O-407-03

DECISION OF THE TRADE MARKS REGISTRY

TRADE MARKS ACT 1994

CONSOLIDATED OPPOSITIONS

OPPOSITION Nº. 90452
APPLICANT: FERDINAND INTERNATIONAL MARKETING LIMITED
AND
OPPONENT: XTB LIMITED
APPLICATION Nº. 2270192
CLASS 14

OPPOSITION Nº. 90458
APPLICANT: XTB LIMITED
AND
OPPONENT: FERDINAND INTERNATIONAL MARKETING LIMITED
APPLICATION Nº. 2270288
CLASS 14

STAIGER

TRADE MARKS ACT 1994

BACKGROUND

1. The applications listed on the first page of this decision were both made on the same day, 16th May 2001. Mark No. 2270192 was applied for by Ferdinand International Marketing Ltd. (FIM), Unit 11 Beck Industrial Estate, Blackwater Way, Aldershot, Hampshire, GU12 4DJ United Kingdom for 'Horological and chronometric instruments' in Class 14. Mark No. 2270288 was applied for by X.T.B. Limited (XTB), Stoughton House, Harborough Road, Leicester, Leicestershire, LE2 4LP, United Kingdom for 'Horological and chronometric instruments; watches; clocks' also in Class 14.

2. FIM's application (No. 2270192) is opposed by XTB on the grounds that the mark was applied for in bad faith within the meaning of s. 3(6) of the Act, and that use of the mark at the filing date of the application was liable to be prevented in the UK by virtue of an action in passing-off within the meaning of s. 5(4)(a) of the Trade Marks Act. A Counterstatement was provided by the applicant denying the grounds asserted.

3. XTB's application (No. 2270288) is opposed by FIM on the same grounds. Again, a Counterstatement was provided by the applicant denying the grounds asserted. The two matters are very closely related and were thus consolidated by a Registry letter on 6th May 2003.

4. Both parties ask for costs to be awarded in their favour.

HEARING

5. FIM was represented at the hearing by Dr. N. Saunders of Counsel, instructed by Messrs. Withers & Rogers and XTB was represented by of Dr. P. Colley of Counsel, instructed by Messrs. Lewis & Taylor.

EVIDENCE

Main Evidence

6. The main evidence in both cases is not identical: it resides in the Witness Statements made by Mr. Alan Dodds, a founding Director of XTB, and Mr. Paul Turnage, the Managing Director of FIM, in both oppositions. The following evidence summary is taken from the following Statements:

90452		
R. 13(7)		
Witness Statements by:		
Alan Dodds	8th Jul. 2002	Dodds 1
Jayant Mashru	8th Jul 2002	
Heinrich Seltenreich (Affidavit)	17th Jun. 2002	
Gillian Clayborough	1st Jul. 2002	
R. 13(9)		
Witness Statement by:		
Paul Turnage	22nd Jan. 2003*	Turnage 3
R. 13(10)		
Witness Statements by:		
Alan Dodds	3rd Jan. 2003	Dodds 2
Emma Heygate	5th Dec. 2002	Heygate 1
90458		
R. 13(7)		
Witness Statement by:		
Paul Turnage	22nd Jan. 2003	Turnage 1
R. 13(9)		
Witness Statements by:		
Alan Dodds	14th Oct. 2002	Dodds 3
Andreas Georg Schöberl	17th Oct. 2002	Schöberl 2
Heinrich Seltenreich (Affidavit)	17th Jun. 2002	
Emma Heygate	7th Oct. 2002	Heygate 2
Emma Heygate	5th Dec. 2002	Heygate 1
Annette Jean Cunningham	15th Oct. 2002	
R. 13(10)		
Witness Statement by:		
Paul Turnage	27th Feb. 2003	Turnage 2
Andreas Georg Schöberl (appears in Exhibit PT(A) to Turnage 2)	19th June 2002	Schöberl 1

*Note: this is an amended version of an earlier Statement dated 14th October 2002

7. There is no dispute as to the basic facts in this case. On 15th March 1983 Kieninger & Obergfell Fabrik für Technisch Laufwerke und Apparate GmbH & Co. filed the UK Trade Mark Application No. 1192219 KUNDO in Class 14 covering "Horological instruments and parts and fittings therefor". This mark was subsequently assigned to KS GmbH (KSG – formed by the merger of Staiger GmbH and Kundo GmbH, both family run clock businesses) and that transfer was recorded on 11th December 1992 (see Turnage 1, Exhibit PT1). An application to register the trade mark STAIGER in respect of "quartz clocks and quartz clock movements", also in class 14, was filed on 19th July 1984 under No. 1223066 in the name of Gebr. Staiger GmbH. The resulting registration of this mark came due for renewal on 19th July 1991. It was not renewed and expired on 27th October 1991. The removal of this trade mark from the register was published in Trade Marks Journal No. 5907 dated 22 January 1992 (see Turnage 1, Exhibit PT2).

8. Staiger UK Limited was set up in April 1987 with Mr. Turnage as its Managing Director. It is clear from Exhibit PT3 (Turnage 1) that the company was a subsidiary of KSG and that British companies were 'able to deal directly with the manufacturer'. At that time, all products sold under the mark were made by the German parent. Following the formation of KSG, Staiger UK Limited was renamed Kundo Staiger UK Limited (KSU) in 1992. The latter remained a wholly owned subsidiary of KSG. The mark STAIGER was used continuously on clocks in the UK from 1987.

9. In 2000 KSG went into receivership in Germany. KSU followed on 10th May 2001.

<u>Trade before the bankruptcy of KSG and KSU</u>

10. Mr. Turnage states that in 1994 KSG informed KSU that it no longer intended to support the STAIGER brand. He adds that the management of KSG was dominated by people from the 'Kundo side' of the business whose main concern was sales of KUNDO branded products. (Turnage 1, para. 6).

11. Documentary support on this point is contradictory. This is the evidence of Mr. Andreas Georg Schöberl, the Managing Director of KSG from 1999 up until its bankruptcy in 2000. This consists of two Witness Statements and a letter:

- The letter, appended at Exhibit AD-1 to Dodds 3, is dated 2nd October 2002, signed by Mr. Schöberl, translated from an original in German, to 'Mrs Carleton', who is employed by lawyers working for the receiver of KSG;

- 'Schöberl 1', a Witness Statement dated 19th June 2002 – that is before the fax – and appended to Turnage 2, was produced by Mr. Turnage in response to the letter above and 'Schöberl 2' (see paragraph 8, Turnage 2); and

- The later Statement (Schöberl 2), is dated 17th October 2002.

12. In the letter (appended at Exhibit AD-1 to Dodds 3) dated 2nd October 2002, Mr. Schöberl comments on the content of Turnage 1. He says:

> "As far as I understand it (the appropriate records should be included in the business documents), the company executives, in conjunction with the board of directors, decided in

1996 to give up the two-brand strategy followed up until that time and to carry out sales under the brand name [KUNDO]*. Because there were still several products, especially clock-faces, in stock bearing the Staiger trademark, it was decided to sell these off, and this continued until 1997. Stock bearing the Staiger name was still being sold during my term of office. Pocket watches marked "Staiger" were also being sold, as before."

*The text of the letter says 'Staiger', but it was agreed at the hearing that Mr. Schöberl intended to say 'Kundo'.

Later in the letter, Mr. Schöberl adds the KSG had 'not withdrawn support from the Staiger trademark, but it has made a strategic decision relating to the main range.' He adds:

"As mentioned before, pocket watches were still being sold under the 'Staiger' brand name until sold to UTS. [KSU] also procured a large quantity of residue stock carrying the Staiger name from [KSG]. So far as I know, [KSU] also made direct purchases from several suppliers in Hong Kong, and sold these products on under the 'Staiger' name. As before, clocks were also procured from the parent company. In this way, the whole range of year watches and analogue clock radios were sold by [KSG]. This included products for Argos etc."

'UTS' are Präzisionstechnik GmbH (UTS) (see below). Contradictory material is produced in two Witness Statements from Mr. Schöberl. The first (Schöberl 1), dated 19th June 2002 – that is before the fax – and appended to Turnage 2, was produced by Mr. Turnage in response to the letter above. This states that:

"2. From at least as early as 1996 [KSU] was in sole charge for the delivery, quality and sales of all goods sold under the trade mark STAIGER. From 1996 [KSG] focussed on the KUNDO brand and left decisions concerning the STAIGER trade mark in the UK entirely to [KSU]. The decision to focus on the KUNDO brand was made between the Managing Director and the Board of Directors (Aufsichtsrat). The Managing Director of [KSG], who owned 99% of the shares of [KSU], gave the permission to [KSU] to control the STAIGER brand in the UK independently of [KSG].

