIBUTORY INFRINGEMENT; NEW TECHNOLOGIES

*Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005).

In a highly publicized copyright decision involving the *Grokster* and *Morpheus* file sharing software, the United States Supreme Court ruled on June 27, 2005 that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."

In this case, the "device" at issue was actually free software (the "file sharing software") that allows computer users to share electronic files through peer-to-peer networks – that is, networks of computer users who communicate directly with each other rather than through a centralized

server. The plaintiffs included various motion picture studios, recording companies, songwriters and music publishers whose content was being shared online by users of the file sharing software without authorization. Plaintiffs alleged that the distributors of the file sharing software were contributory copyright infringers because they knowingly and intentionally distributed that software to enable users to reproduce and share with other users the plaintiffs' copyrighted movies, music and other works protected by copyright.

The Ninth Circuit Court of Appeals granted summary judgment for the defendants, holding that they could not be liable on a contributory copyright infringement theory under the Supreme Court's decision in *Sony Corp. v. Universal Studios*, 464 U.S. 417 (1984), because the file sharing software was "capable of substantial non-infringing uses" and there was no evidence that the defendants had actual knowledge of specific

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instances of infringement and failed to act on that knowledge.

The Supreme Court reversed, holding that the Ninth Circuit misapplied the holding in *Sony*. Writing for the majority, Justice Souter explained that the fact that a product is capable of substantial non-infringing uses is no defense to a contributory copyright infringement claim where the defendant actively induces infringing uses – and there was ample evidence of such inducement by the defendants in this case.

Interestingly, the decision leaves open a question that both sides had raised in their submissions to the high court: precisely what quantum of potential non-infringing use of a product would be deemed "substantial" enough to pass muster under the *Sony* test, in the absence of willfulness and active inducement by the defendants?

- CSM & DD

## Copyright Decision: FAIR USE DEFENSE

In *Bill Graham Archives, LLC v. Dorling Kindersley Ltd. et al.*, No. 03 CV 9507, 75 U.S.P.Q.2d 1192 (S.D.N.Y. May 12, 2005), the publishers of the book *Grateful Dead: The Illustrated Trip* were found not liable for copyright infringement for including thumbnail reproductions of seven concert posters and one ticket among the many illustrations in the book.

When both plaintiff and defendants moved for summary judgment, the United States District Court for the Southern District of New York applied the non-exclusive fair use factors listed in Section 107 of the Copyright Act, and added an additional fair use factor: the good faith of the defendants.

Section 107 of the Copyright Act lists four non-exclusive factors to consider in assessing whether use of a copyrighted work violates the Act: (1) the purpose and character of the use; (2) the nature of the

copyrighted work; (3) the amount and substantiality of the portion used; and (4) the effect of the use upon the potential market for, or value of, the copyrighted work. Placing heavy emphasis throughout the opinion on the transformative nature of the defendant's book, Judge Daniels found that all but factor (2) favored the defendants.

In assessing the first factor – the purpose and character of the use – the court identified the defendants' work, described as "a biography constructed in the form of a written and visual timeline," as transformative: "thumbnail use of the [contested] images placed in chronological order on the timeline is transformatively different from their mere expressive use as posters and tickets." The court noted that defendants' use was thus quite different from the original purpose of plaintiff's works, namely, "to advertise, draw attention to and solicit listeners to an event." The court contrasted the defendants' use with the infringing use found in *Ringgold v. Black Entertainment Television, Inc.*, 126 F.3d 70, 79 (2d Cir. 1997), where the defendant had used the plaintiff's poster for the same decorative purpose for which the poster was created.

The court found the second factor – the nature of the copyrighted work – to weigh in plaintiff's favor, because the posters were creative rather than factual works.

Somewhat surprisingly, the court found the third factor – the amount and substantiality of the portion used – to tip in defendants' favor. Although defendants had copied plaintiff's images in their entirety, the court emphasized that the images were substantially reduced and were displayed among hundreds of other images. The court found the extent of the reproduction to be "reasonable in relation to defendants' transformative purpose": "Defendants' use was meant to commemorate certain landmark shows in the Grateful Dead's

history. While the fact of these shows could be demonstrated without using the thumbnail reproductions of the work, the creative nature of the relevant promotional materials could not be conveyed as effectively without the use of several samples of the work in their entirety.” Moreover, the court stated, the reproductions “cannot be said to capture the essence or ‘heart’ of the original [full size concert poster] work.”

