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DECEMBER 2007

**WE ARE DELIGHTED TO REPORT** that nine of our partners were nominated as "world's leading practitioners" in The International Who's Who of Trademark Lawyers 2007: Stephen Bigger, Michael I. Davis, Susan Upton Douglass, Marie Driscoll, David W. Ehrlich, Janet L. Hoffman, Ronald J. Lehrman, Peter J. Silverman and Roger L. Zissu. According to Who's Who Legal editorial policy and selection criteria, nominees are chosen "based upon comprehensive, independent survey work with both general counsel and trademark lawyers in private practice worldwide."

**MARIO AIETA AND BETSY JUDELSON** successfully represented Holland USA before the U.S. District Court for the Southern District of New York, defeating a motion for a preliminary injunction based on alleged trade dress infringement. After expedited discovery and a preliminary injunction hearing, on October 12, 2007, the court determined that the opposing party was not likely to succeed on its claim that its trade dress – a combination of images, colors and words decorating the cover of a monthly calendar/planner – was worthy of protection under applicable trademark law.

**LARRY APOLZON** gave a seminar entitled "How to Pitch Your Idea and Protect It" on behalf of the California Lawyers for the Arts in Santa Monica on September 26, 2007. And on October 12, he participated as a panelist at the American Bar Association's Forum on the Entertainment and Sports Industries speaking on the basics of what a sports and entertainment lawyer should know about trademark protection.

**DAVID DONAHUE** appeared as a panelist during a seminar on trademark issues faced by the fashion industry at Cardozo School of Law on November 13, 2007.

**MARIO AIETA** spoke at the International Trademark Association Leadership Meeting in Orlando, Florida, on November 10, as part of a panel reviewing developments in U.S. litigation practice resulting from the recent amendments to the Federal Rules of Civil Procedure addressing electronically stored information.

**WE ARE PLEASED TO WELCOME XIOMARA TRIANA.** Xiomara has LLB and LLM degrees from Los Andes University in Bogota, Colombia, and an LLM in Intellectual Property from John Marshall Law School in Chicago. She worked in the IP Practice of Cardenas & Cardenas in Bogota for several years prior to her studies in the U.S. and was an intern at the Pattishall, McAuliffe firm in Chicago while at John Marshall. After John Marshall, she was an associate at Manrique & Associates in Bogota, in that firm's IP practice. Xiomara is a member of the Colombia Bar and will be applying to the New York Bar.

**TO OUR COLLEAGUES ABROAD – PLEASE USE EMAIL:** In view of the high volume of communications with our colleagues outside of the United States, and the frequent need to act quickly on instructions (incoming and outgoing), we request that communications to our firm be conducted, when possible, via email and not fax (unless faxes are sent as confirmation only). Email also permits cleaner transmission of documents and documents in color, as attachments, unlike fax transmission. In addition, we request that our correspondents provide their direct, personal, email addresses, as firm email boxes are often not accessed timely, resulting in delay. To avoid delays, please send your emails to our attorneys' personal email addresses, which usually consist of the first letter of the attorney's first name + surname + @frosszelnick.com (e.g., [dehrlich@frosszelnick.com](mailto:dehrlich@frosszelnick.com) or [jhoffman@frosszelnick.com](mailto:jhoffman@frosszelnick.com)). **There are some variations, however, so please confirm addresses with the attorneys with whom you are corresponding.** We appreciate your cooperation.

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

# Information Letter

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## UNITED STATES

### M & A TRANSACTIONS

- Trademark Warranties

### TTAB

- Two Recent Fraud Decisions

### M & A Transactions: TRADEMARK WARRANTIES

(A slightly different version of this article was published previously in the October 2007 issue of Wall Street Lawyer.)

The most valuable asset of an acquired company in a merger or acquisition may be its brands, that is, its word trademarks and non-word logo trademarks. Trademark assets, however, are very unusual types of property – fragile, hard to inventory fully, and subject to many problems that can limit their scope and value. This article will discuss how some typical types of trademark warranties in merger and acquisition (M & A) transactions should be fine-tuned to prevent serious problems and costly surprises.

#### *Defining “Trademarks” In The Transaction*

Buyers and sellers have a mutual interest in accurately defining the trademark assets included in a deal. If the deal is an asset sale, an accurate definition of the trademark assets included in the sale is essential. Even if the trademarks pass to the buyer automatically through a sale of stock or a merger, an accurate definition of

trademark assets is also essential to indicate the trademarks to which various warranties apply. Naming all marks can be difficult. Marks can exist without being registered in the U.S. Patent and Trademark Office (USPTO). Under U.S. law, a company creates protectable “common law” trademark rights automatically merely by using the mark in connection with a product or service, whether or not the mark is registered. Common law rights are limited to the geographic area of actual use. Typically, a company will register its major trademarks in the USPTO, and these registrations will have official registration numbers that can be scheduled in an M & A agreement, but it may not even know all its common law marks.

In an asset transaction, the buyer will wish to make sure that the definition of trademarks includes all trademarks of the seller relating to the business being acquired, including both registered marks and common law marks, so that the buyer will receive all the trademarks that it needs to continue the business. A catch-all clause can include all marks used in the business without listing them individually.

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For both registered and common law trademarks, buyers will seek warranties of validity and title. However, as further explained below, additional warranties are appropriate for registered trademarks, and full warranties for all marks may not be prudent (at least from the seller's perspective). Therefore, it is usually best to have at least three definitions of trademarks in an M & A agreement: (1) registered trademarks, (2) common law trademarks, and (3) all trademarks, which include both registered and common law trademarks.

### *Types of Warranties*

Ideally, the buyer would like various warranties, including a warranty that all trademarks, and similar property, such as company and divisional names, used in the business, are valid and are owned by the seller, free and clear of all liens and encumbrances. This is to get some assurance that the buyer can continue to use the marks in the business, without being sued by a third party for infringement, and that it can prevent others from using the marks for the same or similar goods or services. The buyer might also wish some assurances that it can expand its use of the marks to related goods or services, as it grows the business, keeping in mind that both common law marks and registered marks cover only particular goods or services. For example, the marks DELTA for airline services and DELTA for faucets are owned by unrelated parties. Sellers will try to resist unrestricted warranties of validity and title, which can be highly dangerous. Buyers and sellers, and their attorneys, need to strike a reasonable balance as to warranties that can be given safely, in light of both legal limitations and the limited availability of information on possible problems.