3. From at least early 1994 customers as ARGOS who are buying STAIGER branded clocks were informed that [KSU] was responsible for the quality and delivery of those products.

4. It was common for [KSG] to apply trade marks belonging to other companies to produce clocks under theses brand names. For example, [KSG] applied the trade marks owned by MARKS & SPENCER plc to clocks supplied to that company.

5. As was its practice in respect of 'own brand' products such as those supplied to MARKS & SPENCER plc, [KSG] continued to apply the STAIGER brand to the goods supplies to [KSU]. However, in 1997 [KSG] ceased applying the trade marks STAIGER to the goods. From 1999 the trade mark STAIGER was only applied to the goods by U.T.S. Präzisionstechnik GmbH for insertion clocks. Therefore, from 1997 onwards [KSG] stopped using the trade mark STAIGER in any capacity.

6. End of 1999 U. T. S. Präzisionstechnik GmbH bought the complete insertion clock business from [KSG] together with the trade mark STAIGER and is allowed to use the trade mark STAIGER for the whole range of insertion clocks.

7. In 1996 [KSG] ceased all control of the trade mark STAIGER in South Africa. After that date the use of the trade mark STAIGER in South Africa was passed entirely to Harry Kahn (Pty) Limited. Both parties signed a licence agreement.

8. The trade mark STAIGER has never been used by or with the consent of [KSG] in the United States of America."

The later Statement (Schöberl 2), dated 17th October 2002, agrees that from 1999, UTS were applying the STAIGER trade mark on 'insertion clocks' (which I take to be clocks that can be 'inserted' into different settings according to the choice of the clock supplier), and that, at the end of 1999, UTS bought the complete insertion clock business from KSG, 'together with the rights to use the trade mark STAIGER for the whole range of insertion clocks. UTS sells their products all around the world, including England.' Nevertheless, Mr. Schöberl states, in relation to the South African licence, that 'the property rights in the name … were retained by KSG, and an annual royalty was paid by Harry Kahn to KSG.' Further, he states, in complete contradiction to the earlier statement, that KSG sold in the USA and he personally saw evidence of such trade. Finally, he finishes his Statement by stating:

"KSG did not relinquish its control over the STAIGER name at any time and was selling STAIGER branded products while I was Managing Director in 1999 and 2000. I am aware that [KSU] procured a large quantity of residue stock carrying the name STAIGER from KSG while I was Managing Director".

13. What weight can I give this evidence? Schöberl 1 is the earlier Statement, but is included as an exhibit to Mr. Turnage's evidence in reply in 90452 and Dr. Colley at the hearing seemed to believe that this devalued it. I do not see why. It was also pointed out at the hearing that Mr. Schöberl was only the Managing Director of KSG during the period leading up to its insolvency in 2000, and could not have known directly of the strategy adopted by KSG in the mid 1990s. Whether this is the case or not, the stark differences between the documents must call into question the reliability of Mr. Schöberl as a witness, and I have ignored his evidence.

14. As to the trade in the US and South Africa, Mr. Turnage also refers to the passing of all quality control of the STAIGER products to its South African agent in 1996 (Turnage 1), and that he was not aware of any trade in the US. I am not sure how any of this affects the situation in the UK. Mr. Turnage then goes on to state that:

"9. In spite of [KSG] decision to withdraw support from the STAIGER brand, [KSU] decided to continue selling STAIGER products as it was a successful brand in the United Kingdom. This was because market was divided with STAIGER branded goods being sold to the mass market through customers such as Argos Limited ("Argos") and Littlewoods, whereas KUNDO clocks, in contrast, were marketed as a premium brand. In 1995 [KSU] began developing new products and sourcing STAIGER clocks from companies other than

> [KSG]. [KSU] also continued selling clocks to be sold under its customers own trade marks. Therefore, from at least as early as 1994 only [KSU] controlled the quality and supply of STAIGER branded products as well as the 'aftercare' services with no input from [KSG]."

15. Who controlled quality control in relation to the STAIGER branded clocks in the UK is something of an issue between the parties. Mr. Turnage states that customers such as Argos dealt exclusively with KSU, holding them responsible for the quality of the goods sold to them (paragraph 10, Turnage 1). There is, again, no documentary evidence of this. As for Mr. Dodds, he states (paragraph 35, Dodds 3):

> "As far as I am aware, KSG did not itself retain direct quality control over all of the clocks from other sources but delegated this to [KSU], which company it controlled. … It is my opinion that it is unlikely that [KSU] had any formal quality control procedures and it is almost certain that clocks were shipped from the Far East without any checks being made as to quality by [KSU] or an independent test house".

To this, Mr. Turnage responds that the Far Eastern suppliers were well established in the clock industry and had a good trading history. He goes on 'we have a minimum assured quality level of 5% which is agreed with the manufacturers, as a result, there was no need to bring in external quality control companies'. He goes on to say that if the products had not met the quality required by KSU and/or its customers then the goods would have been repaired by KSU or replaced by the supplier at their expense (paragraph 2, Turnage 3).

16. Mr. Turnage encloses an Argos 'Product Specification Form' at Exhibit PT6 (Turnage 1) – apparently one was required for each product sold in the ARGOS catalogue – but it does not refer to a STAIGER marked item. Nevertheless, it is Mr. Turnage's contention that Argos would have known from page 4 of this form the country of origin of the product to which it refers. He states that since 1995 STAIGER branded clocks made in the UK, China, Hong Kong, Taiwan, Indonesia or Germany had been sold in the UK. As the clocks were also marked with their country of origin, the public would have been aware of this (Turnage 1, para. 11). He cites Exhibit PT7 as a sample, where a STAIGER branded clock is marked with 'Made in China'. Exhibit PT 8 consists of copies of pages from Argos Catalogue's from 1994, 1996, 1997, 2000, 2001 and 2002 showing STAIGER marked clocks on sale. No indication of origin can be seen.

17. Mr. Dodds states that the mark STAIGER was applied to the clock, which would then be sold primarily in blank packaging. He says that: 'It is my understanding that the clocks were not marked with the name of the company responsible for their manufacture.' This is confirmed by Mr. Turnage (Turnage 3, para. 1).

18. Mr. Dodds confirms that KSU's main business was the selling of clocks to their chief customer Argos, since 1988, under the name STAIGER. He states that, before 1991 the clocks were exclusively manufactured by KSG; following that date some were manufactured by other, non-German suppliers, 'although KSG did continue to manufacture many clocks itself' (Dodds 1, paragraph 7). Exhibit AD-1 (to Dodds 1), contains a letter from a Claudia Carleton, of Roth, Klein & Partner, lawyers acting for the German Receiver (Herr Seltenreich), which was sent to Mr. Dodds in reply to the following requests for information:

a) The number of watches manufactured by [KSG] and sold in the UK for each year during the period 1991 to 2001.

b) If a proportion of STAIGER watches sold in the UK were not manufactured by [KSG] please state the proportion not manufactured by [KSG] during the period 1991 to 2001.

Ms. Carleton explains that the Receiver had only detailed figures for the period 1998 – 2000, and these only show sales figures in pounds, not the number of watches as such. The following is the percentage manufactured by KSG and sent to KSU:

50% in 1998;
48% in 1999; and
37% in 2000

The remaining percentage was manufactured by UTS and 'Third parties'. I find this data, by itself, pretty meaningless: the amount of trade needs to be indicated, not its relative proportion: in 1998 there could have been 20 clocks sold in total. Nevertheless, coupled with the information discussed next, it does have significance.

19. This is documentary evidence of the supply to KSU from KSG. It is appended to the Statement of Annette Jean Cunningham, who is employed by XTB's agents, at Exhibits AJC-2 to 6. It is said to show deliveries from KSG to KSU from 1st January 1998 to 31st December 2000, under the STAIGER mark. Following an examination of these exhibits, I think it is fair for me to find that:

- The appellation 'KSUK/ARG' is used in listings; I take this to be KSU and Argos;
- The amount of supply appears significant: the numbers of items (and value in Deutschmarks (DM)) is large (e.g. one listing in 1998 (Exhibit AJC-3) gives 23,208 items supplied under the STAIGER name to 'KSUK/ARG' at DM313,191.12).
- Supply to 'KSUK' is listed differently; for example:

  'KSU/IND' under the brand name EMPEROR;
  'O WECK KSUK (SCH' under the brand name STAIGER;
  'O WECK KSUK (WEI' under the brand name STAIGER.

- Supply to 'KSUK' also appears to include KUNDO products (e.g. see Exhibit AJC-3, fifth page, and Exhibit AJC-5, seventh page);
- STAIGER products appear to be supplied to other than KSU (see ninth page in Exhibit AJC-4), but I have no idea whether this was to the UK or not.