Considering the fourth factor – the effect of the use upon the potential market for or value of the copyrighted work – the court recognized that because “[a]ny uncompensated use involves the loss of potential licenses,” such loss could not be determinative or the fourth factor would be “meaningless.” Hence, the court followed case law making cognizable only harm to “traditional, reasonable, or likely to be developed” licensing markets. The court stated further that “[w]hether a copyright holder is expected to exploit a market depends substantially on whether the use is transformative.” Thus, even if a copyright holder had licensed parodies, criticisms, etc. in the past, these would not necessarily fall into protected licensing categories. Following this reasoning, the court found that defendants’ transformative use did not harm either the reproductive or the derivative markets for plaintiff’s works.

Finally, the court gave weight to defendants’ good faith, as an additional fair use factor of its own creation. The court found evidence of defendants’ good faith in the fact that they had attempted to secure licenses from plaintiff, even though the need for those licenses was questionable.

- LPR

## Gray Market Goods/Parallel Imports: APPLICABILITY OF U.S. COPYRIGHT LAW

A common problem for owners of exclusive rights to distribute goods in the United States arises when parties import otherwise legitimate foreign-manufactured copies of such goods into the U.S. without the U.S. rights holders’ consent. Such goods are commonly referred to as “parallel imports,” “gray market goods,” or “gray goods.” (For purposes of brevity, we will use the last term herein.) Rights holders aggrieved by the importation of gray goods often look to U.S. trademark law to protect their interests, although U.S. copyright law provides protection in certain instances where U.S. trademark law does not.

With respect to U.S. trademark law, under Section 42 of the Lanham Act and related regulations “a citizen of the United States or a corporation or association created or organized within the United States” who owns a U.S. trademark registration can prevent the importation of certain categories of gray goods by recording its trademark registration with the U.S. Customs Service. The Customs Service will then refuse entry into the U.S. of any goods bearing the trademark where the trademark is applied under the authority of any of the following: (1) a licensee independent of the U.S. owner; (2) a foreign trademark or trade name owner other than the U.S. owner or its affiliated entities; or (3) the U.S. owner or its affiliated entities where the goods bearing the trademark are “physically and materially different from the articles authorized by the U.S. trademark owner for importation or sale in the U.S.” 19 C.F.R. § 133.23. Moreover, the owner of rights in a U.S. trademark, whether the trademark is registered or not, can bring an action under the Lanham Act against an importer of gray goods where the goods are materially different from the goods authorized for sale in the U.S. and the distribution of such

goods in the U.S. would be likely to cause confusion as to the source, affiliation or sponsorship of the goods.

Although the Lanham Act provides valuable protection relating to gray goods, it arguably does not provide protection against importation of gray goods manufactured in a foreign country under authority of the U.S. rights holder where such gray goods are identical to (i.e., not “materially different” from) goods that are authorized to be sold in the U.S. This is where U.S. copyright law comes into play.

Section 602(a) of the U.S. Copyright Act provides that “[i]mportation into the United States, without the authority of the owner of [U.S.] copyright ..., of copies ... of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies ... under section 106” of the U.S. Copyright Act. In *Quality King Distributors, Inc. v. L’Anza Research International, Inc.*, 523 U.S. 135 (1998), the U.S. Supreme Court held that Section 602(a) does not prohibit importation of copies acquired outside the U.S. where such copies originally were manufactured in the U.S. In such circumstances, the redistribution of the copies is protected under the “first sale doctrine,” which permits the purchaser of a “lawfully made” copy to resell that copy as he or she pleases. See 17 U.S.C. § 109. The court strongly implied, however, that the first sale doctrine would not apply where the copy was manufactured in a foreign country, as opposed to the U.S., because in such circumstance, the copy would not be “lawfully made” as required under Section 109.