Is the trademark valid? Evaluating these issues requires an understanding of how trademarks can be invalid, even if they are registered. A mark might be invalid if

another party has prior rights in the same mark (or name) or a similar mark (or name) for the same or similar goods or services.\* The rights of a prior party are not cut off by registration of the mark. A trademark in the U.S. can also become invalid if it was ever transferred without the goodwill relating to the mark (a naked assignment). An assignment that included the goodwill may still be considered a naked assignment if tangible embodiments of the goodwill were not included in the sale, such as inventory, customer lists and the like. One typical kind of naked assignment is an assignment of the mark to a bank to secure a loan, with a promise to re-assign the mark to the borrower after the loan was repaid, which the bank took instead of taking a security interest in the mark. Similarly, a U.S. mark may become invalid if it was the subject of a license to another party to use the mark, and the licensor (the trademark owner) did not control the quality of the goods or services sold under the mark by the licensee (a naked license).

A mark may also become invalid through non-use of the mark for the goods or services. Under U.S. law, if the owner stops using the mark, with no intention to resume use of the mark, then the mark becomes "abandoned." The fact that the mark may still be registered is not a defense. The registration is subject to cancellation on grounds of abandonment.

If possible, the buyer, in its due diligence, should investigate these various types of threats to validity of the marks in the transaction. A prudent buyer may try to negotiate not only a warranty of validity, but also specific warranties on the various threats to validity, such as the mark was never the subject of an assignment or license and that there was never any period of non-use of the mark, following its initial

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\* A prior party's mark or company name or trade name can be infringed by another party's subsequent use of a mark.

use, that might be construed as abandonment. As to prior rights of third parties, the buyer could seek a warranty that there are no such prior rights for the same or similar marks or names for the same or similar goods or services.

The seller should try to resist giving general warranties of validity or warranties beyond its knowledge. Especially for relatively new marks, a seller might be able to warrant certain objective facts, such as it never gave a license to a third party to use the mark or never assigned the mark. For older marks, such information may be unavailable. A prudent seller will try to limit all warranties of validity to the best of its knowledge. Even a warranty based on facts to the best of the seller's knowledge raises questions of how thoroughly the seller must examine its files for potential problems deemed within its knowledge. It can take a very thorough examination of a seller's old trademark files and product sales records to detect problems. It is especially difficult for a seller to be absolutely certain that no prior party in the whole United States has common law rights in a mark or a similar mark or name, for the same or similar goods or services. Prior users of conflicting marks or names may pop up, and make claims, years after a mark is adopted. Sometimes such claims arise when the seller used the mark only in one region of the country, and the buyer later expands the use to a different region of the country, where the third party has its rights. This prompts the third party to make an infringement claim. Likelihood of such unpleasant surprises can be reduced by doing "full trademark searches" for a particular mark. Such searches are prepared by search firms and reviewed by attorneys, and include a wide variety of sources of common law marks and names, as well as a thorough search of registered marks.

A buyer might seek a warranty that such a full search was conducted by a reputable trademark search firm, and was reviewed by reputable specialist trademark counsel, and no likely problems were flagged. If the seller's response is that no search was conducted, then the seller's warranty, that it is not aware of any prior mark problem, may be of little value.

Buyers typically get some assurance of validity by seeking warranties that there are no unscheduled pending claims against the seller that its use of the marks infringes the prior rights of a third party. Prudent buyers will also seek a warranty that there are no unscheduled pending claims by the seller against third-party infringers, since a widely infringed mark may have a lower value. Sellers may offer such claims warranties as alternatives to unlimited general warranties on the validity of the marks, requested by buyers. It is unreasonable to expect the seller to warrant that no undetected infringements exist, since many small infringements may go undetected. Also, whether a particular use constitutes an infringement is highly subjective. Claims disclosed in schedules need to be carefully evaluated.

Sellers may prudently decide to give broad warranties for major marks that they thoroughly searched, registered, and have used without third party claims, but to give only narrow warranties or no warranties for minor marks adopted without full searching. Many companies adopt marks intended for short-term use, such as slogans, without full searching.

The test, of whether use of a mark in the U.S. infringes another party's rights in a prior mark or name, is whether typical consumers are likely to be confused, under all the circumstances of use of the marks by both parties. It may be possible for a seller to give a warranty, without excessive risk, that a mark will not infringe prior marks but only on condition that the buyer

continues certain confusion-avoiding circumstances of use of the mark. For example, the buyer's use of a particular product mark might not create confusion with a similar prior mark of another party, so long as the buyer also prominently uses a famous house mark on the product label.

Is the trademark owned by the seller? Buyers should be wary of marks that have a long history of assignments and security interests, or marks that were assigned in bankruptcy.\* Merely because there is no assignment indexed against a registration in the USPTO does not necessarily mean that no assignment or security interest exists. Recordation of assignments of registered marks in the USPTO is not mandatory.\*\* Security interests in registered marks are often recorded in the USPTO, but according to the case law, the USPTO is not the proper recordation venue to perfect a security interest against a mark. That is, rather, the filing office for Uniform Commercial Code security interests in general intangibles in the state concerned, under Article 9 of the UCC. Security interests not recorded in the USPTO may be hard to detect, unless the seller discloses them. The buyer may insist on an unlimited warranty that the seller owns the trademark free of any security interests, liens or encumbrances, but the seller may try to limit such a warranty to its best knowledge, especially if it was not the original owner of the marks.

The buyer should also request a warranty that no unscheduled agreements exist containing limitations on the seller's right to use, assign or license the mark, such as

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\* The prohibition on naked assignments can make it difficult for a bankruptcy trustee to validly assign a mark.

\*\* However, an unrecorded assignment of a registered mark in the U.S. will be rendered void "against any subsequent purchaser for valuable consideration without notice." U.S. Trademark Act Section 10(a)(4), 15 U.S.C. §1060(a)(4). All buyers should record assignments promptly.

prohibitions against expansion of use of the mark to new products, new trade channels or new geographic markets, or requirements that the mark be used only in certain ways, such as with a house mark or in a particular logo form. Such agreements are common to settle infringement claims. Any such agreements should be included in a schedule to the agreement, and the buyer should evaluate them to see if they greatly impair the mark's value.

Similarly, if the seller's business includes using a third party's mark under a license, such licenses should be scheduled and the buyer should seek a warranty that the license is assignable to the buyer.

