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March 2002

**T**HE SEVENTH CIRCUIT DECISION in *Bliss Salon v. Bliss World LLC*, handled by **RICHARD LEHV** and **JOHN MARGIOTTA**, was named one of the Ten Favorite Trademark Cases in 2001 by IP Worldwide and law.com. Briefly, in that case the Seventh Circuit rejected an attempt by a local company, Bliss Salon and Day Spa, to enjoin Bliss World LLC from doing business within 100 miles of downtown Chicago, having concluded that the plaintiff's unregistered BLISS mark lacked secondary meaning, and use by Bliss World was not likely to confuse consumers. The decision is discussed in detail in our December 2001 INFORMATION LETTER.

**A**LLISON STRICKLAND succeeded in obtaining registration of the mark ANOTHER FINE MESS, the signature phrase of Oliver Hardy of the comic duo Laurel & Hardy, on behalf of our client Larry Harmon Pictures Corporation (owner of the trademarks and right of publicity of the late Stan Laurel and Oliver Hardy). The application (Serial No. 74/468324) covered T-shirts. The Patent and Trademark Office examiner objected that the specimen of use of the mark – a T-shirt on which the phrase appeared together with a depiction of the characters and their names – demonstrated only “merely ornamental” use of the phrase on the T-shirts. On appeal, we successfully argued that ANOTHER FINE MESS is so well-known that it signifies the source of the products to the relevant consumers, and thus serves a source-indicating function entitling it to federal trademark registration.

**S**USAN UPTON DOUGLASS was a featured speaker at a three-hour presentation on U.S. Trademark Prosecution at the Basics of U.S. Trademark Law Forum sponsored by the International Trademark Association in Dallas on February 4-5, 2002. Susan also wrote a chapter for the book published by INTA on this topic.

**JANET L. HOFFMAN** participated as a moderator at the First EuroForum International Conference on "Protection of Intellectual Property Rights in Russia and the CIS," in Moscow, Russian Federation, on January 29-30 2002, chairing the session on IPR Protection in the CIS (Russia, Ukraine, Azerbaijan, Kazakhstan, Kyrgyzstan). Officials and other representatives from virtually all of the former U.S.S.R. countries attended.

**ALLISON STRICKLAND** spoke at a PLI "Bridge the Gap for New Attorneys" seminar on December 20, 2001 on the topic of Basics of Trademark and Copyright Law. On March 21, 2002, she will be speaking about copyright and trademark licensing at a PLI seminar to be telecast by satellite entitled "Copyright and Trademark Law for the Nonspecialist: Understanding the Basics."

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# Information Letter

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## UNITED STATES

### DIGITAL MILLENNIUM COPYRIGHT ACT:

- Two Decisions

### INTERNET SALES OF NAZI

#### MEMORABILIA:

- French Order Unenforceable in the U.S.

### PATENT AND TRADEMARK OFFICE:

- Revised Classification System

### TRADEMARK ASSIGNMENTS:

- Intent-to-Use Applications

### TRADEMARK OPPOSITIONS:

- Standards for Dilution Basis

### UNFAIR COMPETITION:

- Attorney's Fees

## Digital Millennium Copyright Act: TWO DECISIONS

Two new decisions regarding challenges to the Digital Millennium Copyright Act (DMCA) were decided in November, 2001, one upholding the constitutionality of the anti-circumvention measures of the Act, the other refusing to rule on the Act's alleged "chilling" effect on speech as there was no case or controversy on the facts presented to the court.

In *Universal City Studios, Inc. v. Corley*, the more significant of the two decisions, a three-judge panel of the Court of Appeals for the Second Circuit unanimously affirmed the lower court's injunction against defendant, Eric Corley, that prohibits him from disseminating, through posting or linking, computer code designed to decode digital versatile discs (DVDs) via his web site. In doing so, the Court of Appeals rejected Appellant Corley's constitutional challenges to the DMCA.

The DMCA, enacted by Congress in 1998, seeks to combat cyberpiracy of digital media by

prohibiting a person from circumventing a technological measure that effectively controls access to a work protected under Copyright laws. The statute also prohibits trafficking in such technology aimed at descrambling encryption codes built to protect the copyrights of digital media.

In his appeal Corley raised three constitutional challenges to the DMCA. He argued that (1) the DMCA oversteps limits of the Copyright Clause on the duration of copyright protection; (2) the DMCA as applied to his dissemination of decryption software violates the First Amendment because computer code is "speech" entitled to full First Amendment protection and the DMCA fails to survive the exacting scrutiny accorded to statutes that regulate "speech"; and (3) the DMCA violates the First Amendment and Copyright Clause by unduly obstructing the "fair use" of copyrighted material.