In a recent decision, a United States District Court put into practice the Supreme Court’s admonition regarding the application of Section 602(a) to foreign-manufactured copies. In *U2 Home Entertainment, Inc. v. Lai Ying Music & Video Trading, Inc.*, No. 04 Civ. 1233 (DLC), 2005 U.S. Dist. LEXIS

9853 (S.D.N.Y. May 25, 2005), the plaintiff, U2 Home Entertainment, Inc. (“U2”), owned the exclusive rights under U.S. copyright to distribute certain Chinese language motion pictures manufactured in Asia (the “U2 Films”). The defendants operated a retail video store in New York City that sold, among other things, copies of the U2 Films that were manufactured abroad and imported into the U.S. without U2’s consent. After purchasing unlawfully imported copies of the U2 Films from the defendants’ store, U2 sued the defendants alleging copyright infringement under Sections 106, 501 and 602(a) of the U.S. Copyright Act. Thereafter, pursuant to seizure orders issued by the court, hundreds of copies of dozens of the U2 Films were seized from defendants’ store.

U2 moved for summary judgment on its copyright infringement claim. The court found that the defendants admitted (or should be deemed to have admitted) that (1) they did not obtain the copies of the U2 Films from U2 or otherwise lawfully obtain them for resale and (2) U2 owned exclusive distribution rights for the U2 Films. It then held that “the importation of copies into the United States of a work manufactured in a foreign country can form the basis for a copyright infringement claim by an exclusive licensed U.S. distributor without regard to the first sale doctrine.” In light of the defendants’ admissions, the court found that the defendants had willfully violated U2’s exclusive right to import and distribute copies of 49 U2 Films, under Section 602(a). Accordingly, the court granted U2’s motion for summary judgment.

Because U2 had obtained copyright registrations for 47 of the 49 infringed U2 Films prior to the commencement of the defendants’ infringement, U2 was eligible for statutory damages under the U.S. Copyright Act. The court awarded the maximum amount of statutory damages permitted under the Copyright Act for willful

infringements – \$150,000 per work – and awarded a total of \$7,350,000 to U2. Moreover, the court ordered the defendants to pay U2's attorneys' fees.

The severity of the punishment issued by the court no doubt was affected by its findings that the defendants had violated a prior order of the court, acted in bad faith in the discovery phase of the litigation, and willfully infringed U2's rights under copyright law. The court's decision illustrates how U.S. rights holders can rely on U.S. copyright law, in addition to U.S. trademark law, to protect against the importation into, and sale of gray goods in, the U.S.

- DD

#### Trademark Decisions: FRAUD CASES UNDER MEDINOL LTD. V. NEUROVASX, INC.

Previously in our INFORMATION LETTER, we reported on *Medinol Ltd. v. NeuroVasx, Inc.*, 67 USPQ2d 1205 (TTAB 2003). That decision invalidated a registration for fraud based on false statements that the mark was in actual use in the U.S. on all goods named (*see, e.g.*, page 4 of the September 2003 issue and page 7 of the June 2005 issue). Even before this decision issued, however, it was our practice to counsel clients to avoid such over-claiming.

Subsequent unpublished decisions have reinforced the potential hazards of listing excess goods in applications. Since 2003, the Trademark Trial and Appeal Board (the "Board") has consistently found strict liability based on such over-claiming. For example, in the cases described below, the Board cancelled a registration or sustained an opposition based on the "fraud" of the registrant or applicant in filing false assertions of use for some, but not all, goods. As these decisions show, and as was the case in *Medinol*, the Board considers such statements fraud regardless of the actual intent of the declarant or any

misunderstandings or miscommunications attendant to the filing.

These cases include, in 2005:

*J. E. M. International, Inc. v. Happy Rompers Creations Corp.*, Cancellation No. 92043073 (TTAB 2005): The applicant submitted a signed Statement of Use alleging use on all goods. However, the mark had not been used on over 100 of the clothing items listed in its Class 25 goods identification. The mark was canceled in its entirety.