The above discussion relates primarily to trademarks in the United States. If foreign trademarks are involved, most of the same potential problems apply, and there may be additional threats to validity. For example, in a number of countries, such as Mexico, the Russian Federation and Thailand, the trademark law obliges trademark owners to record, with the government, licenses of trademarks to third parties. Failure to do so can threaten the validity of the mark. In some countries, recordation of title changes of marks (assignments, mergers, changes of owner's name) is mandatory. The buyer should seek a warranty that any licenses or title changes required to be recorded under local law, were recorded. If a seller has a large portfolio of registrations, in many countries, it might have deferred recording title changes in order to save expense. The cost to the buyer, of making these recordations, after acquiring the portfolio, can be substantial. The buyer may prudently seek a warranty that all such title changes were recorded, or negotiate a reduction in the sale price for the cost of such recordations.

The buyer may also seek a warranty that the seller owns critical domain names, such as the major marks of the seller followed by ".com."

## *Geographic Scope Of Trademark Rights Issues*

A company that owns a trademark in the United States does not necessarily own the mark outside the United States. Trademarks are territorial, created by the national laws of individual countries.\* A registration of a mark in the USPTO relates to trademark rights only in the United States and its territories and possessions. Most countries of the world have trademark registration systems. In many such countries, unlike the United States, an unregistered mark is not protectable.\*\* A seller in the U.S. may have no rights at all in its marks outside the U.S., and third party registrations in foreign countries may make the mark unavailable for the buyer's use in many countries.

Therefore, it is essential to the seller that trademark warranties be limited geographically. A seller that has searched and registered its marks in the United States, and has not searched and registered its marks abroad, will certainly wish to limit its warranty of validity and non-infringement to the United States. Indeed, if a seller has only used its mark in one region in the United States, and not in the whole United States, it might wish to limit its warranty to that particular region.

If a buyer is purchasing a business in which the marks are used in multiple countries, then the buyer should seek warranties that cover all the countries in interest, and possible desired expansion countries. The

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\* A notable exception is a Community Trade Mark registration (CTM), valid in all countries of the European Union.

\*\* A minor exception is that some countries protect "famous marks" without registration, but prudent trademark owners prefer to rely on registration to protect their rights. Protection of famous marks in major countries is discussed in detail in a treatise entitled [Famous and Well-Known Marks](#) by Fred Mostert (International Trademark Association 2004), to which the author contributed the chapter on U.S. marks.

buyer's due diligence should include a careful evaluation of the risks and additional costs necessary to secure the mark in desired expansion countries. It is not uncommon for smaller sellers to export branded goods to particular countries without full searching and registration of the marks in those countries, and to take the risk that their use will not infringe.

A seller's registration for a mark in a foreign country does not necessarily mean that the seller has exclusive rights to use that mark in that country. Many foreign countries do not search existing registrations before they grant new registrations for marks (or they do searches for information of the applicant only, and do not refuse registration based on prior registrations of others). As a result, there may be conflicting registrations, and the rights of the various owners might be resolved only after litigation. This risk of such litigation can be reduced by the seller or buyer searching, through private attorneys, in the trademark Registers of the countries concerned.\* As in the U.S., a buyer would be prudent to seek a warranty that such searching was done and counsel cleared the mark, before the buyer relies on a mark being available for use, without excessive risk, in that country.

Special problems arise if a seller keeps a mark for some goods and sells the same mark to the buyer for other goods, so that both buyer and seller use the same mark. These are discussed in a previously published article by this author, "Splitting a U.S. Mark," available on the [frosszelnick.com](http://frosszelnick.com) website.

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\* The searches by government Trademark Offices vary widely in quality, and cannot be relied on to find all problems. Also, even countries that refuse registration, based on prior registrations, can sometimes miss pertinent marks in their searches. In that case, a prior registrant might be able to cancel the seller's registration.

### *U.S. Registration Issues*

Registrations of marks in the USPTO create powerful legal rights beyond those created by mere use of the mark. The most important of these is that a registration, from the time of filing of the application to obtain such registration, reserves the owner's right in the mark throughout the country (assuming that the application eventually matures to registration). Since 1989, it has been possible to apply for registration based on an intention to use the mark in the future, instead of actual, current use of a mark in the U.S. Registration is granted after use of the mark begins and proof of use is filed. The intent-to-use (ITU) application prevents third parties who use the same or similar mark, for the same or similar goods, after the filing date of the application, from obtaining common law rights. Therefore, if such subsequent users exist, it may be quite important that the early priority date created by the federal registration be maintained, and that the registration be valid, to prevent the subsequent user from having superior rights.

The buyer will wish to include a schedule of all federal trademark registrations in the agreement and to receive a specific warranty that all scheduled registrations are valid, were properly maintained, and are owned by the seller.\* Before giving such a warranty, the seller must keep in mind that, as mentioned above, registrations can be subject to attack, on various grounds, such as naked assignment, naked licensing, abandonment, and prior rights of third parties, which can also be asserted against common law marks. There are also potential problems unique to registered marks. Such problems can lie unnoticed in

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\* In the U.S. and most other countries, trademark registrations must be renewed every 10 years by filing a form and paying a fee. An additional use declaration must be filed during the 6<sup>th</sup> year of the registration in the U.S.

a seller's files and can be unearthed only by very careful due diligence, encouraged by a buyer's requests for warranties.

One major problem is fraud due to over-claiming on goods or services. There are various bases for U.S. and foreign companies to obtain registration of marks in the United States. A detailed discussion of these is beyond the scope of this article. However, all types of USPTO trademark registrations require, either as part of the initial application process or as part of later required maintenance filings, a document signed by the owner stating that the mark is in use in the United States for all the goods or services claimed. If the mark is in use in the United States only for some of the goods or services claimed in the registration, then the excess goods or services must be deleted in that signed document. In recent years, the USPTO administrative tribunal has declared many U.S. applications or registrations to be entirely invalid on grounds of fraud because the owner falsely claimed that the mark was in use for all the goods, when it was actually in use in the U.S. for only some of the goods.\* The fact that use was claimed inadvertently or carelessly is not a defense. Many registrations are vulnerable to cancellation on grounds of this type of fraud, especially those obtained by non-U.S. companies unaccustomed to the use requirements of U.S. law. If a registration is cancelled, the owner can rely only on its common law rights in the mark, which may have a later date or cover only part of the U.S.