20. There is much detail here which may have been usefully mined by both parties. However, the document is in German, and has not been translated. Nevertheless, 'WECK' might reasonably be taken as an abbreviation of the German word 'Wecker' ('alarm clock') and 'FUNK' ('radio') may refer to a 'radio alarm' (?), but what do the other 'codes' mean (e.g. 'SCH', 'GOL' 'SW' – colours perhaps?). I do not believe that it is up to me to divine the detail of this document, or

second guess its full significance. It could be valuable evidence for both parties. For example, ‘O FUNK KSUK/BOOT’ (see Exhibits AJC-3, 4 and 6) might mean that radio alarms were supplied, via KSU, to ‘Boots’ in the UK, demonstrating, as Mr. Turnage claims, that KSU supplied to customers other than Argos (as might ‘KSU/IND’). ‘O JU FU KA ARGOS’ (Exhibit AJC-4 and 5) could mean that KSG were supplying ARGOS directly, which may mean that by far and away the main customer in the UK knew that STAIGER goods came from other than KSU. ‘O FUNK ANA.BOOTS’ (Exhibit AJC-5) could also indicate that KSG were supplying directly to Boots in the UK. I consider, however, that I am reasonably able to infer that KSG were still supplying KSU with STAIGER and KUNDO marked items up and to its bankruptcy in 2000. From the evidence of the Carleton letter, fifty percent of the STAIGER marked products were manufactured in Germany. I am no wiser as to the actual, total amounts, though I think it reasonable to conclude that it was substantial compared to the turnover of KSU (see next paragraph).

21. Mr. Turnage also includes the following sales turnover under the mark STAIGER in the United Kingdom (Turnage 1):

Year	Approximate Turnover excluding VAT (£)
1994	2,000,000
1995	2,400,000
1996	2,300,000
1997	2,200,000
1998	2,100,000
1999	2,300,000
2000	2,100,000
2001	2,000,000

22. He estimates that this amounts to some 200,000 clocks being sold under the STAIGER trade mark in the UK since 1994. Advertising expenditure is also provided:

1994	£3,000
1995	£3,000
1996	£3,500
1997	£3,500
1998	£3,500
1999	£3,500
2000	£4,000
2001	£4,000

Apparently this money was primarily spent on the production and distribution of advertising brochures. Finally, goods bearing the mark were exhibited annually by KSU from 1992, at the Spring Fair at the National Exhibition Centre near Birmingham and, since 1995, at the London Boat Show. Nothing is appended exhibiting examples of these documents.

23. Mr. Dodds questions the turnover figures in some detail – and rather tellingly (see paragraphs 12 to 17, Dodds 3). He suggests that the actual turnover was rather less than £1M per year. Mr. Turnage admits he was mistaken about the figures, but adds (paragraph 7, Turnage 2):

> "Mr Dodds bases his estimate of [KSU] annual sales of STAIGER products on the Orders Listings by Account for the calendar year 2001 which is filed as Exhibit AD4 to his Witness Statement. It is true that from late 2000 onwards, [KSU] use of the mark STAIGER was almost exclusively confined to goods sold to Argos. However, in earlier years STAIGER goods were also sold to a number of smaller customers. Use of the STAIGER mark by [KSU] in the years 1994 to 2000 was not therefore confined to Argos. It is my believe that sales under the STAIGER mark to Argos and to these smaller customers totalled well in excess of the £1 million p.a. estimated by Mr Dodds in paragraph 17 of his Witness Statement. Nevertheless, it is true that Argos has always been the principal purchaser of STAIGER goods."

I seen no material evidence relating to customers other than Argos. Mr. Turnage has certainly not enclosed any evidence in this regard.

24. Finally, Mr. Dodds points out that KSG owned the vast majority of shares in KSU (499,000 of 505,000) and 'therefore had effective control of' the latter. See Exhibit AD-1 (paragraph 3, Dodds 1), which contains a letter from Claudia Carlton, of Roth Klein & Partner, lawyers acting for the German Receiver of KSG.

<u>Events surrounding the bankruptcy of KSG and KSU</u>

25. Following the collapse of KSG in 2000, it appears that the 'insolvency administrator' in Germany, Mr. Seltenreich (who was selling off the asserts of the German parent), determined initially to keep KSU as a source of funds, then eventually requested that it be put up for sale. Mr. Turnage says that there were two serious buyers – Artfield Manufacturing Limited and XTB. He adds that the former was the preferred buyer (he does not say by whom; it could be Mr. Seltenreich or the UK receivers) as Artfield wanted to take the company on 'as a going concern' (paragraphs 18 and 19, Turnage 1).

26. Mr. Dodds states that he regarded the possession of the names KUNDO and STAIGER, coupled with the link with Argos, as his most important objectives (paragraph 10, Dodds 1). Nevertheless, he clearly was prepared to purchase KSU as well, and made an offer for the then solvent business of £200,000 (this was near the end of 2000). He states (paragraph 12, Dodds 1):

> "At that point, Artfield (a Hong Kong listed public company which had a UK company Ferdinand International Marketing Limited) offered £225,000 and Herr Seltenreich conveyed their offer to me. I refused to make a counter offer. Artfield were then allowed to take over [KSU] (retaining Mr. Paul Turnage as MD) and I was told by Paul Turnage that they could run it as their own on the basis that they would purchase and complete the deal in six months, i.e., by about March 2001 or April 2001."

27. However, Mr. Dodds' involvement was not over because, he states, in 'March 2001 or April 2001' Mr. Turnage rang him to say that Artfield had not completed, that he could not work with Artfield, and would he (Mr. Dodds) become involved. He says that he refused but was subsequently asked in writing by the German Receiver to reconsider.

28. Nevertheless, following a visit to KSU (with Jayant Mashru, his partner) he found that the financial condition of the company was parlous. He says that (paragraph 15, Dodds 1):

"Prior to visiting the offices of [KSU] ... I had offered Herr Seltenreich £1 for [KSU] as a going concern subject to Due Diligence, and this offer had been accepted. … it quickly became apparent that this was a non-starter, and no offer was made by me. I was no longer interested in [KSU] as a going concern, but remained interested in purchasing assets. I remained interested in purchasing the UK rights from [KSG] but did not regard this as connected with [KSU]."

29. None of this detail is recorded by Mr. Turnage, but he does not deny it. Rather he says that Mr. Seltenreich agreed to Artfield's purchase of the new company on 3rd May 2002. Exhibit PT11, two faxes from Mr. Seltenreich and Mr. Turnage, are submitted in support of this. The dates do not comply with that in paragraph 20 of Mr. Turnage's Statement: Mr. Seltenreich's fax is dated May 3rd 2001; Mr. Turnage's 2nd May 2001. Mr. Dodds is mentioned in both as making an alternative offer. The date of 3rd May 2002 is clearly wrong. I also note that the fax from Mr. Turnage provides for the following conditions of the sale:

"6/ Permission from Mr. Seltenreich to continue using the Kundo & Staiger brand names until the old company is closed.

…..

Kundo and Staiger Brand names and tooling.

I have spoken to Artfield and they are prepared to buy the tooling of the rcc alarm clocks and anniversary clocks together with the worldwide rights for the brand names Kundo and Staiger. Their offer is DM 200,000 and I would recommend that you accept this."

30. On 10th May 2002 KSU went into receivership. Mr. Turnage states that Artfield and XTB were kept informed of the situation. He adds that Artfield were 'still interested in buying the assets of KSU but wanted confirmation that they would have control over the STAIGER trade mark. However, Mr. Seltenreich refused to provide the requested undertakings'. He was asked by the UK receivers of KSU to approach XTB to discuss a possible offer, as it appeared the sale to Artfield would not 'go through'. This resulted in a meeting with Mr. Dodds which I will describe shortly.

31. Mr. Dodds, for his part, states that he was contacted by UK receivers at about 4.00 pm on 10th May and informed that KSU had gone into receivership, and they were also dealing with Artfield in making offers for KSU's assets and that XTB had until close of business on the 11th May 2001 to make its best offer. He adds that on 11th May 2001, the Receivers forwarded to him a 34 page proposal from Artfield/Ferdinand for purchase/takeover of KSU, a copy of which is at Exhibit AD-5. The latter includes in the sale:

"The goodwill of the Vendor in connection with the Business together with the rights (insofar as the Vendor has the right to grant the same) for the Purchaser to use the name Kundo Staiger UK and to represent itself as carrying on the Business in succession to the Vendor."

It is this document, together with a letter of 11th May 2001 from Levy Gee to Herr Seltenreich (Exhibit AD-6; see below, paragraph 37), which he says '..left me in no doubt that the goodwill did not include the rights in the names KUNDO and STAIGER.'