*Physicians Formula Cosmetics, Inc. v. Cosmed, Inc.*, Cancellation No. 92040782 (TTAB 2005): During prosecution of its underlying application, the registrant filed a Statement of Use that falsely asserted use of the mark on all goods. In the ensuing cancellation action, registrant stipulated that it had never used the mark for certain of the goods named in its registration. Registrant's principal explained that the subject goods were included in the Statement because registrant still intended to offer those goods under the mark. The Board found the filing to be fraudulent, rejecting registrant's explanation as "legally insufficient." The entire registration was canceled on this basis.

Cases in 2003-2004 include:

*Nougat London Ltd. v. Garber*, Cancellation No. 40,460 (TTAB 2003): Registrant obtained its registration by filing a Statement of Use that was not limited to the goods registrant actually sold under the mark at the time. Registrant argued that the Statement of Use was not false because it stated that use of the mark was on "goods" listed in the Notice of Allowance, rather than on "all the goods" listed. The Board considered this maneuver to be even more persuasive of fraudulent intent.

*Tequila Cazadores, S.A. v. Tequila Centinela, SA.*, Opposition No. 91125436

(TTAB 2004): The Board found fraud in the filing of a use-based application without the applicant having used the mark on any goods named, and dismissed applicant's explanations by stating: "The fact that applicant did not have legal counsel and/or applicant misunderstood a clear and unambiguous requirement for an application based on use does not negate the intent element of fraud in a Board proceeding."

Orion Electric Co. v. Orion Electric Co., Opposition No. 91121807 (TTAB 2004): Problems understanding the declaration signed, attributable to language differences, did not excuse fraud in maintaining a use-based application that, as published, listed goods that were not sold under the mark.

Hawaiian Moon, Inc. v. Doo, Cancellation No. 92042101 (TTAB 2004): Registrant could not justify his false statement by relying on the fact that his counsel prepared the Statement of Use and on his resulting belief that it was in order despite extending to goods admittedly not sold under the mark.

Jimlar Corp. v. Monterexport S.P.A., Cancellation No. 92032471 (TTAB 2004): Registrant's Section 8 Declaration was found fraudulent and the registration canceled where the declaration claimed use of the mark in the U.S. on "shoes, athletic footwear, sandals, boots and slippers" but where registrant had not used the mark on "athletic footwear" or "slippers" in the United States. The Board considered "immaterial" the question of whether the false statement was made in good faith and without actual knowledge that it was untrue.

It is apparent that *Medinol* set a "bright line" standard, and subsequent cases emphasize its application. Unfounded claims of use as to specific goods and/or services are found fraudulent. A whole application or registration can be ruled invalid if fraud is found in an opposition or cancellation action. Though at least some of the above

cases may not have involved either questionable intent or outright deception by the applicant or registrant, the holdings give no real indication of any flexibility in the standard, or mitigation in its application. It follows from these cases that, where identifications of goods and/or services are concerned, less is often more. We therefore advise our clients of the potential pitfalls of naming excess goods and/or services in their filings, and often request confirmation of client instructions if it appears that use for some goods might be claimed in error.

- CTJW

### Trademark Decision: INTERNET POP-UP ADS

In *1-800 Contacts, Inc. v. WhenU.com et al.*, 2005 WL 1524515 (2d Cir. June 27, 2005), 414 F.3d 400 (2d Cir. 2005), the Second Circuit ruled that an internet marketer's placement of pop-up ads on a computer user's screen contemporaneously with the user's access of plaintiff 1-800 Contacts' website did not constitute trademark use under the Lanham Act. The court reversed the district court's decision to issue a preliminary injunction in favor of 1-800 Contacts and remanded the case with instructions to dismiss the trademark infringement claims against WhenU.com, the internet marketer.

The primary issue on appeal was whether WhenU was "using" 1-800 Contacts' trademark in commerce. In the context of a new technology, the answer to this question was anything but simple. WhenU was certainly not "using" 1-800 Contacts' trademark in a typical way – *i.e.*, WhenU was not placing 1-800 Contacts' trademark (or a confusingly similar mark) on its own goods or using the mark in connection with its services in order to pass them off as emanating from or authorized by 1-800 Contacts.