A prudent buyer may request a specific warranty that all claims of use of a mark in U.S. applications or registrations were true and accurate for all goods and services claimed in that application or registration. If the seller cannot give such a warranty as to a particular application or registration, then

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\* *E.g., Medinol Ltd. v. Neuro Vasx Inc.*, 67 USPQ2d 1205 (TTAB 2003)

the buyer should consider the consequences of the possible invalidity of that application or registration, such as a third party having superior rights.

Another invalidity issue in trademark portfolios is improper assignment of an application based on ITU. Under Section 10 of the U.S. trademark statute, 15 U.S.C. §1060, an application based on ITU cannot be validly assigned before the product is launched and proof of use is filed in the USPTO. The only exception to this rule is that Section 10 permits assignment of an ITU application to a party that simultaneously takes title to the ongoing business to which the mark relates. The author's experience is that many ITU applications have been assigned improperly in violation of Section 10.\* As a result, such ITU applications are vulnerable to attack, even after they have matured to registration. A buyer would be prudent to request a specific warranty that all assignments of ITU applications complied with this rule.

#### *Duration Of Warranties*

Typical M & A agreements include various warranties, but limit their duration, often to a few years. A prudent buyer will try to negotiate trademark warranties unlimited in time, given that some of the trademark problems mentioned above may come to light only many years after the transaction closes. For example, there is no statute of limitations on fraud attacks on applications or registrations. Prudent sellers will wish to limit the duration of the warranties, and may argue that the likelihood of attacks by third parties diminishes over time. In practical terms, marks already used throughout the U.S. for years are not likely to be subject to third-party prior rights infringement claims. Also, under the doctrine of laches, parties

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\* The USPTO administrative tribunal held an ITU registration invalid for this reason in *The Clorox Co. v. Chemical Bank*, 40 USPQ 2d 1098 (TTAB 1996)

who unreasonably delay in making claims may face limitations on the right to make such claims.

#### *Limitations On Breach Of Warranty Claim Amounts*

Potential damages for breach of warranty on trademarks are large. If an unexpected trademark problem causes a buyer to pull a product after a launch, damages from lost sales and wasted advertising expense can run into the millions. Damages might even exceed the value assigned to the marks in the acquisition of the entire business. With this in mind, sellers will wish to place reasonable limits on the amount of damages for breach of trademark warranties. Buyers will wish to resist such limits. In any case, sellers will certainly wish to control the defense and settlement of any claims on its warranties, and to receive immediate notice of such claims, in order to mitigate damages. Trademark infringement claims can often be settled by a promise to stop using the infringing mark after inventory is sold off.

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#### **TTAB: TWO RECENT FRAUD DECISIONS**

Two recent Trademark Trial and Appeal Board ("Board") decisions mark the further development of cases where claims of fraud have been asserted against applications or registrations which over-claim the goods or services in actual use by the owner. The decision in the *Medinol* case\* and later Board decisions, impose a strict standard on applicants or registrants. Under these cases, it is fraudulent if, at the time a declaration of use is signed, the mark was in actual use for fewer than all the goods and services named. A finding of fraud results in the complete forfeiture of the application or registration involved.

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\* *Medinol Ltd. v. Neuro Vasx Inc.*, 67 USPQ2d 1205 (TTAB 2003)

## 1. Tri-Star Marketing Case – Interpreting the Scope of Goods Identified

Applying the fraud standard requires a clear understanding of the scope of the goods named in the application or registration. However, interpreting the goods named in a registration was central to the decision in *Tri-Star Marketing LLC v. Nino Franco Spumanti, S.R.L.*, Cancellation No. 92043953 (August 28, 2007) [precedential]. In that case, Tri-Star petitioned to cancel a registration for the mark RUSTICO covering “wines and sparkling wines” because Nino Franco used the mark only on “sparkling wines.” Given the alleged non-use for “wines,” Tri-Star asserted that Nino Franco’s allegations of actual use were fraudulent.

The Board disagreed and dismissed the fraud claim. Because “sparkling wines” are a specific subset of wine, and since the term “wines” is an acceptable goods identification for the USPTO, Nino Franco was entitled to reference its goods either as “wines” or as “sparkling wines” in its application or registration (and could have even sought two separate registrations, one for “wines” the other for “sparkling wines.”). Thus, given the overlapping scope of the goods named in the registration, it was not fraudulent to include both a general as well as a more specific goods designation.

The Board observed:

*“...there is nothing fraudulent in providing an identification of goods that includes both a broad product term and a specific product term so long as the applicant/registrant is using its mark on the specific product, and the specific product is encompassed within the broad product term (assuming the broad product term is sufficiently definite for purposes of registration).”* (Op. at 10).

In contrast, had Nino Franco used its mark only on “still” wines, and not sparkling wines, the Board would have found fraud

since there could have been no actual use for one of the specifically named goods in the registration, namely, “sparkling wines.”

This case, citable as precedent, illustrates our frequent advice to clients to adopt broad terms in goods identifications where they are available and acceptable to the USPTO. This is a far better strategy to expand the scope of protection in an application or registration than over-inclusive listing of specific items unlikely ever to be sold in U.S. commerce.

Although USPTO practice for goods and services identifications can be exacting by requiring very specific descriptions, applicants should be aware that there are also goods and services identifications which, although broad, are acceptable. A partial list\* includes:

Chemicals for industrial purposes, in Class 1  
Computer operating software, in Class 9  
Land vehicles, in Class 12  
Loungewear, in Class 25  
Financial management, in Class 36  
Medical services, in Class 44

There are many other broad terms available in most, if not all, of the applicable International Classes of goods and services. Intelligent use of these broad terms, where accurate and appropriate, can maximize the scope of a resulting registration while minimizing the risk of cancellation based on fraud or non-use.

## 2. Bose Case – “Reasonable Basis” to Believe a Mark is Used in Commerce

In *Bose Corporation v. Hexawave, Inc.*, Opposition 91157315 [November 6, 2007] [non-precedential] the Board considered the question of what constituted “use in commerce” and whether an owner’s asserted belief that its activities constituted

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\* These terms are listed in the USPTO’s Manual of Acceptable Goods and Services Identifications available on line at:  
<http://tess2.uspto.gov/netathtml/tidm.html>

acceptable use was reasonable and so could not be fraudulent. Bose had opposed an application to register HEXAWAVE based on, among others, a 1991 registration for WAVE which covered “radios, clock radios, audio tape recorders and players, portable radio and cassette recorder combinations, compact stereo systems, and portable compact disc players.” In 2001, Bose renewed this registration and its in-house counsel signed and filed a renewal which asserted that use of the mark continued as to all goods named. In discovery, Hexawave found that Bose had ceased selling audio tape recorders and players in 1997, well before it filed the renewal, and counterclaimed against Bose seeking cancellation of the registration for WAVE based on fraud.