32. I will now summarise the parties recollections of the meeting that took place between them on 11th May 2001. Mr. Dodds states:

> "Mr. Turnage visited my business partner Jay Mashru and I at our offices in London 11th May 2001. Mr. Turnage explained that there were two separate deals open to us and that the deal we and Artfield were bidding on was separate from the 'German deal'. He stated that the 'German deal' included the rights in the names KUNDO and STAIGER and the German stock held by [KSU] and that this deal could only be concluded with the German Receiver. It was this 'German Deal' that was my primary interest. He also stated that Artfield were not interested in the rights in the names KUNDO and STAIGER. My business partner has made a Witness Statement confirming Mr. Turnage's representations. I have read this in approved draft and confirm that its contents accord with my own recollection."

33. This recollection is at odds with Mr. Turnage's. The latter states (paragraph 24, Turnage 1):

> "…the receivers asked me to meet Mr Dodds and provide him with the requested information. As part of these negotiations the founder of XTB Ltd was provided with information including customer lists and the pricing policy of [KSU]. Prior to the meeting, which took place on Friday 11 May 2001, I had been informed by the UK receiver that the liquidator in Germany did not have the power to assign the rights in the trade mark STAIGER to a third party. Therefore, a search was instructed on the trade mark STAIGER. … The search had revealed that the UK registration of the mark STAIGER had expired. I was not involved with trade mark registrations or renewals whilst I was at Staiger U.K. Ltd or KS Ltd [i.e. KSU]. As a result I was not aware until 11 May 2001 that U.K. Registration No. 1223066 STAIGER had lapsed. I informed Mr. Dodds at our meeting on 11 May 2002 that there was no live UK registration of the trade mark STAIGER as I had previously thought. I also suggested that whichever company bought [KSU] should file an application to register the trade mark STAIGER."

34. Mr. Dodds states:

> "I recall that he did mention that there were suspicions that the UK Trade Mark Registration No. 1223066, STAIGER might have lapsed and that he would personally check this. I never spoke to Mr. Turnage again after this meeting and I do not know whether or when he checked as he said he would. I had no indication or warning that the Registration lapsing could be a factor in contesting KSG's ownership or Herr Seltenreich's rights to dispose of it as the German Receiver, as Mr. Paul Turnage had made it clear at the same time that the names were owned by the German company."

35. What was said at the meeting is central to the honesty of both parties. Mr. Turnage later states (paragraph 18, Turnage 2) that it was perfectly true that he told Mr. Dodds at the meeting that the sale of KSU did not include rights to the trade marks. He adds: 'That is what I believed at the time. I am not a trade mark expert. I had always assumed that the trade marks KUNDO and STAIGER were the property of the German parent. I assumed (wrongly as I now know) that the position of the STAIGER trade mark was, for all practical purposes, the same as that of the KUNDO trade mark.'

36. Mr. Dodds says that the following correspondence 'seems' to confirm that the names were owned by the German company. These are:

(1) Exhibit AD-6 (Dodds 1): A letter from Levy Gee the Receivers for KSU dated 11th May 2001, to Herr Seltenreich, which states:

> "We have been requested by Mr Alan Dodd to confirm our position with you regarding the stock supplied by you and the ownership of the rights to the names KUNDO and STAIGER.
>
> I confirm that, subject to your proving to have valid retention of title to the stock supplied to this company, that you may sell it to a third party or come to any other arrangement regarding that stock you wish. I will need evidence of your title to the stock and understand you are arranging to have your terms of trade translated into English so this may be confirmed.
>
> Regarding the names it is my understanding that you own the rights to use those names and unless proved otherwise I have no objection to you selling those rights to a third party."

(2) Exhibit AD-7 (Dodds 1): from Herr Seltenreich's lawyers (Roth Klein & Partner) to Mr. Dodds dated 14th May 2001. This states, *inter alia*:

> "On behalf of Mr. Heinrich Seltenreich as liquidator of Kundo Staiger GmbH … we hereby confirm the following with reference to the conversation you had with our client on May 11 2001 and the undersigned today.
>
> As the aforementioned liquidator, Mr. Seltenreich will enter into a Sales Agreement selling and transferring to you:
>
> 1) the trademarks Kundo, Staiger and Kundo-Staiger registered for Kundo Staiger GmbH … with the limitation you have discussed with Mr. Kleinle …
>
> provided:
>
> - Kundo Staiger UK Ltd. … and/or its Receivers … don't deny or contest ownership of the rights to the names/trademarks Kundo and Staiger …
>
> We recommend you treat this confidential until Kundo Staiger UK or their Receivers have confirmed the aforementioned rights to … trademarks. We are awaiting a fax on their position tomorrow".

(3) Exhibit AD-8 (Dodds 1): a letter dated 22nd June 2001 from Matthew & Arnold Baldwin solicitors for the Receiver of KSU to Mander Cruickshank, Mr. Dodds' company's solicitors. This states, in paragraph 3:

> "In relation to the name, clearly as a result of the long history between the German parent and the UK subsidiary, there is undoubtedly an implied licence to sell products

under the Kundo and Staiger trading names. The Administration Receivers have disposed of such right, title and interest, as they have in the names."

(4) Exhibit AD-9 (Dodds 1): A fax dated 8th June 2001 written by Mark C Blundell at the request of Paul Turnage to Herr Seltenreich:

"With reference to your recent telephone conversation with Gerhard, Paul Turnage has asked me to write to you enclosing the following four pages.

Miss Shupke's letter of 4th June enclosed a 52 page Europewide search of Kundo and Staiger.

You will see that the position with regard to the Staiger brand is perfectly clear and that the application by the new company has been lodged. You will also see that the registration of the Staiger brand lapsed in 1991 but that the Kundo Brand is still live.

We wish to try to resolve the situation for you in as easy a way as possible and to this end we offer you DM30,000 for the ownership world-wide of both the Kundo and of the Staiger brand names."

37. In my view, none of these documents are unequivocal. All seem to be hedged about. The first, the letter from the UK receivers to Mr. Seltenreich dated 11th May 2001, states that KSG owns the rights to use the names (KUNDO and STAIGER) 'unless proved otherwise'. This is hardly unambiguous. (Nevertheless, the letter does not fit well with Mr. Turnage's claim that he had been informed *before* the 11th May meeting by the UK receiver that the liquidator in Germany did not have the power to assign the rights in the trade mark STAIGER to a third party).

38. As for the letter from Herr Seltenreich (item 2 above, Exhibit AD-7), this says nothing about the ownership of the mark in suit; item 3 states that the Administration Receivers have disposed of such right, title and interest, as they have in the names, but does not say what that right was. However, Mr. Dodds states:

"The suggestion …is no more than that [KSU] may have had the benefit of some implied licence suggesting rights to the name lay elsewhere (i.e., with KSG). That to my mind is a very different thing to an unfettered entitlement on the part of [KSU] to the STAIGER name itself."

Finally, the last letter shows that Mr. Turnage himself was trying to buy worldwide rights to the STAIGER name on 8th June 2001. We are not told if this included the UK rights. He was questioned about this fax under cross examination, he was asked:

"Q. There is clearly in that offer an acknowledgement that you do not own the brand names.
A. Let us just say that it is unclear.
Q. In respect of what?
A. It is clear that the Kundo brand was registered. It was clear that Staiger had lapsed. Mr. Seltenreich was trying to sell both brand names as a package, not individually, and that is why we made that offer.

Q. The offer was made for both brand names in the hands of Herr Seltenreich.
A. Yes."

39. Mr. Dodds says that this correspondence, with the representations made by Mr. Turnage at the meeting on 11th May, left him in no doubt that KSG was entitled to the rights in the STAIGER name and associated goodwill.

40. He adds that Mr. Turnage had made it clear that the UK deal was for the purchase of assets owned by KSU, for example, stock (other than German-owned stock), office assets and lease of office premises until 2013. This is certainly not what Mr. Turnage himself states (see paragraph 29 above), and can be implied from his subsequent action:

> "25. After it was notified that U.K. Registration No. 1223066 STAIGER had lapsed Artfield dropped its condition that Mr. Seltenreich guarantee that that trade mark was free for use in the U.K."

As for the sale of KSU, the UK receivers favoured the Artfield deal and the assets were sold to a dormant company owned by Artfield, Ferdinand International (Marketing) Limited (FIM). Whatever the parties said, heard or believed at the meeting on 11th May about the STAIGER mark, by 16th May both parties made new applications for the lapsed STAIGER mark on that day.

