

trier of fact. The Supreme Court established that those with matters pending before the USPTO have an ‘uncompromising duty to report to it all facts concerning possible fraud or inequity’ underlying pending applications [*Precision Instruments Manufacturing Co. v Automotive Maintenance Machinery Co.*, 324 US 806, 818 (1945) (emphasis added)].

The Panel’s rejection of the trial judge’s detailed findings is inconsistent with a universal rule of appellate review. ‘Findings of fact . . . shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of witnesses’ [Rule 52(a), Fed. R. Civ. P.]. This ‘[r]ule means what it says’—that findings of fact, even ‘those described as “ultimate facts” because they may determine the outcome of litigation’, are to be reviewed deferentially on appeal [*Bose Corp. v Consumers Union of United States*, 466 US 485, 498 (1984)]. An appellate court is bound to respect credibility determinations of the trial judge, according to Federal Rule 52(a). Rather than having the authority to compel the trial judge to credit any reasonable inference argued by the applicant, it is the CAFC itself that is compelled to respect the *trial judge’s factual choice* between two permissible views of the evidence, which cannot be overturned as a ‘clearly erroneous’ choice.

With its *Therasense* decision, the CAFC effectively elevated the fact patterns of *older* Supreme Court cases to the status of the controlling test for inequitable conduct of any and all types, in disregard of the Supreme Court’s most recent statements to the contrary in *Precision Instruments*. The *Therasense* ruling would permit ‘working-around’ the uncompromising standard of fully candid disclosure to the Patent Office that was established in *Precision Instruments*. If the *Therasense* ruling remains in place, district courts will be impeded from their duty to detect and deter misleading statements to the USPTO.

Practical significance

US patent practitioners are breathing a collective sigh of relief—for now—since inequitable conduct has become harder to allege and prove. However, at least one of the losing parties is petitioning the US Supreme Court for review, so this decision may not yet be the last word on unenforceability of patents for inequitable conduct.

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Trade marks

■ Living Alavida Loca: a Masterpiece of a decision

Masterpiece Inc. v Alavida Lifestyles Inc., 2011 SCC 27, Supreme Court of Canada, 26 May 2011

The Supreme Court of Canada examined, and clarified, the basic approach that courts should follow in assessing the likelihood of confusion between marks.

Legal context

Under subsection 16(3) of Canada’s Trade marks Act, RSC, 1985, c. T-13

Any applicant who has filed an application in accordance with section 30 for registration of a proposed trade-mark that is registrable is entitled, subject to sections 38 and 40, to secure its registration in respect of the wares or services specified in the application, unless at the date of filing of the application it was confusing with

- (a) a trade-mark that had been previously used in Canada or made known in Canada by any other person;
- (b) a trade-mark in respect of which an application for registration had been previously filed in Canada by any other person; or
- (c) a trade-name that had been previously used in Canada by any other person.

Masterpiece brought its claim under this subsection on the basis that Alavida’s proposed mark (‘Masterpiece Living’)—which was subsequently registered—was, at the time of the application (1 December 2005), confusing with at least one of Masterpiece’s unregistered trade marks which incorporated the word ‘Masterpiece’ (including ‘Masterpiece the Art of Living’, ‘Masterpiece the Art of Retirement Living’, and Masterpiece’s trade name itself).

The general approach to a confusion analysis is set out in subsection 6(5) of the Trade marks Act:

In determining whether trade-marks or trade-names are confusing, the court or the Registrar, as the case may be, shall have regard to *all* the surrounding circumstances *including* (emphasis added)

- (a) the inherent distinctiveness of the trade-marks or trade-names and the extent to which they have become known;
- (b) the length of time the trade-marks or trade-names have been in use;
- (c) the nature of the wares, services or business;
- (d) the nature of the trade; and
- (e) the degree of resemblance between the trade-marks or trade-names in appearance or sound or in the ideas suggested by them.

Facts

Masterpiece and Alavida Lifestyles are involved in the highly competitive retirement residence business. Masterpiece had operated in Alberta since its inception in 2001. Aside from its trade name ('Masterpiece'), it also used several unregistered trade marks to designate its services, including 'Masterpiece the Art of Living' and 'Masterpiece the Art of Retirement Living'. Ontario-based Alavida was incorporated in 2005, when it applied to register the phrase 'Masterpiece Living' for retirement residence services.

In early 2006, Masterpiece also began using the phrase 'Masterpiece Living', and applied to register the marks 'Masterpiece' and 'Masterpiece Living' later that year. Therefore, since early 2006, two Canadian companies in the retirement residency industry were using the trade mark 'Masterpiece Living', but in different Provinces. Masterpiece's applications were denied by the Registrar of Trade marks on the basis that Alavida had already applied for the mark 'Masterpiece Living'.