To understand this decision, it is necessary to understand how WhenU's software works. WhenU is an internet marketing company that delivers online advertisements (or "pop-up ads") to participating consumers through SaveNow, a proprietary software product. The SaveNow software scans participating consumers' internet activities and uses a proprietary directory to determine whether it has a relevant offer to display. This directory is comprised of commonly used search phrases, website addresses and various keywords. 1-800 Contacts alleged that WhenU's inclusion of the 1-800 Contacts website address in the SaveNow directory and the resulting placement of SaveNow pop-up ads on a computer user's screen contemporaneously with the user's access of the 1-800 Contacts website constituted trademark infringement.

The Second Circuit held that neither WhenU's inclusion of the 1-800 Contacts website address in the SaveNow directory nor its placement of SaveNow pop-up ads on a computer user's screen contemporaneously with the user's access of the 1-800 Contacts website, constituted "use" of 1-800 Contacts' trademark. With respect to the SaveNow directory, the court emphasized that WhenU used 1-800 Contacts' website address not as a trademark but *as a website address* and noted that "[a] company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to a [sic] individual's private thoughts about a trademark." With respect to the SaveNow pop-up ads, the court observed that WhenU's pop-up ads do not display the 1-800 Contacts trademark. More importantly, WhenU's pop-up ads do not affect the appearance or function of, or divert or misdirect consumers away from, the 1-800 Contacts website, as has been the case in past internet-related "initial interest confusion" cases involving metatags or confusingly similar website addresses.

Rather, WhenU's pop-up ads appear in separate, clearly branded, windows.

The Second Circuit cited favorably two other district court decisions in which WhenU had prevailed against a website owner, *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734 (E.D. Mich. 2003) and *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723 (E.D. Va. 2003). In both cases, the court held that WhenU's inclusion of the plaintiff's trademarked website address in its directory was not trademark "use" for purposes of the Lanham Act.

The Second Circuit criticized the district court for improperly focusing on WhenU's effort to capitalize on consumers' attempts to access the 1-800 Contacts website and noted that "[a]bsent improper use of 1-800's trademark, however, such conduct does not violate the Lanham Act." The Second Circuit analogized WhenU's marketing strategy to that of a drug store placing its store-brand generic products next to the trademarked products they emulate.

- CSK

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## INTERNATIONAL

### CENTRAL AMERICAN FREE TRADE AGREEMENT

- ENTRY INTO FORCE

### EUROPEAN COMMISSION

- Amendments to CTM Implementing Regulation

### HAGUE CONVENTION

- Choice of Court Agreements: Significant Advance in Dispute Resolution

### MEXICO

- "Well-Known" and "Famous" Marks

### SOUTH AFRICA

- DILUTION DECISION OVERTURNED

## Central American Free Trade Agreement: ENTRY INTO FORCE

The Central American Free Trade Agreement (CAFTA) is modeled after the North American Free Trade Agreement (NAFTA) and creates a free trade zone among the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. CAFTA was signed by the members' trade ministers on May 28, 2004. However, the U.S. implementing legislation required to bring it into force was passed only this summer by both the Senate (S. 1307 (54/45)), and the House (H.R. 3045 (217/215)), on July 27 and 28, 2005, respectively. It was signed by President Bush on August 2, 2005.

No changes in U.S. law are contemplated beyond the implementation act. CAFTA's effect in the countries of Central America may be profound. Article 15, Intellectual Property Rights, sets out state-of-the-art requirements for a modern IP system whose substantive provisions may be applicable in local courts. If followed, it should strengthen trademark protection and enforceability in areas of considerable difficulty, including the interaction between geographic indications of origin and trademarks. Developments will be followed with interest.

- DW III

## European Commission:

### AMENDMENTS TO CTM IMPLEMENTING REGULATION

On June 29, 2005, the European Commission adopted amendments to the CTM implementing regulation and the regulation on fees payable to the Office for Harmonisation in the Internal Market ("OHIM"). The amendments entered into force twenty (20) days after their publication, that is, on **July 25, 2005**.