Bose argued that although it had ceased use of tape recorders long ago, it continued to transport them in commerce for purposes of repairing them for its customers. Bose argued that this was a “use” in commerce under the Trademark Act. Alternatively, it argued that even if it did not constitute valid use to support renewal, Bose nonetheless had a reasonable basis for believing that it was valid and thus there was no intent to deceive the USPTO and no fraud committed.

As to being a valid use in commerce, Bose’s contentions were entirely rejected by the Board. The registration covered goods, not repair services, and, while “use in commerce” need not always involve sales of goods (distributing samples may suffice in some situations), repairing audio tape players for their owners is not the sale or distribution of one’s own goods and is thus not “use in commerce” for a mark covering such goods.

Bose sought to avoid a finding of fraud by arguing that it believed, although mistakenly, that the repair services constituted valid use of the mark for audio

tape recorders. In most U.S. jurisdictions, typically only intentional acts of deception, or actions which demonstrate near total disregard for the truth or its consequences, are found to constitute fraud. In apparent contrast, however, the Board determines fraud based on whether the person making the false attestation of goods in actual use had a “reasonable basis” for doing so. In this, as with all its fraud cases, the Board wishes to close loopholes that would allow a declarant to claim that lack of knowledge and understanding excuses submission of false and misleading declarations that result in the USPTO granting inaccurate and unjustified registrations.

As such, the Board found that Bose’s in-house counsel lacked any reasonable basis to justify his mistaken belief that there was valid use as to audio tape recorders. In support of this finding, the Board felt the “plain meaning” of the words defining “use in commerce” in the Trademark Act gave no indication that shipments in connection with a repair service constituted valid use as to the goods to support renewal. Moreover, the Board also noted the lack of case authority supporting Bose’s interpretation of “use in commerce.” Furthermore, the Board concluded that Bose’s in-house counsel should have been aware that the tape recorders were no longer being manufactured and failed to make inquiries as to their continued sale before signing the renewal was also telling. This fact probably did more to undermine Bose’s asserted “reasonable basis” for its in-house counsel’s belief than anything else since the Board has consistently required that a person signing a declaration must ensure its accuracy.

The Board concluded:

*“The undisputed facts in this case clearly establish that respondent knew or should have known at the time it submitted its statement of use that the mark was not in use on all of the goods. Neither the*

*identification of goods, nor the statement of use itself were lengthy, highly technical, or otherwise confusing and the President/CEO who signed the document was clearly in a position to know (or to inquire) as to the truth of the statements therein.”*

*Medinol Ltd. v. Neuro Vasx Inc.*, 67 USPQ2d 1205, 1209 (TTAB 2003)

As a result, the Board canceled the WAVE registration based on fraud, although Bose did prevail in the opposition against HEXAWAVE based on its prior use of WAVE and its other pleaded registrations for compound WAVE marks.

Because of decisions such as *Bose*, we always advise clients to avoid listing surplus goods and services in intent-based applications, and to make sure that where use is asserted, the mark is actually in use “in U.S. commerce” for all the goods and services specified.

*CTJW*

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

# Information Letter

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**Canada:** STANDARD OF CONFUSION, GROUNDS FOR EXPUNGEMENT AND DAMAGES IN FAMOUS MARK INFRINGEMENT (*JAGUAR* DECISION)

In *Remo Imports Ltd. v. Jaguar Cars Limited*, 60 C.P.R. (4<sup>th</sup>) 130 (July 18, 2007 FCA), the Canadian Federal Court of Appeals (“FCA”) reached essentially the same findings on appeal as the Federal Court below relating to likelihood of confusion, registration expungement, and damages. However, in revising the grounds

upon which each finding was based, the FCA both clarified how such issues are viewed in the context of a famous mark, and also provided some important guidelines for future litigants.

Background: Jaguar Cars Limited had used its JAGUAR mark for many years on automobiles. In 1980, Remo Imports adopted the JAGUAR mark for bags, and obtained a trademark registration for various bags and luggage without objection from Jaguar. In 1991, Remo filed an action against Jaguar alleging trademark

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infringement and passing off, and seeking expungement of Jaguar's trademark registration. Jaguar counter-claimed on the same grounds, and likewise requested expungement of Remo's registration. The Federal Court dismissed Remo's claims, and allowed Jaguar's counterclaim of infringement and passing off, finding that Remo had passed off its goods as Jaguar's and depreciated the value of Jaguar's mark. The court also ordered expungement of Remo's JAGUAR registration and enjoined use of its JAGUAR and Leaping Jaguar design marks. Remo appealed, and Jaguar cross-appealed with respect to the trial court's denial of its claim for damages prior to the date of judgment.

Holding on Appeal: The FCA allowed the appeal to a limited extent, but sustained expungement of Remo's registration on other grounds. As for Jaguar's cross-appeal, the FCA sustained the Federal Court's holding on damages, but again for different reasons.

The court opened its opinion by chiding both litigants for the overly lengthy record on appeal, and chastised Remo in particular for its "appeal by ambush" tactic of submitting five grounds of appeal the morning of the hearing. The court then proceeded to consider those very grounds.

First, the court upheld the trial court's finding that Jaguar's mark was famous in 1980 (when Remo adopted its mark), in 1991 (when Remo brought its action), and remains so today. Moreover, in 1980 luggage goods were a natural brand extension for Jaguar's famous mark, and remain so today.

The FCA then addressed the first of Remo's belated points on appeal, which claimed that the Federal Court had imposed an improper burden on Remo to dispel a likelihood of confusion. As Jaguar was seeking expungement, Remo maintained the burden was on Jaguar to prove a likelihood of confusion. The FCA agreed,

and found that while the language of the ruling was not clear, the Federal Court had not imposed a special burden on Remo, but had merely held that once confusion had been found with respect to Jaguar's mark, it would be difficult for Remo to dispel the likelihood of confusion, particularly given the famous status of Jaguar's mark. The FCA also held that the burden issue was immaterial, as Remo had admitted to actual confusion between its goods and Jaguar's non-competing automobile goods in trying to invalidate Jaguar's registration. Thus, a judge could reasonably find a likelihood of confusion between Remo's registered use of its JAGUAR mark on bags and Jaguar's use of its JAGUAR mark on luggage.