The Second Circuit rejected each of these arguments. The court rejected, as premature, the argument that the DMCA oversteps the limits of the Copyright Clause by enabling copyright

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owners to encrypt their works and thus protect them from ever entering the public domain, noting that “there is not even a claim, much less evidence, that any Plaintiff has sought to prevent copying of public domain works, or that the injunction prevents the Defendants from copying such works.”

Regarding the argument that the DMCA violates the First Amendment by prohibiting the dissemination of Mr. Corley’s speech, the Second Circuit held that computer code and computer programs are considered forms of speech entitled to First Amendment protections. That speech, however, because of its functional component, namely, that it is capable of instantly decrypting a digital work, is not “pure speech,” like blueprints or recipes. Reviewing the DMCA, the Court concluded that the DMCA regulates speech in a content-neutral way as neither the DMCA nor the posting prohibition are concerned with whatever capacity DeCSS might have for conveying information to a human being. The statute is only concerned with the functional results of the dissemination of the decryption software.

Finally, the court also found unavailing appellant’s argument that the DMCA unconstitutionally restricts fair uses of copyrighted materials by preventing even those who would make a fair use of the encrypted work from decrypting it. The Second Circuit noted that “the Supreme Court has never held that fair use is constitutionally required,” and found further that appellants had “provided no support for their premise that fair use of DVD movies is constitutionally required to be made by copying the original work in its original format.” The Court concluded by saying that “Fair use has never been held to be a guarantee of access to copyrighted material in order to copy it by the fair user’s preferred technique or in the format of the original.”

The other DMCA case, decided on the same day as *Corley*, involved a challenge by Princeton University Professor Edward Felten to the constitutionality of the DMCA. In that case, *Felten v. Recording Industry of Association of America* (“RIAA”), Professor Felten filed suit under the Declaratory Judgment Act in federal court in New Jersey seeking a declaration that the DMCA unconstitutionally “chills” First Amendment speech, including the publication of scientific research and presentation of such research.

Professor Felten brought his case after receiving a letter from RIAA stating that his planned

publication of a paper highlighting his success in breaking certain encryption codes for musical compact discs “would be facilitating and encouraging the attack of copyrighted content” in violation of the DMCA.

In his decision, issued from the bench, Judge Garrett Brown, granted the RIAA’s motion to dismiss, finding that there was no actual “case or controversy” before the court as RIAA had repeatedly assured Professor Felten that it would take no legal action against him and Professor Felten had published and presented the paper about which he complained after receipt of the RIAA letter.

The dismissal leaves unresolved the underlying issue presented by Professor Felten’s suit, namely, whether the threat of prosecution under the DMCA’s anticircumvention provisions is having a “chilling effect” on scientific research in the field of decryption technology because it makes scientists afraid to publish their findings.

- JM

## Internet Sales of Nazi Memorabilia: FRENCH ORDER UNENFORCEABLE IN THE U.S.

On November 7, 2001, a federal district court in California rendered a declaratory judgment holding unenforceable in the United States an order of the Tribunal de Grande Instance de Paris directing the U.S.-based internet service provider Yahoo! to prevent French citizens’ access to Nazi propaganda and memorabilia through Yahoo!’s web site, including through Yahoo!’s internet auction service (*Yahoo!, Inc. v. La Ligue Contre le Racisme et l’Antisemitisme*, 169 F. Supp.2d 1181 (N.D. Cal. 2001)).

The Tribunal’s order issued on May 22, 2000 in a suit brought by two French non-profit organizations, the League Against Racism and Anti-Semitism and the Union of Jewish Students, based on provisions in the French Penal Code restricting the sale of Nazi artifacts and the publication of Holocaust denials and other types of hate speech. After Yahoo! objected that compliance with the order was technologically impossible, the Tribunal issued a further order fining Yahoo! 100,000 French francs for each day that it failed to comply with the injunction. (Yahoo!’s French subsidiary Yahoo!France did not challenge the Tribunal’s ruling as applied to it.) Yahoo!, which has substantially all of its assets in the United States, sought a declaratory judgment from the United

States District Court for the Northern District of California to the effect that the French decision could not be enforced in this country.