41. Mr. Dodds' explanation for his company's action in this regard is that he regarded the UK deal as one for assets, in particular, stock, owned by KSU, and that is all. Following Artfield's success:

> 'That same afternoon I telephoned the German Liquidator and agreed a price of £100,000 for the rights in the names KUNDO and STAIGER and the unsold German stock which is confirmed by the letter marked "AD-7"…'

Mr. Dodds says he learned that there was a dispute about ownership of the names on 15th May 2001. In applying for the mark he believed: '.. that KSG was initially the owner of the UK Trade Mark Registration No. 1223066 for STAIGER' and that '.. KSG was the owner of the goodwill in respect of sales in the UK made either by KSG or KSU, that KSG's failure to renew the Registration did not change that basic position…'. He believed that KSG owned the rights in the names and that, as for STAIGER, KSG could have brought an action for passing off as of the date of FIM's application. Finally, he points out that his company's application for the registration had the approval of KSG's Receiver, referring to Exhibit AD-10, where Mr. Turnage acknowledges that Herr Seltenreich had agreed to sell the brand to someone else (i.e. Mr. Dodds). In this respect Mr. Dodds says that he, before filing the application, he rang the German Receiver and told them what action he was taking. He adds:

> "... I did this in order to reassure Herr Seltenreich that I was not attempting to abscond with the names, but that it appeared that the Application needed to be made immediately in view of the fact that the original Registration had lapsed, and that it seemed sensible to make it in my or my company's name since we had an agreement to purchase the name. I wanted to reassure Herr Seltenreich that I still intended to pay for the names as per our agreement."

In his view, set against this background, he believes that he acted in good faith.

42. As for Mr. Turnage, he says that after the agreement to purchase KSU by FIM had been reached, FIM filed an application to register the mark STAIGER under Application No. 2270192 to preserve its position. A copy of a document entitled "Agency Agreement Relating to certain assets of Kundo Staiger UK Limited" which was signed on 18th May 2001 is reproduced in Exhibit PT13 (Turnage 1).

43. Finally, he says that he took Counsel's Opinion (though this is not enclosed), and submits in Exhibit PT14 an assignment signed by the receivers acting for KSU (dated 18th May 2001) confirming the transfer of 'the goodwill of the business relating to the goods and services in respect of which the Trade Marks have been used'.

Other evidence from the XTB

44. XTB also enclose a Witness Statement by Mr. Jayant Mashru, who describes himself as a shareholder in XTB Limited. Essentially this Statement confirms that of Mr.Dodds', in that Mr. Mashru says that Mr. Paul Turnage visited Mr. Alan Dodds and himself at their offices in London on 11th May 2001 to discuss the possible purchase of KSU by XTB. He goes on:

> "At that meeting, Mr. Turnage explained that there were two separate deals open to us, and that the deal that we and Artfield were bidding on was separate from the 'German Deal'.
>
> The deal that both Artfield and our company X.T.B. Limited were bidding on was for the KSUK assets. He stated that the 'German Deal' included the names KUNDO and STAIGER and the German stock held by KSUK. He advised that this deal could only be concluded with the German Receiver. He also stated that Artfield were not interested in the names KUNDO and STAIGER."

45. Next, I refer to an Affidavit of Heinrich Seltenreich, sworn on 17th June 2002. Mr. Seltenreich states that he was appointed Trustee in Bankruptcy of KSG on 1st August 2000, and says that, as liquidator, he has the power of disposition of all property belonging to KSG, as well as the power of management and administration. He adds that it is his understanding and belief that this property includes UK Trade Mark Registration No. 1192219 KUNDO and the rights in the trade names KUNDO and STAIGER in relation to these goods in the UK. I quote the rest of this document in full:

> "By 14th May 2001, I had agreed with Alan Dodds of X.T.B. Limited to sell the above property, together with items of stock held in the UK by a subsidiary company Kundo Staiger UK Limited [KSU] under a retention of ownership clause, for a total consideration of £100,000.
>
> At this time Kundo Staiger UK Limited [KSU] was in administrative receivership and, prior to reaching agreement with Mr. Dodds, I had received a written communication from the Administrators, Steven John Billot and Christopher Herron of Messrs. Levy Gee, indicating that ownership of the names KUNDO and STAIGER would not be disputed. In this connection. there is now shown to me a true copy of a letter dated 11th May 2001 from Messrs. Levy Gee marked Exhibit HS 1 [the same letter appears in Exhibit AD-6, to Dodds 1].

My agreement with Alan Dodds was not completed because the Administrators subsequently disputed the ownership of the stock held by Kundo Staiger UK Limited [KSU]. However, to my knowledge the Administrators have not since 11th May disputed the ownership of the trade names KUNDO and STAIGER.

I wish to state that I was fully aware of the actions of Mr. Dodds in filing Trade Mark Application No. 2270288 STAIGER in class 14 and that I fully approve of this. I also fully approve of the Opposition to the Trade Mark Application STAIGER in class 14 of Ferdinand International (Marketing) Limited (Ferdinand), since I object to the actions of Ferdinand and their agents in claiming rights to use and register the name STAIGER for clocks and the like in the UK when I have already agreed to sell these rights to Alan Dodds of X.T.B. Limited."

46. There is also a Witness Statement from Gillian Clayborough, a German Language translator, who has rendered into English two documents, one relating to German insolvency law, and the other to the insolvency of KSG. I also note two similar statements by another German Language translator, Ms. Emma Highgate, and the translations of the documents appended.

LAW

47. The following sections of the Act apply:

"3.(6) A trade mark shall not be registered if or to the extent that the application is made in bad faith."

"5.(4) A trade mark shall not be registered if, or to the extent that, its use in the United Kingdom is liable to be prevented -

(a) by virtue of any rule of law (in particular, the law of passing off) protecting an unregistered trade mark or other sign used in the course of trade, or

(b) … ,

A person thus entitled to prevent the use of a trade mark is referred to in this Act as the proprietor of an "earlier right" in relation to the trade mark."

DECISION

48. There are essentially three issues in this case: that of ownership of the common law right in the name STAIGER for use on timepieces in the UK, that of bad faith (of which both parties accuse the other) and finally, introduced by XTB in the skeleton argument and at the hearing, the issue of estoppel. I will deal with each in turn, but wish to discuss a preliminary point first.

<u>Preliminary Point</u>

49. This was raised by FIM in the days preceding the hearing. Essentially, because FIM had applied for their registration of the mark STAIGER before XTB (the latter in the afternoon of 16th May 2001, and the former in the morning) FIM's application was an earlier application for the purposes of the Act (s. 6(1)(a)). As a further indication of this, the FIM application is allocated

an application number almost 100 less than that of XTB's application. As a consequence, FIM sought to have their pleadings amended to allege a prior right pursuant to ss. 5(1) and (2) of the Act.

50. I rejected this at the start of the hearing. Dr. Saunders referred to the different procedures in the Rules for different modes of application: postal applications are processed when received rather than when sent, fax applications are only processed between 10am and 4pm etc. He added that the purpose of relative grounds protection was to grant the same on a first to file basis. He added at the hearing that '..it is nevertheless inherently conceived by both the Directive and the Act that there is a chronological sequence and some marks are prior to other ones'.

51. I noted that the Act refers to the 'date' and added that this is the significant factor and not the time. In my view, this approach seems to be within the spirit and letter of the Act. I have no doubt that this was introduced for administrative convenience, but consider that it is very much implicit within the Act. I further pointed out that where there have been cases where two marks have been applied for on the same day the procedure is that they both go forward to registration. If there is a dispute, that is resolved under opposition proceedings. And, if no prior right can be proved, both are registered. I further saw no significance in the order of trade mark application numbers, as such are allocated in a 'batch' manner – the actual order is not necessarily in keeping with the date on which the application was made. As to the existence of different procedures this is also related to administrative convenience. Finally, I pointed out that faxes are afforded the date at which they are received on a 24 hour clock between Mondays and Fridays and not between 10am and 4pm on weekdays. If a fax arrives on a Saturday up to one o'clock it is given the date of the Saturday; if it arrives after one o'clock, the fax is given the date of the following Monday.

52. I now wish to turn to the substantive matters in this case.

<u>Passing off and goodwill</u>

53. The common law right of passing off is clearly set out by Geoffrey Hobbs QC, acting as the Appointed Person, in *Wild Child* [1998] 14 RPC, 455:

> "A helpful summary of the element of an action for passing off can be found in *Halsbury's Laws of England* 4th Edition Vol 48 (1995 reissue) at paragraph 165. The guidance given with reference to the speeches in the House of Lords in *Reckitt & Colman Products Ltd v Borden Inc* [1990] RPC 341 and *Erven Warnink BV v J Townend & Sons (Hull) Ltd* [1979] ACT 731 is (with footnotes omitted) as follows:
>
> > (a) that the plaintiff's goods or services have acquired a goodwill or reputation in the market and are known by some distinguishing feature;
> >
> > (b) that there is a misrepresentation by the defendant (whether or not intentional) leading or likely to lead the public to believe that goods or services offered by the defendant are goods or services of the plaintiff; and

(c) that the plaintiff has suffered or is likely to suffer damage as a result of the erroneous belief engendered by the defendant's misrepresentation."