The next three issues on appeal all related to expungement. The court noted that there are both statutory grounds for expungement (mark not registrable as of registration date, abandonment, mark not distinctive as of date of expungement proceedings, and registrant not person entitled to registration) and non-statutory grounds (registration in violation of fiduciary duty, fraudulent or material misrepresentations for purpose of securing registration). The grounds relied upon by the Federal Court, namely depreciation of value of the goodwill of a registered mark and public deception in passing off context, were improper in that there was no evidence in the record to support either claim. The lower court also erred in expunging Remo's registration on the ground of prior use by Jaguar once Remo's registration had become incontestable, as there was no evidence in the record that either party at the executive level knew of the other's use until the outset of the proceedings. That said, the FCA found that as Jaguar's mark had been famous at all material times, Remo's mark had never been distinctive and was not distinctive at the time proceedings were commenced,

and could thus be expunged on those statutory grounds.

As to Remos' final ground of appeal, that the injunction was improper, the FCA found no merit in the argument based on its findings of fame and likelihood of confusion.

Jaguar had claimed on cross-appeal that it was entitled to damages for passing off and depreciation of value in its registered mark since the time of Remo's registration, particularly as that registration had been expunged. Though Remo had not appealed the passing off finding, the FCA found little evidence of passing off in the record, particularly as each party claimed to have had no knowledge of each other until the commencement of proceedings. As for damages under a depreciation claim, the court held Jaguar to the stringent *Veuve Clicquot* standard of depreciation, namely, that the claimant must establish a link or mental association between the famous mark and the defendant's mark. The Federal Court had rejected all expert evidence on this point, and so Jaguar was unable to demonstrate a link that entitled it to damages. Finally, notwithstanding its expungement, the FCA found that Remo's trademark registration functioned as an absolute bar to a claim for passing off damages during the time of its validity. i.e., until the date of the lower court's judgment.

Implications: The *Jaguar* case will be of particular value to trademark litigants in cases involving famous trademarks. The decision affirms the scope of protection accorded famous marks by emphasizing that their protection extends to different goods in different channels of trade. The case also serves as a cautionary tale to litigants taking alternative positions on the facts. By claiming a likelihood of confusion to support its position in one argument, a litigant may unwittingly expose itself to an admission that undermines its position in a different context.

- DCA

## **Canada:** TRADE MARKS OFFICE DISPENSES WITH DISCLAIMERS

On August 15, 2007, the Canadian Trade Marks Office published a notice as follows: "Effective immediately, the Registrar will generally no longer require an applicant for registration of a trade-mark to enter disclaimers pursuant to Section 35 of the Trade-marks Act. Voluntary disclaimers will continue to be accepted." We are advised that "generally" was intended to retain disclaimers of the 11-point maple leaf of the Canadian flag (to comply with Order in Council PC 1965, 1623 par. 5(b)). Other than this one exception, disclaimers will not be required for any reason. Applicants will be allowed to enter voluntary disclaimers, however, where that might be useful, for example in conflict matters. The standards for registrability, in other respects, remain the same.

- J/LH

## **India:** DEADLINE FOR EVIDENCE IN SUPPORT OF AN OPPOSITION

In a recent decision, the High Court of Delhi set aside an order of the Intellectual Property Appellate Board which had held that the Registrar could extend the time limit to file evidence in support of an opposition. (*Sunrider Corporation v Hindustan Lever Limited*. WP (C) No. 10721/2005. Decided on July 27, 2007).

In this case, Sunrider Corporation (hereinafter, "Sunrider") filed an application for SUNENERGY in International Class 3, on June 14, 1995. The mark was published in the Trade Marks Journal on February 21, 2001. Hindustan Lever Limited (hereinafter, "HLL") opposed and Sunrider filed a timely response. Among Sunrider's arguments was that HLL had failed to file its evidentiary affidavit supporting the opposition within the three-month period required under the Trade Marks Acts of 1999 and 2002.

It is important to note that under Section 159 of the 1999 Act, all pending proceedings on the date on which this Act came into effect, i.e. September 15, 2003, would be handled under the 1999 Act. After that date, the Trade and Merchandise Marks Act of 1958, which had provided no maximum time for filing the evidentiary affidavits, would no longer apply.

Accordingly, in the case at hand, the Registrar held that the subject affidavit had not been filed timely and ruled that the opposition was deemed abandoned, pursuant to Rule 50(2) of the 2003 Act. HLL appealed the Registrar's decision before the Intellectual Property Appellate Board arguing that the 1959 Rules of the 1958 Trade and Merchandise Marks Act applied, under which no maximum period of extension of time was prescribed, allowing it to file the evidence at any given time after the filing of the opposition. The Intellectual Property Appellate Board reversed the Registrar, holding "*...that the larger interest of society demands that an opportunity be granted to the applicant to adduce his part of evidence, besides the opportunity which the Registrar could have granted to the opponent by exercising his discretionary power,*" and remanded the case to the Registrar to grant HLL the opportunity to file the evidence. This decision was brought before the Delhi High Court.

The Delhi High Court concluded that Rule 50(2) is mandatory and that the Intellectual Property Appellate Board had reviewed the appeal under the mistaken impression that the Registrar had discretionary power to grant an extension of time. Thus, if an evidentiary affidavit was not filed within the three-month term provided under Rule 50(2), the Registrar had no discretion to grant an extension and the opposition would be considered abandoned.

This decision makes clear, if it had not been so before, that clients should begin

preparing evidence as soon as possible once a decision is made to oppose an application in India.