The district court framed the issue essentially as follows: Would the French Tribunal's order be constitutional if it were issued by a U.S. court? From that initial step, the court's First Amendment analysis followed predictably. The order was held to be an instance of viewpoint-based speech regulation not justified by a compelling governmental interest, and therefore violative of the First Amendment guarantee of free speech. Moreover, the order was held unconstitutionally vague insofar as it directed Yahoo! to bar access to any site or service "that *may be construed* as an apology for Nazism or a contesting of Nazi crimes." Because this language fails adequately to define the proscribed conduct, the court determined that it would have a chilling effect on protected speech.

None of the foregoing analysis, dictated as it is by well-established Supreme Court precedents, could be deemed controversial. It is as clear that the challenged portions of the Yahoo! web site are protected by the U.S. Constitution as it is that they are illegal under the French Penal Code. Rather, the *Yahoo!* decision is remarkable for the court's treatment—or, more accurately, its avoidance—of the question whether speech originating in one country is properly subject to the laws of another jurisdiction because it can be accessed there over the internet. The California district court neatly evaded this question by initially framing the issue before it as it did, that is, by considering the French Tribunal's order as if it were the order of a U.S. court. While U.S.-based companies may take some comfort from this indication that U.S. courts will resist the attempts of foreign countries to regulate the impact in their territory of speech originating in the U.S., it remains to be seen whether the *Yahoo!* decision will define the direction of the emerging regulatory regime for the web's global marketplace of speech.

The district court's decision in *Yahoo!, Inc. v. La Ligue Contre le Racisme et l'Antisemitisme* is presently being appealed to the Ninth Circuit.

- ZH

## Patent and Trademark Office: REVISED CLASSIFICATION SYSTEM

Consistent with the recently-revised Nice Agreement, the U.S. Patent and Trademark Office has revised the classification system for U.S. trademark applications. The Nice

Agreement originates with the World Intellectual Property Organization, which reviews and revises the classification system that is used for the administration of trademarks in all of the member countries worldwide. Three new international classes of services have been added, and existing International Class 42 has been narrowed and focused. Previously, it was a place in which many "miscellaneous" services could be classified. Now, International Class 42 covers scientific and technological services, engineering services, legal services, and computer hardware and software development and related services. Class 43 is the new class for hotel and restaurant services. Class 44 contains medical, dental, veterinary, and beauty services, as well as agricultural and related services. Finally, class 45 contains personal and social services such as funeral services, investigative services, and security services.

The changes to classification will not be implemented retroactively. Existing registrations will remain in their original classes upon renewal, regardless of when the registration is renewed. Applications that were

pending before **January 1, 2002**, will be classified and identified in accordance with the former version of the Nice Agreement. Therefore, the change in classification will not result in the payment of additional fees for applications that were pending on January 1, 2002.

While all signatories to the Nice Agreement have undertaken to change the classification of certain goods and services, the changes have most significantly affected USPTO practice regarding the *identification* of various goods and services. The USPTO will no longer allow "miscellaneous" subject matter for identifications which list information, database, or web site services. The former practice was to not only allow such miscellaneous services, but also to permit applicants to identify multiple services (with varying subject matters) in the class that was deemed "dominant." Now such applications would require a separate classification for each of the subjects identified. All such services will require classification by their subject matter. Once the general subject matter is indicated, there is no requirement for a great deal of additional specificity. For example, "medical information services" in International Class 44 would be sufficiently definite and properly classified to meet USPTO standards.

-DM

## Trademark Assignments: INTENT-TO-USE APPLICATIONS

In an unreported decision of the Trademark Trial and Appeal Board, the Board, in a summary judgment motion, invalidated an intent-to-use application filed in the name of an individual, who assigned the application to a limited liability company of which he was the sole member (*Pfizer Inc. v. Hamerschlag*, Opp. No. 118,181, Sept. 27, 2001).

Section 10 of the Lanham Act prohibits the assignment of ITU applications prior to the filing of an Allegation of Use, “except for an assignment to a successor to the business of the applicant, or a portion thereof, to which the mark pertains, if that business is ongoing and existing” (emphasis added). In the *Hamerschlag* case, the uncontroverted evidence showed that the applicant had not yet commenced doing business connected with the mark. Despite the fact that the limited liability company created by the applicant was solely owned by him, the Board determined that the assignment to this entity was tantamount to “trafficking in trademarks,” and thus the transfer invalidated the application.

We caution our clients to consult with us when considering the assignment of pending ITU applications. While the transfer of a company’s assets which include registrations, goodwill and other assets in addition to pending ITU applications would likely come within the purview of the exception to the prohibition against the transfer of pending ITU applications, the Board and the courts read this exception strictly and narrowly. Start-up companies that have raised funds but have not yet sold products should be especially mindful of this prohibition, as should holding companies.