54. I want to start with the issue of goodwill. Was there, of the 16th May 2001, goodwill under the name STAIGER? Both the parties agreed that there was – they would not have come to this tribunal to dispute the ownership of nothing. And the evidence of Mr. Turnage – though the turnover data is disputed – is indicative of some goodwill, as of the relevant date, under the mark. Mr. Dodds states:

> "… in Clauses 12 and 13 of Mr Turnage's statement, he identifies only ARGOS as a major customer. He does refer in Clause 9 to Littlewoods, but there is no evidence to show they are a significant retailer of STAIGER products. I have checked the Orders Listing By Account for [KSG] from 01/01/01 to 31/12/01, as printed on 11 May 2001, attached hereto as Exhibit AD-4 and note that Littlewoods have ordered one product only to the value of £7,500. If there were other major customers, and I am not aware of any, then assume they would have been identified in Mr Turnage's witness statement."

Though Mr. Turnage states that Argos was the 'prominent' customer, there is little evidence to demonstrate another. Nevertheless, Argos is a significant retailer, and there is no doubt that some goodwill would have been created amongst consumers under the STAIGER name – though I cannot conclude that this will be very extensive: one reasonably must believe that the 'in excess' of £1M per annum business indicated by Mr. Turnage as the likely trade under the mark, against the background of the total UK market in clocks, was rather small beer.

55. Mr. Dodds – and Dr. Colley at the hearing – considered that this (the 'consumer') element of the goodwill under the name would accrue to Argos, and not to KSG. I find this hard to accept. I think I can take notice that the latter have a reputation as a retailer of goods for many different suppliers and manufacturers: I do not see that consumers would necessarily believe that Argos were the owners of any goodwill under the name STAIGER anymore than they would for sales of other branded goods in Argos stores. But they would be aware that someone made and supplied them and this would be enough to establish a goodwill under the name: 'It may be true that the customer does not know or care who the manufacturer is, but it is a particular manufacture that he desires' (*The Birmingham Vinegar Brewery Company, Limited Appellants v Powell*. [1897] A.C. 710) and it is the trade mark STAIGER which would give him this information.

56. There will also be goodwill inured under the name by the trade. It appears that this must reside by far and away with Argos. There might be other trade customers (Boots and Littlewoods are candidates: see paragraphs 19 and 54 *supra*), but FIM has not shown evidence sufficient to convince me that the goodwill thereby created extended beyond that perceived by Argos, i.e. it was above the level of *de minimis*.

57. In summary, the property right the ownership of which I must decide is a limited one in the name STAIGER for clocks, amongst Argos in the trade, and amongst consumers in general. The goodwill is property and the mark is the indicium thereof. This is a case where a determination of the question 'Of whom is the mark distinctive in the UK for a trade in timepieces?' finds the owner of the goodwill. And it is the latter who will succeed in a passing off action against one

who feigns an interest in that property right by putting themselves out as being able to sell clocks under the name STAIGER in the UK as of the relevant date. The fundamental question, as my examination of the case law will show, is who in the UK is the mark distinctive of for the sale of clocks?

58. (In passing, I take the relevant date to be the date of the commencement of the conduct complained of (see *Cadbury Schweppes Property Ltd v The Pub Squash Co Ltd* [1981] RPC 429, 494 as per Lord Scarman, also cited in *Inter Lotto (UK) Ltd v. Camelot Group* Plc [2003] EWCA Civ 1132). For both parties, this is 16th May 2001, the date they applied for their particular registrations).

<u>Case law</u>

59. My attention was directed to the decisions of the Court of Appeal in *Scandecor Development AB v Scandecor Marketing AB* [1999] F.S.R. 26 and the subsequent appeal to the House of Lords ([2002] F.S.R. 7), and to *Medgen Inc. v Passion for Life Products Ltd* [2001] F.S.R. 30. I was also referred to *R .J. Reuter Coy Ld v Mulhens* [1953] RPC Vol. 70 102, and the ensuing appeal to the Court of Appeal ([1953] RPC Vol. 70 235 (CA)), to *Wadlow* (The Law of Passing Off, 2nd Edition, especially at 2.60 and 2.62-2.63) and to *Kerly* (*Law of Trade Marks and Trade Names*, 13th Edition).

60. Both parties flagged that matters relating to the accrual of common law rights were a matter of fact and I should approach the above cases with caution. Lord Oliver echoed this sentiment in *Reckitt & Colman*:

> "Although Your Lordships were referred in the course of argument to a large number of reported cases, this is not a branch of the law in which reference to other cases is of any real assistance except analogically. It has been observed more than once that the questions which arise are, in general, questions of fact."

The caution of counsel is plainly right, but I believe that there are resonances of fact and law I can rely on in the cases cited, and others I consider appropriate. Though *Scandecor*, in particular has, perhaps, a rather uncertain status in law following the settling of the parties before the questions referred to the ECJ by the House of Lords were answered and Lord Nicholl's (paragraph 58) stated that the further conduct of the appeal should be adjourned while the Court of Justice was consulted, even in this case there are principles of law which are notable, stated chiefly in the Court of Appeal judgment, and cited in *Medgen* at paragraph 49*ff*. It is the latter I will now summarise.

61. *Medgen* notes that goodwill is defined as the benefit and advantage of a name or get-up, and is the attractive force which brings in business. Passing off action is a remedy for the invasion of a right of property in the business or goodwill likely to be injured by any actionable misrepresentation. Goodwill does not exist apart from the business to which it is attached. Consequently, as is stated in *Medgen*:

> "As such, goodwill is local in character. Goodwill in relation to a business carried on in the U.K. attaches to that business. It is nevertheless legally and factually possible for a business based overseas to acquire a goodwill in this country by the supply of its products through an agent, licensee or distributor. Whether it does so or not depends on the facts of

the case, in particular, what was done and by whom. With whom do the relevant members of the public associate the name and get-up? Are they concerned with the quality and price of the product or the original source of the product?"

I will return to the issue of quality below. The 'key' question in *Medgen* can be restated for this case: Who has proved that the name STAIGER is associated in the minds of the relevant persons (the purchasing public and Argos) specifically and exclusively with it and with its products? In other words, is the name STAIGER associated exclusively with KSG or KSU? Or both of them?

62. Kevin Garnett, Q.C., who was sitting as a deputy judge of the High Court in *Medgen* noted (in keeping with the finding in *Scandecor*) that '..a conclusion that the name and packaging is associated exclusively with both parties (but no one else) is legally possible but a surprising and unsatisfactory state of affairs. It is also one which neither party has advanced in this case'. I intend to resist such a finding unless the facts force it upon me. Finally, I note also from *Medgen* that there is no rule of law or presumption of fact which says that the goodwill generated by the trading activities of a wholly owned subsidiary belongs to the parent or is the subject of any kind of licence. Again this is a matter of fact.

63. Next, Mr. Colley directed my attention to *Wadlow*, and I intend to summarise the relevant contentions in that volume here, as I regard them helpful to the case at hand. In paragraph 2.53, *Wadlow* states (footnotes removed):

> "There are two distinct, and not necessarily consistent, standards in this passage. One is to ask who is in fact most responsible for the character or quality of the goods; the other is to ask who is perceived by the public as being responsible. The latter is the more important, but it does not provide a complete answer to the problem because in many cases the public is not concerned with identifying or distinguishing between the various parties who may be associated with the goods. If so, actual control provides a less conclusive test, but one which does yield a definite answer.
>
> To expand, the following questions are relevant as to who owns the goodwill in respect of a particular line of goods, or, *mutatis mutandis*, a business for the provision of services:
>
> > (1) Are the goods bought on the strength of the reputation of an identifiable trader?
> >
> > (2) Who does the public perceive as responsible for the character or quality of the goods? Who would be blamed if they were bad?
> >
> > (3) Who is most responsible in fact for the character or quality of the goods?
> >
> > (4) What circumstances support or contradict the claim of any particular trader to be the owner of the goodwill? For example, goodwill is more likely to belong to the manufacturer if the goods are distributed through more than one dealer, either at once or in succession. If more than one manufacturer supplies goods to a dealer and they are indistinguishable, the dealer is more likely to own the goodwill.
>
> If none of these gives a result, the goodwill may generally be assumed to belong to the actual manufacturer of the goods."

64. It appears from *Wadlow* that the factual perception in the marketplace will determine the matter. Where an English business is held out as representing the foreign one, either expressly or by implication, and quality control is the predominant responsibility of the foreign business, then it is likely that the goodwill will belong to the latter. Relevant here is *Reuter v Mulhens* (1953) 70 R.P.C. 253, where the parent company was found to own the goodwill in the UK because it was found to be responsible for the quality of the goods sold (see *Wadlow*, paragraph 2.63).