The most significant changes brought about by the amendments are set out below:

1. **Division of a CTM Application or Registration** – New rules allow for the division of a CTM application or registration, subject to a 250 Euro fee. It is not possible, however, to divide goods and services which are the subject of an opposition. A division is not admissible: (1) before the mark has been accorded a filing date; (2) during the three-month opposition term; and (3) after OHIM issues notification inviting the applicant to pay the registration fee.
2. **Changes to Opposition Procedure** – The revised implementing regulation has reframed the opposition procedure before OHIM with a view to simplifying the process and clarifying a number of formalities previously subject of conflicting interpretations.
  - a. Notification of Oppositions. A new feature of the procedure is the immediate notification of all oppositions to the applicant, even prior to completion of the admissibility review by OHIM. Previously, OHIM only served notice of an opposition upon completion of the admissibility review. Under the new practice, OHIM will send the applicant a copy of the Notice of Opposition upon filing, putting the applicant in a position to commence

negotiations immediately. Once the opposition has been found admissible, the two-month cooling-off period (that is, the period during which the parties are invited to settle the opposition) will be set in motion, and thereafter, the parties will be invited to file their arguments and evidence.

- b. Cooling-Off Period Strictly Limited to a Maximum of 24 Months. Originally, the cooling-off period could be extended indefinitely by joint request of the parties. Under the new rules, parties will only be allowed to extend the cooling-off period to a maximum of 24 months. If the parties do not settle prior to the expiration of 24 months, the opposition must be withdrawn, or the adversarial part of the opposition proceedings will commence. Once the adversarial part of the opposition proceedings commences, however, the parties may request a suspension of the proceedings. It is important to stress that this change applies to *all pending oppositions*, even if the cooling-off period started before July 2005. Accordingly, any request to extend the cooling-off period beyond the prescribed 24-month term (i.e., from 24 to 28 months or from 32 to 34 months), filed after July 25, 2005, will be refused by OHIM.
- c. Strict Enforcement of Time Limit for Filing Translation of Documents. An opposition which is not filed in the first or second language of an opposed CTM application must be translated within one month into one of those languages. In practice, OHIM did not strictly enforce the one-month deadline. Under the new practice, however, if a translation is not filed by the one-month deadline,

the opposition will become inadmissible. If a partial translation is filed, the opposition will be accepted only for the translated portion of the opposition.

- d. **Request for Proof of Genuine Use.** If the mark on which an opposition is based is over five years old, the applicant has the right to request from the opposer proof of genuine use of the mark in the relevant jurisdiction. If the opposer does not file such proof of use, the opposition will be dismissed. If only partial proof of use is filed, the opposition will move forward only with respect to those goods and services for which use has been sufficiently established. In practice, there were differing opinions as to when the applicant was entitled to request proof of use from the opposer. The revised implementing regulation clarifies that if proof of use is requested, the applicant must provide such proof the first time observations are filed in response to the opposition.
3. **Color Marks** – The new rules permit the use of internationally recognized color codes to describe a mark consisting of a color per se. While not mandatory, OHIM recommends that such an indication be included.
4. **Sound Marks** – The new rules provide for the furnishing of electronic sound files as an attachment to a CTM application for a sound mark filed electronically.
5. **Fee for Recordation of Assignment Waived** – The new implementing regulation abolishes the 250 Euro fee for recordation of assignments. In OHIM's view, it is in the interest of the CTM system and its users to promote the recordation of transfers of ownership.
6. **Signed Power of Attorney Forms** – Confirming existing practice, the new implementing regulations provide that signed powers of attorney will only be necessary upon specific request by OHIM and in certain other situations.
7. **Recordal of Licenses** – Under the new rules, no proof of the underlying license will be required if a request for recordation of a license is filed or co-signed by the trademark owner. However, if the request for recordation of a license is filed or signed exclusively by the licensee, proof of the underlying license or the consent of the CTM owner will be required for recordation to be completed.
8. **Conversion of CTM Application** – For conversions resulting from rejection based on absolute grounds of refusal (e.g., lack of inherent registrability in one or more languages of the European Union) OHIM will refuse the conversion only in respect of those member states where that language is an official language.
9. **Small Increase in Recoverable Costs** – The maximum costs to be paid by the losing party have increased by 50 Euros. Accordingly, the prevailing party will now be able to claim 300 Euros in an opposition, 450 Euros in a revocation or invalidity proceeding, and 550 Euros in an appeal proceeding. The recoverable fees remain small and may in some instances not warrant the time and expense necessary to obtain payment from the losing party.
10. **Renewals** – Finally, we note that the issue of whether a CTM application which is still pending ten years from the filing date must be renewed while pending has now been answered. Pursuant to President's Communication