- SUD

## Trademark Oppositions: STANDARDS FOR DILUTION BASIS

A 1996 amendment to the U.S. Trademark Act (adding Section 43(c)) gave owners of trademarks the right to file a civil lawsuit for dilution of their marks. However, the law was not amended to make dilution a basis for an opposition or cancellation proceeding until later. An amendment to Sections 13(a) and 14 of the U.S. Trademark Act, which took effect on August 5, 1999, makes dilution under Section 43(c) grounds for opposition and cancellation if the application concerned was filed on or after

January 16, 1996. The U.S. oppositions tribunal, the Trademark Trial and Appeal Board, has now published its first decision defining the elements of dilution in an opposition proceeding, *The Toro Company v. ToroHead, Inc.*, Opposition No. 114,061, decided December 12, 2001, \_\_\_ USPQ 2d \_\_\_. The same standards would also apply in cancellations in the TTAB. The opposer’s mark TORO is well-known for power-operated lawn and garden tools. The applicant’s mark “ToroMR and bull’s head design” covers a magnetic head component of computer disc drives, based on intent-to-use. After a full trial, the TTAB dismissed the opposition in terms that make it clear that the TTAB is not a hospitable forum for dilution claims, unlike many federal courts.

The case was decided not only by the usual panel of three TTAB judges, but also by the chief judge. The chief judge apparently participated in order to add extra weight to the decision and establish rules likely to be followed in future cases. The case is designated for publication and is citable as precedent. The opposer alleged likelihood of confusion and dilution. On the likelihood of confusion count, the TTAB held confusion unlikely because the goods were not sufficiently related and applicant’s consumers were sophisticated and dismissed that count. On the dilution count, the TTAB held that the opposer’s mark TORO was not sufficiently famous to be diluted by the applicant’s mark and the marks were not sufficiently similar.

The decision reviewed the legislative history and case law on dilution and concluded that the mark must usually be a very famous “household word” to the general public, such as BUICK, DUPONT or KODAK, in order for the mark to be diluted under Section 43(c). Such fame could be demonstrated, the TTAB held, by intense media attention or public opinion surveys, but not merely by large sales and advertising. Although TORO is a well-known mark, especially in the landscaping industry, and the opposer also sold TORO products to the general public, it did not satisfy that high standard of proof. This standard applies where the goods of the parties are sold to different consumers in different industries. The TTAB said that it might find a less famous mark to be diluted if the goods of both parties were sold in the same niche, that is, fame only within a niche market might be sufficient. However, it held that the parties in this opposition are not in the same niche market. The TTAB also held the marks TORO and ToroMR & bull’s head design to be

insufficiently similar for dilution on grounds that there is no dilution unless the marks are “essentially the same.” The issue of whether the mark was already diluted by third party use and registration was not raised by the applicant, but that is relevant and could be a defense to dilution claims in future cases.

- DWE

## Unfair Competition: ATTORNEYS’ FEES

Lisa Pearson and John Margiotta recently won summary adjudication and an award of attorneys’ fees and costs for Sears in a case involving Sears’ TIME OUT brand of bath and body products. *Gregory V. Moss d/b/a Bad Call Sports and Da’Tekena Barango-Tariah v. Grypyon Development, Inc., Circle of Beauty, Inc. and Sears, Roebuck and Co.*, Case No. SA CV00-347 AHS (EEEx).

Plaintiffs sued Sears and its subsidiary Circle of Beauty (collectively “Sears”) for unfair competition under the Lanham Act, claiming priority in TIME OUT for bath and body products based on their use of the mark on sports balm. Sears counterclaimed for unfair competition and dilution under federal and California state law.

On Sears’ motion for summary adjudication, Judge Alicemarie Stotler, United States District Judge for the Central District of California, found that Sears had priority in the TIME OUT mark and dismissed all claims brought by plaintiffs. Judge Stotler also entered judgment on Sears’ counterclaim for unfair competition under the Lanham Act, and barred plaintiffs from using the TIME OUT mark on any bath or body product, including, but not limited to, sports rub.

Sears then filed a motion for attorneys’ fees and costs. Judge Stotler granted the motion, finding the case “exceptional” under the Lanham Act as the evidence showed that plaintiffs had not begun use of TIME OUT until after filing their case against Sears. Judge Stotler also found that plaintiffs conducted their litigation in bad faith. The amount of the fee award shall be determined in future hearings.