65. However, I note the *Bostitch Trade Mark* [1963] R.P.C. 183 case, where an overseas proprietor of a U.K. registered trade mark succeeded in fighting off an attempt by a U.K. distributor, whose agreement had terminated, to expunge the mark as deceptive, in circumstances where the U.K. distributor had used the mark in relation to goods not supplied by the overseas licensor, had not been under the control of the license or in respect of that use, and had advertised itself during the licence as the distributor of the licensor's goods. The case demonstrates that the absence of the exercise of quality control is not fatal to a claim to the local goodwill by the foreign proprietor of a mark.

<u>Ownership of the Goodwill</u>

66. This is a matter in which there is no agreement regulating the parties rights and, as quoted by Kevin Garnett, Q.C., in *Medgen*, the Court of Appeal warned such a problem is ultimately soluble only by a factual inquiry with all the disadvantages of the length of its duration, the cost of its conduct and the uncertainty of its outcome. This case is not only unexceptional in this respect, it is the worse I have encountered. The material evidence amassed by both parties I find poor and, for the most part, unhelpful.

67. For example, both sides, but in particular Mr. Dodds, cite various documents mostly consisting of exchanges of correspondence relating to, among other things, the ownership of the mark in suit. Much of this material I feel I can give little weight, as the authors seem uncertain themselves as to where the entitlement lay. None of those directly involved were experts in trade mark law, and no single document is unequivocal, most being hedged with provisos and conditions. At least three, possibly all four, of the documents relied on by Mr. Dodds and quoted in paragraph 36 above, are examples of this.

68. Fundamentally, there is little material in this case that is decisive. The parties contradict each other and submit material that does the same (see the Witness Statements and the letter of Mr. Schöberl, for example). Nevertheless, of the two witnesses it was Mr. Turnage who inspired least confidence. The errors he made in his Statement relating to the turnover of his company were not properly explained – even though he had been Managing Director of KSU since 1987 he was unable to produce reliable evidence of the trade his company had made under the STAIGER brand. I also found the lack of documentation supporting the assertions fundamental to his case – both written and oral – unhelpful. For example, he mentions advertising brochures (paragraph 14, Turnage 1) – such material would have been informative in finding out how KSU held itself out to its market. None of this has been submitted. In Exhibit AD-10 (to Dodds 1), Mr. Turnage, in a letter to Herr Seltenreich, states '..we are claiming Common Law Rights …. We can prove… through our trading history and have the backing of our major customers'. I wish the latter had crystalised in evidence from, for example, Argos, giving their perception of KSU and their trade under the STAIGER name. No such evidence has been forthcoming.

69. As a consequence, I have not found this an easy matter to deal with. If all of the above creates a certain insecurity in relation to the decision I have reached, I am unsurprised.

70. As was constantly pointed out to me, this case will be decided on the facts and, as I have said, the probative value of the latter is thin. Nevertheless, I summarise my findings of fact as follows:

- In 1983 and 1984, KSG's predecessors in title applied for and registered KUNDO No. 1192219 in Class 14 for "Horological instruments and parts and fittings therefore" and STAIGER No. 1223066 in Class 14 for "Quartz clocks and quartz clock movements".

- KSU, a wholly owned subsidiary of KSG, was set up with Mr. Turnage as its Managing Director in April 1987. KSG owned the vast majority of shares in KSU (499,000 of 505,000).

- Registration of the STAIGER mark is not renewed and it expired on 27th Oct 1991.

- The mark STAIGER was used continuously on clocks in the UK from 1987.

- In 2000 KSG went into receivership in Germany. On 8th May 2001 KSU went into receivership in the UK.

- Mr. Dodds admits that the quality control was the responsibility of KSU. I note the following exchange with Mr. Dodds during cross examination:

  > "Q. In paragraph 35 of your statement, you said that you accept that KS UK had responsibility for the quality control in the Staiger goods. From the point of view of the customers, they had quality control in the Staiger goods. The customers of KS UK would look to KS UK as the source of the products. If there was a problem, they would go to KS UK.
  > A. Yes."

- The goodwill under the name belonged to KSG at first. Mr. Colley asked of Mr. Turnage:

  > "Q: .. If you were working as [KSG]'s creature and you were using their mark because you did not need a licence and they let you do it, it must be right, must it not, that you were accumulating goodwill for them. Everything you were doing, you were doing for them.
  >
  > A. Absolutely. To start with, there was no doubt about it."

- There is no material evidence of trade with customers other than Argos under the STAIGER brand.

- There remained significant supply of products from KSG to KSU right up to the insolvency of the former. Around 40 to 50 % of these products were manufactured by KSG.

- There is no material evidence of the numbers of items sold under the STAIGER name in the UK, that were sourced from other than KSG; however it is not denied that such sourcing took place.

71. These are the facts I have gleaned from the evidence, such as it is. It is clear that, on establishment of the business in the UK, KSU was just a trading arm of KSG. There was a direct commercial chain between the two, down which any goodwill in the UK was passed (see PT3, Turnage 1). As noted above, Mr. Turnage admitted this during cross examination. It would be fair to infer from Mr. Turnage's evidence that nothing changed to alter the perception of KSU/KSG's customers in the UK until KSG (in his submission) 'lost interest' in the STAIGER mark and KSU began to source products from other suppliers – that is, around 1994/95. This is when the goodwill under the STAIGER name, as coupled with KSG, began to 'trickle' away from the latter to KSU.

72. This is at variance to the facts in both *Scandecor* and *Medgen* in that neither of the overseas parties to those cases possessed an established goodwill in the UK prior to that of the UK parties. In short, Mr. Turnage is asking me to find that the understanding in the marketplace that KSG was the ultimate source of the goods supplied by KSU in the UK was reversed in the 5/6 years leading up to the 16th May 2001.

73. I have no material evidence for that before me in relation to the manner in which KSU conducted their trade in this period. Again, as I have pointed out already, Mr. Turnage was the MD of KSU throughout the period in question, yet provides not one document showing, unequivocally, how his company's products were held out to its customers. Such material was not lacking in the *Scandecor* and *Medgen* cases (another difference of fact). There is consequently no proof that the activities of KSU refocused the goodwill under the STAIGER on to KSU from KSG. Indeed, a trade link between the two continued to exist in that KSG were still supplying KSU with timepieces – a significant proportion of which were manufactured by them – up until their bankruptcy in 2000. I also note that KSU were still purveying KUNDO products – which no one denies were associated solely with KSG – in 2000 (e.g. see Exhibit AJC-6, page 5) and 2001 (e.g. see Exhibit AD-4 to Dodds 3, page 18).

74. As to the issue of quality control, Mr. Dodds admitted that it would be KSU who customers in the UK would contact if they had a problem with a STAIGER trade marked item. Nevertheless, apart from those items manufactured in Germany by KSG itself, there seems to have been little quality control exercised directly by either party: by mutual admission, the watches made by suppliers in the far east and elsewhere were shipped directly to the only real customer, Argos (see paragraph 15 above).

75. KSG would have ultimately been responsible for the quality of the goods they manufactured. As for any of the other items I have been given no material data on the extent of this source of supply of STAIGER marked products. However, Mr. Dodds did not deny that such supply was taking place.

76. Nevertheless, wherever the goods originated, I think it is reasonable for me to conclude that consumers dissatisfied with the quality of a STAIGER branded product would return it to Argos, who, no doubt would send the same back to KSU, and not KSG. The former, in turn would have taken this up with the manufacturer of the goods – were it KSG or another. In *S A CNL-Sucal NV v. HAG GF AG* (1990) 3 C.M.L.R. 571, at page 608, paragraphs 13, 14, the European Court of Justice described the essential function of a trade mark as giving to the consumer or ultimate user 'a guarantee of the identity of the origin of the marked product by enabling him to distinguish, without any possible confusion, that product from others of a different provenance'. To perform this function, a trade mark must offer a guarantee that all the goods bearing it have originated under the control of a single undertaking which is responsible for their quality. Thus, the mark in question will have 'distinctiveness as to business source' (*Scandecor*) – this must be a matter of fact. What did the employees of Argos perceive when (if there was) a need to return a STAIGER marked clock to KSU? Did such employees understand that KSU or KSG has ultimate responsibility for the marks sold under the name? FIM have supplied me with no material demonstrating the latter and I cannot conclude that this was their perception, particularly in the context of the large numbers of items still manufactured by KSG right up to their bankruptcy.