No. 5/05 of July 27, 2005, in such cases renewal must be filed upon payment of the registration fee. In September of this year, we expect a decision on the amount of official fees for renewal.

- CC

### Hague Convention: CHOICE OF COURT AGREEMENTS: SIGNIFICANT ADVANCE IN DISPUTE RESOLUTION

At its June 14-30, 2005 Diplomatic Conference, the Hague Conference on Private International Law finalized and adopted the text of the Hague Convention on Choice of Court Agreements (the "Convention"). The objectives of the Convention are to assure that exclusive choice of court clauses will be honored and that judgments issued by the selected courts will be recognized and enforced. The Convention applies to disputes arising from agreements, except in areas considered to be "local" in nature, such as (but not exclusively) consumer contracts, and agreements in the areas of family law, real estate, and succession. As choice of court clauses appear in many contracts concerning trademarks, such as settlement agreements, licenses, assignments, distribution agreements, and the like, adoption and implementation of this multilateral treaty is of great significance to trademark owners.

Among the basic provisions of the Convention are: (1) Jurisdiction will lie in the parties' court of choice; (2) in the presence of an exclusive choice of court agreement, any court other than that chosen by the parties must decline jurisdiction.; and (3) courts of other Convention states must recognize and enforce any resulting judgment issued by the chosen court. Highly relevant to trademark owners is that decisions relating to the validity of a trademark registration are excluded from coverage. Thus, although the chosen court may rule on validity as a

prerequisite to judgment in a particular case (for example, where a licensee claims a license is unenforceable because the licensed mark was not valid), such ruling would apply to that dispute only and could not be enforced or recognized more broadly under the Convention. Rather, the ruling would be considered "preliminary" or "incidental" to the main judgment in that particular case. It is important that practitioners be aware of this new development when crafting trans-national trademark-related agreements.

- JLH

### Mexico: "WELL-KNOWN" AND "FAMOUS" MARKS

Recently, Mexico's Executive Branch issued several amendments to the Industrial Property Law of Mexico. The new provisions establish an administrative procedure by which the Mexican Institute of Industrial Property (IMPI) can issue a "declaration of fame or notoriety" with regard to a given trademark.

This is a significant change to existing law in Mexico, which had contemplated famous marks protection by incorporation of international law, such as the Paris Convention, TRIPs, and NAFTA and under Article 90, Section XV of the Mexican Industrial Property Law, which allowed IMPI to rule on fame only after litigation. The original regulations were considered insufficient, since they were rarely and inconsistently applied. Further, the requirement of litigation made application of the original law costly and inefficient. The subject amendments are intended to establish a clear, defined, and streamlined procedure for protecting well-known and famous trademarks.

More specifically, the amendments give IMPI the right to accept applications for, and issue declarations of, fame or notoriety through an administrative proceeding.

Applicants may submit any evidence allowable by law, but must include information on the following:

1. Consumer group(s) that identify the mark as well-known or famous;
2. any other group(s) that consider the mark well-known or famous;
3. commercial group(s), including merchants and service providers, that consider the mark well-known or famous;
4. the date of first use of the mark in Mexico or abroad;
5. the length of time the mark has been continuously used in Mexico or abroad;
6. the channels of trade in which the mark has been commercially exploited;
7. the means of dissemination of the mark, including the media used for advertising and publicity;
8. the length of time the mark has been advertised in Mexico or abroad;
9. advertising investment over the last three years;
10. geographic area in which the mark is known;
11. sales/income volume of the products/services associated with the mark over the past three years;
12. economic appraisal of the trademark;
13. existing registrations in Mexico or abroad;
14. franchise and/or license agreements; and
15. the market share controlled by the mark.