- XT

#### **Kosovo: INDUSTRIAL PROPERTY PROTECTION OFFICE OPENS**

We have been advised that the Industrial Property Protection Office in Kosovo commenced operations on November 19, 2007 and that all intellectual property rights that were valid in former Serbia and Montenegro (pending applications and registrations) will need to be revalidated to be protected in Kosovo. It is unclear what the deadline for revalidation will be, although both September 1, 2008 and November 19, 2008 have been mentioned in relevant circles. We are closely monitoring this development

- JLH

#### **Montenegro: REVALIDATION OF RIGHTS SECURED IN FORMER SERBIA AND MONTENEGRO**

It will be possible for trademark owners to revalidate, in Montenegro, rights secured in former Serbia and Montenegro prior to June 3, 2006, and in the Republic of Serbia after that date. Whether an application filed in Serbia and Montenegro (which became the Republic of Serbia on June 3, 2007) must be revalidated in Montenegro will depend on the status of the right in Serbia on the date the Montenegro Intellectual Property Office (MIPO) commences operations. This is expected to occur at the end of 2007. Applications pending in Serbia on that date will require revalidation. Registered marks valid in Serbia on the date when the MIPO opens will be recognized automatically, without the need to revalidate. Registrants will be able to secure a Montenegro certificate of registration upon proof of the previous registration in Serbia and payment of a fee. Renewal applications filed in Serbia prior to the date the MIPO commences operations

will be automatically recognized in Montenegro. Thereafter, separate renewal applications will need to be filed with the MIPO. Owners of International Registrations (IRs) designating Serbia and Montenegro (YU), registered before June 3 2006, had until November 19, 2007 to revalidate those IRs for Montenegro. Thereafter, new extensions must be filed. We are closely monitoring these developments and expect that the deadline for filing revalidation applications is likely to be towards the end of June 2008.

- J/LH

### **Qatar:** PROTECTION OF WELL-KNOWN TRADEMARKS

In a recent decision issued on January 31, 2007 under no. 175/2006 in the case filed by Escada AG against Escada Saloon (and the Ministry of Economy and Commerce), the Qatari Court of First Instance ruled in favor of trademark owner Escada AG – owner of the trademark ESCADA – against a local chain of men's barbershops called Escada Salon. The local chain of barber shops was using the mark ESCADA without the authorization or knowledge of Escada AG.

The court held that Escada Salon's unauthorized use of the trade name ESCADA was an imitation of a famous mark that enjoys extensive worldwide reputation, and that such use of the trade name ESCADA would lead to public confusion and unfair competition. The court based its decision on the provisions of Article 8(8), Article 36 and Article 37 of Qatari Trademark Law No. 9 of 2002 as well as Article 6bis of the Paris Convention. The court also considered the duration, extent and geographical area of promotion of the ESCADA mark in Qatar, and the extent to which the mark was also recognized by competent authorities in other countries. With respect to evidence of the latter, Escada AG submitted a long list of countries where Escada AG has been

registered as a trademark and a list where it has been registered as a trade name (or part thereof) along with copies of documentation evidencing these registrations. The court understood this evidence as recognition by the international trademark/name offices of the fame of Escada.

The court ordered that defendant Escada Salon: 1) cease any further use of the trade name ESCADA, 2) remove all signs bearing the ESCADA name and trademark and destroy all items and materials bearing the ESCADA name and trademark, and 3) record the cancellation of Escada Salon in the records of the Commercial Registry.

While Qatar is a member of the Paris Convention and the TRIPS Agreement—which provide of the protection of well-known trademarks, this decision is interesting because the trademark system of Qatar did not recognize the concept of famous trademarks until the year 2002. It was then that a new law was enacted introducing special provisions for famous marks that are well known in Qatar and abroad. This law ensured the protection of such marks even if they were not registered. Under Article 8(8) of the new law well-known signs (marks) – even if not registered or applied for registration in Qatar, irrespective of the identification or similarity of the related goods or services for which registration is sought, may not be registered as a trademark or as part of a trademark. The Escada decision is significant because there have been very few court decisions on such grounds since August of 2002 (though we note that there have been many more decisions issued by the Trademarks Office with respect to oppositions based on the fame of unregistered trademarks).

- MPF

**South Africa:** BMW SUCCEEDS IN ESTABLISHING INFRINGEMENT

*Verimark (Pty) Ltd. v. Bayerische Motoren Werke Aktiengesellschaft*, Case No. 250/06 (Supreme Court of Appeal of South Africa, May 17, 2007)

In a recent decision handed down by the Supreme Court of Appeal in South Africa, the well-known German manufacturer, Bayerische Motoren Werke Aktiengesellschaft (BMW), succeeded in establishing that use of the term BMW in relation to auto parts by a local company which supplied accessories and spare parts to motor vehicles, which in this matter comprised wind screens, which did not originate with the German manufacturer, constituted infringement.

The court, in a decision authored by the Acting Deputy President, Louis Harms, with which all the other Appeal Judges concurred, distinguished this case from its previous decision denying relief to the German company, pointing out that in the earlier case legitimate comparative advertising had taken place. [See the September 2007 issue of this Information Letter.]

By contrast, the court ruled here that the local company was "... using BMW's registered trademarks without authority in the course of trade in relation to the goods in respect of which the mark is registered." The court held that a substantial number of persons would be deceived by interpreting the actions of the defendant as representing that the wind screens which it was supplying were genuine BMW parts, and that even if some customers did not come to this conclusion, such circumstance did not constitute a defense to the statutory infringement claim.

- MID

**Spain:** DECISION RELATING TO HOTEL INDUSTRY

*Sol Melia S.A. and Dorpan S.L. v. Euroclub 21 SL*, Case 660/2006, July 16, 2007 Case No. 250/06

The Provincial Court of Appeal of Madrid, Section 28, has ruled that unauthorized use of a hotel company's marks, by a hotel booking service, constituted infringement of those marks. In this case, the marks SOL MELIA and TRYP, of plaintiffs Sol Melia S.A. and Dorpan S.L., respectively, were used by defendant Euroclub 21 SL, which provided its members with booking services for hotels, cruises, restaurants, etc. In connection with its business, Euroclub used SOL MELIA and TRYP in brochures, leaflets and on its website, offering discounts at the plaintiffs' hotels. The court of first instance found this use to constitute trademark infringement but did not enjoin it, finding that the use was permissible under Article 37 (c) of the Spanish Trademark Law, which permits third parties to use a mark where necessary to indicate the intended purpose of the goods or services.