- JM

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## INTERNATIONAL

### IRAN

- Adherence to WIPO

### PARALLEL IMPORTS

- Decisions in Two Cases

### RUSSIAN FEDERATION

- New Trademark Fees

### DEADLINES

African Intellectual Property Organization  
Hong Kong

### Iran: ADHERENCE TO WIPO

On **September 26, 2001**, the Islamic Consultative Assembly of Iran approved a law ratifying adherence of Iran to the World Intellectual Property Organization, bringing Iran into a new series of commitments in respect of IPR protection and enforcement. Iran has been a member of the Paris Convention since 1958, and in 1998 acceded to the 1967 and 1979 modifications of that treaty.

### Parallel Imports: DECISIONS IN TWO CASES

In deciding two cases – *Zino Davidoff SA v. A&G Imports; Levi Strauss & Co. Limited and Levi Strauss (UK) Limited v. Tesco Stores and Tesco Plc., Levi Strauss & Co. and Levi Strauss (UK) Limited v. Costco Wholesale UK Limited* – the European Court of Justice has rejected the interpretation of “consent” which was advanced by the U.K. Courts in two cases relating to “parallel imports” of goods into the European Economic Area, which includes the countries comprising the European Union. The U.K. Court had indicated that where goods were sold outside the European Economic Area without a

specific prohibition on importation into the Area, consent by the trademark owner should be implied. Thus under the U.K. Court’s approach, owners of trademarks in the European Economic Area would have had to ensure that consent to import goods into the European Economic Area would have had to have been expressly prohibited in the chain of distribution contracts, from the original Trademark owner through various distributors of the trademark goods, for such goods to be excluded from the Area.

This approach was rejected by the European Court, which held that a consent to allow parallel imports, (“Grey Goods”) into the EEA under Article 7 of the Trademark Directive would need to be clearly established by the importer in order to permit the entry of such imports into the EEA. In particular the Court held that such a consent would not be inferred from circumstances such as the fact that the Trademark owner did not communicate the import prohibition to all subsequent purchasers of the goods, that the goods did not carry a warning against importation into the EEA, and that the trademark owner did not impose any restrictions on subsequent transfers of ownership, when effecting resales of the goods.

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The decision thus strongly favors trademark owners against parties seeking to import into the European Economic Area without their authorization, and is thus a victory for the owners of well-known and prestigious marks against cost cutting parallel importers. Since the European Court of Justice is the Court of final resort, a change in the European law on parallel imports will require an amendment of the European Trademark Directive in question. This will require unanimity of member states, and it seems unlikely that this will be achieved. Thus France and Italy, in particular, each of which have significant interests in protecting goods bearing prestigious brands, would, it seems, be likely to resist such an amendment.

It should be noted that the proposed admission of various new member countries to the European Economic Area, in particular, from Eastern Europe, will extend the territorial reach of the Court's decision, and increase the number of jurisdictions affected by the decision.

- MID

#### Russian Federation: NEW TRADEMARK FEES

Effective **January 18, 2002**, Russian residents will pay the same official trademark registration fees as non-residents. A new additional fee will also be levied for each class covered by the application (previously, additional fees had only been levied if the application covered more than five classes). Prior to January 18, 2002, Russian residents had paid significantly lower fees, in rubles, calculated on the basis of the minimum monthly wage, which came to something in the order of US \$10 (300 rubles) per application, for up to 5 classes. The new filing fee, applicable to residents and non-residents, will be 8500 rubles for one class, and 1500 per additional class. Prior to January 18, non-residents paid in US dollars (\$300 for one mark in one class; \$50 for each additional class up to 5; \$80 for each class over 5). Now, however, both residents and non-residents will pay in rubles. Given the current exchange rate, that means that the application fee for non-residents has actually decreased to approximately US \$275 for one mark in one class; the additional fee per class is now approximately US \$50. It is hoped that this change will deter applications filed in bad faith. Moreover, the increase in fees per class may result in applicants filing in fewer classes, possibly decreasing the current examination term.

- TF

#### Deadlines

A new trademark law has been passed in HONG KONG. Applications pending at the time the law goes into effect, **sometime in 2003**, will be examined under the provisions of the old law. However, applications not advertised on the date of commencement of the new law may, upon request of the applicant, be considered under the new law. Such requests will have to be made within six months of commencement of the new law.

Owners of AFRICAN INTELLECTUAL PROPERTY ORGANIZATION registrations who wish to extend them to Equatorial Guinea may do so until **May 23, 2002**.

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