If IMPI finds that any of the foregoing information has not been sufficiently provided, it must issue a decision allowing the applicant four months in which to file supplemental materials. IMPI must provide,

in written form, legal justifications for refusing an application. If all the prerequisites are ultimately met, the declaration of fame will be published in the Official Gazette. The declaration may then be relied upon by the trademark owner in opposition and cancellation actions, as well as in litigation. In addition, IMPI can rely on the declaration, sua sponte, in rejecting applications for registration.

Once issued, a declaration becomes linked to the mark itself and will serve to protect related trademarks, as well as the rights of successors and assigns of the original applicant. The declaration will also extend protection to all classes of goods and services. A declaration will be valid for five years and may be renewed at any time by anyone with an interest in the matter (including, for example, a licensee), so long as the underlying conditions that supported the original declaration subsist. However, no clear guidelines have yet been established as to what evidence is sufficient for renewal. Nor do the amendments specify the term of renewal. (While the initial term is 5 years, the subsequent renewal term may be different.)

A nullity action may be brought to invalidate a declaration at any time by any interested party who can show that the declaration was: 1) in violation of the law; 2) based on false evidence; or 3) granted to a party without standing. The government is also permitted to institute a nullity action. During litigation, a declaration will have a presumptive effect and serve to shift the burden of proof; however, a defendant maintains the right to argue that the declaration should be invalidated.

Several questions and criticisms have already been raised concerning the new procedure. It is not yet understood, for example, what weight will be given to the reputation of the mark outside of Mexico. Current speculation is that while evidence relating to Mexico will be most influential,

data from other jurisdictions will also be considered. Further, while the plain language of the amendments distinguishes between “well-known” or “notorious” trademarks (those known within a certain industry) and “famous” trademarks (those known to a majority of the general public), the law requires the same proof, regardless of which type of declaration a party seeks. Thus, some argue that in practice there is no true distinction.

Finally, some query whether the new procedure will be put to frequent use, since, for example, IMPI may still cite a trademark that it considers famous against a pending application, even without a declaration of fame. In addition, although the fee for obtaining a declaration of fame has yet to be established, it is expected to be quite high. The government fee, coupled with the expense of collecting the necessary evidence, may be enough to deter many potential applicants.

The amendments were published in the June 16, 2005 edition of the Mexican Official Gazette and went into effect on June 17, 2005.

- MAM

### **South Africa: DILUTION DECISION OVERTURNED**

As noted in the June 2005 issue of our Information Letter, the decision of the South African Supreme Court of Appeal holding that the trademarks of South African Breweries were infringed by a “protest” imitative usage, has been overturned by the Constitutional Court of South Africa. The defendant, the seller of the imitative T-shirts, had obtained leave to appeal the decision in favor of South African Breweries, arguing that the injunction granted to the latter infringed its right to free expression under the relevant provision of the South African Constitution.

The constitutional provision in question provides a broad guarantee of freedom of expression. The question before the Constitutional Court was how to reconcile the constitutional provision with statutory provisions protecting intellectual property, including those prohibiting the infringement of trademarks duly registered under the South African Trademarks Act. The Constitutional Court concluded that the provisions directed to preventing infringement, including that prohibiting dilution of a well-known mark, required establishing substantial economic detriment to the party claiming infringement, where the right to free expression is asserted. The Constitutional Court found, on the facts, that South African Breweries had not provided evidence showing that it had suffered commercial detriment or economic loss.

The result of the decision is to place a burden on the trademark owner to show a quantifiable economic loss in order to sustain a dilution claim in similar circumstances. This is a burden which, in practice, is likely to be difficult to meet. Frequently, it will be apparent that a mark, and especially a famous mark, is likely to suffer dilution, in particular in the form of tarnishment, as was asserted in this case. But actual proof of quantifiable economic loss may not be possible.

One of the leading intellectual property lawyers in South Africa, Owen Dean, in an article to be published shortly, has stated that by this decision, the Constitutional Court has “opened up a new dimension to Intellectual Property litigation,” which may limit the effectiveness of many of the local “corner stones of intellectual property law.”

- MID

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