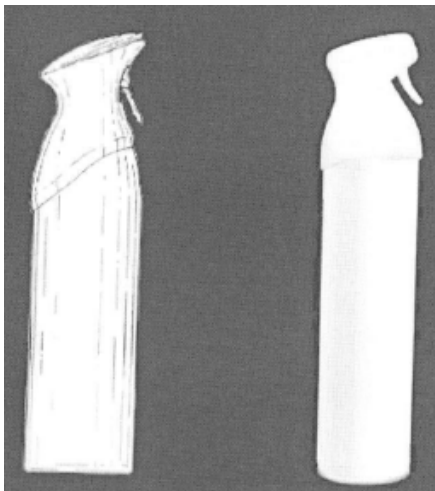
The Court of Appeal reversed, holding that Article 37 (c) permitted use of another's mark only "in accordance with honest practices in industrial or commercial matters." The court ruled that Euroclub had failed this test because it went beyond what was necessary to indicate the intended purpose of the services. Namely, it was unnecessary to use the marks on its website and in its brochures. All that was needed was to list the names of the hotels and their addresses. Thus, the challenged use was a misappropriation of the plaintiff's marks, unlawfully giving the impression that there was a relationship between Euroclub and the plaintiffs. Accordingly, the use did not constitute a fair trade practice. Euroclub was thus ordered to cease use of these marks, withdraw all advertising and promotional material and other documents

bearing the marks, and destroy such materials at its expense. The plaintiffs were also awarded €18,000 compensation, based on consumer complaints that Euroclub had failed to provide the discounts offered. The decision is on appeal to the Supreme Court.

- CC, JLH

### **United Kingdom:** COMMUNITY DESIGNS – THE PROCTER & GAMBLE CASE

A U.K. Court of Appeal decision in *Procter & Gamble Company v. Reckitt Benckiser (UK) Limited (2007) EWCA Civ. 936*, addresses and defines the standard for determining infringement of a Community design registration. The case involved Procter & Gamble's ("P&G") registered Community design for a spray container used in an air freshener product and whether a competing spray canister design by Reckitt infringed this. The two designs are reproduced below:



Procter & Gamble

Air Wick

In framing the infringement inquiry, the significance of this decision goes far beyond the competing designs and containers. Indeed, the decision reflects perhaps the most definitive word to date for construing the scope of Community registered designs under the infringement standard set by Community regulations.

Infringement of a registered design is addressed by Article 10 of the Community Design Regulation, wherein Section 1 states:

"The scope of protection conferred by a Community design shall include any design which does not produce on the *informed user* a *different overall impression*."

In overturning a decision of the High Court finding that the Reckitt design infringed P&G's registered design, the Court of Appeal, per Lord Justice Jacob, reviewed the terms "informed user" and "different overall impression" and addressed the role played by other similar prior art designs on the scope of protection applied in the infringement analysis. The resulting conclusions on these issues, which underlie the Court of Appeal decision, narrow the interpretative scope afforded registered designs.

In interpreting "informed user," the court distinguished the respective policy objectives of protection for trademarks or trade dress and design protection. In this regard, the Lord Justice noted that the former protects consumers from marketplace confusion while "the point of protecting a design is to protect that design as a design." The Lord Justice does not elaborate on this statement, but taken with his expressed concern for avoiding "design monopolies" that "may interfere with routine, ordinary, minor, every-day design modifications," he seems to regard design rights as strongest where they plainly reflect design creativity and innovation. Not surprisingly, then, the court deemed that the infringement inquiry should proceed from how features of the registered design are viewed by users who are "informed," i.e., more knowledgeable and discriminating about design issues than average consumers.

Thus, an "informed user" is deemed aware of other competing designs on the market, as well as prior art designs, and can

distinguish even relatively “smaller differences” between competing designs. This is especially the case where functional considerations limit the available range of design options. For example, as applied to spray containers:

*“Both products have a ‘trigger’ and something of a ‘pistol grip.’ There is some constraint on design freedom for this—the product must be grippable so that the index finger can pull the trigger, the trigger must be shaped to fit the finger and have sufficient space behind it to be pulled. That is a given. The informed user must take those requirements into account when assessing overall impression.”*

Being “fairly familiar with design issues,” the “informed user” is not as subject to faulty or incomplete recollection as are ordinary consumers, and would not focus on similarities dictated by the necessities and limitations of function, or which otherwise commonly occur in other prior art designs.

A design savvy “informed user” thus colors consideration of whether a design creates a “different overall impression.” This results in a narrower and more focused inquiry into distinguishable design features which may or may not be perceived by ordinary consumers and the “overall impressions” they have of the designs. And, if there were any doubt about this, the court also noted that the correct test considered “different” impressions, not “clearly different” impressions as referenced in the explanatory recitals for the Community Design Regulation (specifically Recital 14). The court considered this recital to “be framed around the requirement for registrability...rather than the test for infringement.” The Court of Appeal reasoned that the resulting monopoly rights granted a registration necessitated a policy of requiring greater distinguishing distance from prior art designs than those sufficient to avoid infringement.

Thus, having considered the framework for determining infringement, the Court of Appeal found fault with the High Court’s conclusion that the two designs created the same overall visual impression. According to the Court of Appeal, the similarities were at too general a level “for one to fairly say that they would produce on the informed user the same overall impression.” Instead, the differences of greater import to an informed user would include specific design elements such as, among others, the shapes of the sprayer heads. According to the court, the P&G design gave the impression of a “snake’s head” and the Reckitt design was more akin to a “lizard’s head.” Viewed also in the context of a crowded prior design field of spray heads, where design freedom was limited by the dictates of function, it is even more appropriate to rely on such “smaller differences.”

Although the Court of Appeal considered the “informed user” to be knowledgeable and aware of designs, the decision surprisingly rejected the notion of expert testimony playing a significant role in infringement disputes. Consequently, the court fashioned an “informed user” who is clearly more sophisticated and knowledgeable in the relevant design field than the average purchaser, but yet not one with specialized knowledge rising to the level of professional or technical expertise.

In its decision, the Court of Appeal raised concerns about other courts applying the infringement test in a uniform manner, given some inherent vagueness and a need to account for different subjective viewpoints. Nevertheless, the decision strives for a consistent and coherent viewpoint that considers and arguably achieves a valid policy objective to avoid overly broad design rights that could hamper trade and innovation. For those experienced in U.S. design patent practice, a narrow interpretation of design rights is no surprise. Correspondingly, the Community

design is not intended to primarily protect goodwill embodied in a product shape, but instead to protect advances in visual, graphic and product design, which are often highly incremental. The result is that creative and innovative designs are rewarded by a greater scope of protection to the extent that they are unique and eye-catching. This protection, moreover, is free from issues of merger or other limiting doctrines that can hinder copyright protection. In theory, such protection strikes a balance between the needs of designers to protect innovation and the needs of the market to adopt designs without undue fear of infringement exposure.

*CTJW*

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