77. In terms of the issue of control of the business in general, Exhibits AJC-3 to 6 show that KSG were, at least, aware of the sales of STAIGER goods in the UK up to 2000; this does not sit well with Mr. Turnage's assertion that they had lost interest in the mark and did not care what KSU did with it. KSU also remained a wholly owned subsidiary of KSG. Of course, this means little if the latter allowed the former to do as it wished in respect of the STAIGER brand, but it is, nonetheless clear that the receiver was able to determine the fate of KSU following the bankruptcy of KSG (see paragraph 18, Turnage 1).

78. Was there a licence between the parties? There may well have been an implied licence – the UK receivers certainly thought so (see Exhibit AD-8, Dodds 1) – but I am unable to conclude little about the nature of this. Dr. Colley cites the statement of Lindsay J. in *Gromax*, where, at page 388, he deals with the position as between a licensor and licensee of a name or mark and says, essentially, that as between competitors for the goodwill at the end of the licence, the position of the licensor should not be taken to be weakened, nor that of the licensee enhanced, by normal activities of the licensee during the period of the licence. I suspect it would be a matter of some debate between the parties as to when any such licence came to an end, and the effect of their activities on this thereafter.

79. Finally, can the failure to renew the registration for the mark STAIGER No. 1223066 be interpreted as a waning interest in this mark? It was clearly a profitable line for KSU and KSG: trade continued and a defendable right under the name was preserved. By the year of its insolvency in 2000, KSG were still producing nearly 40% of the items they supplied under the name. I do not believe, in the context of this that this is unambiguous evidence of a waning interest in the STAIGER mark. A mark may lapse for many reasons, no doubt including a lack of commitment to it; but it also might be due to carelessness or bureaucratic oversight – or even over confidence in the security of a brand which was known all over the world to be that of a successful German watch manufacturer. I do not see that the fact of a lapsed sign supports one explanation over another. That the mark KUNDO was renewed and STAIGER was not, may be

taken to favour one explanation over another, but I do not believe that it does. Mr. Turnage states that KSG 'lost interest' in the STAIGER brand following the merger of Staiger GmbH and Kundo GmbH in 1994. This was well after the date the registration lapsed. The failure to renew the mark has not swayed me either way in this matter. I must also note that there is actually no reliable, external documentary evidence that KSG had lost interest in the mark in the UK.

80. In his submissions Dr. Saunders highlighted what he called the 'arms length style of the [KSU] operation'. It was, he states, sourcing clocks from parties other than the German parent, and was responsible for marketing. There is absolutely no material evidence to support these submissions. And, as was pointed out by Mr. Dodds, the level of marketing – as evidenced by the yearly advertising spend – was 'pitifully low', at around £3 to 4K, spent mostly on the production and distribution of advertising brochures (paragraph 15, Turnage 1; in cross examination, Mr. Turnage stated that it was '..for exhibitions and leaflets to give away at exhibitions. It was not general advertising'). Further, I am not convinced of the value of this activity: the only customer, above the level of *de minimis*, of either KSU or KSG under the STAIGER name was Argos, as I have noted above, I have seen none of the material.

81. In summary, FIM have not proved to my satisfaction that KSU, which they now own, was the possessor of the goodwill under the name STAIGER for timepieces in the UK as of 16th May 2001. Based on the fact that KSG was in possession of the goodwill under the name initially, and continued to be so until the middle of the 1990s (based on Mr. Turnage's own evidence) and that they were still producing large amounts of items to be sold under the mark right up to their bankruptcy in 2000, I think I must come to the view that KSG remained in possession of the goodwill in the name STAIGER as of 16th May 2001. The mark remained distinctive of them. XTB therefore succeeds in its opposition to the application No. 2270192.

Bad Faith

82. Each party alleges bad faith against the other. Again, my starting point must be the case law, and the following oft quoted passage in *Gromax Plasticulture Ltd v. Don & Low Nonwovens Ltd* [1999] R.P.C. 367 (at page 379):

> "I shall not attempt to define bad faith in this context. Plainly it includes dishonesty and, as I would hold, includes also some dealings which fall short of the standards of acceptable commercial behaviour observed by reasonable and experienced men in the particular area being examined."

83. Mr. Saunders referred me to *Ball v. The Eden Project Limited* [2002] F.R.S. 43 and to *Byford v Oliver* [2003] F.S.R. 39, and stated that 'It is quite clear that in recent decisions, claiming a monopoly through a trade mark registration can constitute bad faith if it is done to the exclusion of people who are better entitled to that right.' In the context of my finding above, this submission cannot stand. It is also clear from the evidence of the German receiver, Mr. Seltenreich, who was in control of the asserts of KSG, including its rights under the name STAIGER, that Mr. Dodds was acting with his full permission in seeking to register the mark.

84. Arguably both parties acted with a desire to protect their positions. In the context of this, I do not feel I am able to say that either man acted in a manner that reasonable men of business would deride. That there was a sea change in Mr. Turnage's view that the brand was the property of KSG as of 11th May 2001 (in that he believed STAIGER was the property of the German parent)

and his view by the 16th May when he applied for the mark, of course, cannot be denied. However, in the context of the legal advice that Mr. Turnage took (paragraph 28, Turnage 1), and the difficulties that cases such as this throw up, I am unable to conclude that he acted with bad faith. This ground fails in both oppositions.

Estoppel

85. The question was raised as to whether this issue should have been pleadings. Dr.Colley was of the view that it should not be, as it was a 'rule of evidence'. Dr. Saunders disagreed.

86. I am inclined to follow Dr. Saunders in this matter. Where a legal point is of such importance as to determine the outcome of a case, it seems to me that it should be pleaded. Or at least, where it appeared as late in the proceedings (as in this matter) an application should have been made to amend the pleadings so as to include it. But I do not have to make a firm statement on this point, as I do not believe the estoppel submission will stand proper examination. I was referred by Dr. Colley to *Phipson on Evidence* (15th Edition). Paragraph 5.23 states (footnotes removed):

> "An estoppel *in pais* may arise from an untrue representation of fact, not only when fraudulently, but even when mistakenly or innocently made. In order to raise such an estoppel the following conditions are necessary:
>
> (a) There must be a representation of fact; a mere statement of intention or promise *de futuro* is insufficient. (Compare the doctrine of promissory estoppel, under which a promisor has been estopped from acting inconsistently with a promise not to enforce an existing legal obligation.) …
>
> (b) The representation must be precise and unambiguous. ….
>
> (c) There must have been an intention, or conduct raising a reasonable presumption thereof, that the injured party was to act upon the representation as true.
>
> (d) The party relying on the representation must have acted on it to his own detriment.
>
> (c) The misstatement must have been the proximate cause of the detriment or, perhaps more strictly, of the error which caused the detriment. This may be restated in the form of a proposition that the representee must have relied on the truth of the representation; but it may be the case that once the representation has been proved, there is a presumption of reliance."

87. There seems to me no evidence that Mr. Dodds relied on the statements made by Mr. Turnage: rather there is evidence that he confirmed them independently (see Exhibits AD-6, AD-7, AD-8 and AD-9). In cross-examination, Dr. Saunders put the following to Mr. Dodds:

> "Q. What I am putting to you is that there are a number of different people involved at this stage and you sought information from them as and when you needed it. When you needed to find out something from Herr Seltenreich, you talked to Herr Seltenreich. When you needed to find out something from the administrators or clarify something with the administrators, you called the administrators. You had the draft of the potential deal with

> Ferdinand UK that day. Despite all of this, you are telling me that you effectively shut your eyes to all of those other sources of information and relied upon the statements of Mr. Turnage in relation to the different deals that were on the table. That is something that could easily have been addressed by you calling the receivers."

Mr. Dodds agreed that he had consulted, as the above evidence shows, a number of different sources. He met Mr. Turnage once, while he dealt with the receivers directly, on his own admission verbally on a number of occasions, and clearly in writing, from the evidence. I do not accept that he suffered any detriment from the assertion of Mr. Turnage, because he did not rely on them.

88. In summary, I do not accept that this ground could be argued without an amendment to the pleadings and I do not believe it is tenable, anyhow. It fails.

CONCLUSION

89. The FIM's opposition (No. 90458) to application No. 2270288 therefore fails, while that of XTB's (No. 90452) to application No. 2270192 succeeds.

COSTS

90. I see no reason to make a costs award in excess of the usual scale. Dr. Colley suggested I do so as a consequence of the behavior of Mr. Turnage in this matter. I have not found Mr. Turnage to be guilty of bad faith, and I do not accept his actions in this matter necessitates any acknowledgement in costs. Nevertheless, this still requires FIM to recognize XTB's success by paying them £3000. This sum includes the costs of both oppositions: though much of the evidence in each was the same, there were significant additions also. This sum is to be paid within seven days of the expiry of the appeal period or within seven days of the final determination of this case if any appeal against this decision is unsuccessful.

Dated this 17th Day of December 2003.

Dr W J Trott
Principal Hearing Officer
For the Registrar