Procedural history

Masterpiece applied to the Federal Court (2008 FC 1412) to expunge Alavida's registration for 'Masterpiece Living' on the basis that it was confusing as of the date of application. The Federal Court dismissed this claim and held that, if Alavida's trade mark was confusingly similar to any trade marks that had previously been used, Alavida would not have been entitled to registration.

Although Masterpiece had shown 'some use' of the trade name 'Masterpiece' before Alavida's application, this use was intermittent. Under a subsection 6(5) analysis the Court found that, although 'Masterpiece' was somewhat distinctive with respect to retirement residences, there was no acquired distinctiveness on the relevant date: any confusion between the marks was diminished because the two parties differed in the focus of their advertisements. Given the importance and expense of buying a retirement residence, consumers would be extra-cautious in researching their decisions.

The Federal Court of Appeal (2009 FCA 290) unanimously upheld the finding, holding that the relevant date for the confusion analysis was the date of Alavida's filing. Since any possibility of 'future confusion' was irrelevant under the statute, Masterpiece's plans to expand into Ontario (or other markets) were irrelevant in assessing confusion.

Analysis

Justice Rothstein, writing for a unanimous Supreme Court, first observed that registration alone does not give priority to the title of a mark. Alavida's application for 'Masterpiece Living', on the basis of a *proposed use*, thus

gave no priority over Masterpiece's *actual use* of that same mark shortly thereafter.

Turning next to the question of confusion, Justice Rothstein considered that Masterpiece's 'Masterpiece the Art of Living' was the closest to Alavida's 'Masterpiece Living' application. This being so, a finding of confusion here would be decisive. He then adopted the 'common sense' approach that 'Masterpiece' was the dominant word in each mark. Since 'Living' and 'Art of Living' were neither unique nor striking, when taken as a whole the marks strongly resembled one another.

Opting to determine the matter rather than remit the case to the trial judge, Justice Rothstein held that:

... there is no doubt that there is a strong resemblance between Masterpiece Inc.'s trade-mark, 'Masterpiece the Art of Living' and Alavida's trade-mark, 'Masterpiece Living'. In my opinion, a casual consumer observing the Alavida trade-mark and having no more than an imperfect recollection of Masterpiece Inc.'s trade-mark would likely be confused into thinking that the source of the services associated with the Alavida trade-mark was one and the same as the source of the services associated with the Masterpiece Inc. trade-mark. The question now is whether any of the other circumstances reduce this likelihood of confusion to the point that confusion is not likely to occur.

One such circumstance was the nature of services. Alavida had argued that its retirement residence services were 'up-market', whereas Masterpiece's were 'middle-market'. Justice Rothstein rejected that argument: this parsing of the services was too narrow and Alavida's registration did not limit the mark to 'up-market' services.

Given the foregoing, and because Masterpiece's actual use preceded that of Alavida, Alavida was not entitled to its registration of the mark. Justice Rothstein ordered that Alavida's mark be expunged from the Register accordingly.

Practical significance

In Canada, since trade marks are national in scope, any confusion analysis must be conducted against the hypothesis that the compared marks are used in the same geographic area, whether they are or not. The standard for assessing confusion is that of the casual, hurried consumer with an imperfect recollection, as the Court reaffirmed:

The test to be applied is a matter of first impression in the mind of a *casual consumer somewhat in a hurry* who sees the [mark] at a time when he or she has no more than an *imperfect recollection* of the [prior] trade-marks, and does not pause to give the matter any detailed consideration or scrutiny, nor to examine closely the similarities and differences between the marks (emphasis added) (citing the Supreme Court decision in *Veuve Clicquot Ponsardin v Boutiques Cliquot Ltée*, 2006 SCC 23).

Against this, Justice Rothstein addressed the notion that consumers of more expensive wares or services were 'generally' less likely to be confused than purchasers of inexpensive ones. The fact that consumers of more expensive wares or services could—and often did—dispel confusion through careful research and deliberation did not diminish the fact that confusion arose in the first place:

Careful research and deliberation may dispel any trademark confusion that may have arisen. However, that cannot mean that consumers of expensive goods, through their own caution and wariness, should lose the benefit of trademark protection. *It is confusion when they encounter the trade marks that is relevant. Careful research which may later remedy confusion does not mean that no confusion ever existed or that it will not continue to exist in the minds of consumers who did not carry out that research.*

Indeed, *before* source confusion is remedied, it may lead a consumer to seek out, consider or purchase the wares or services from a source they previously had no awareness of or interest in. *Such diversion diminishes the value of the goodwill associated with the trade mark and business the consumer initially thought he or she was encountering in seeing the trade mark. Leading consumers astray in this way is one of the evils that trade-mark law seeks to remedy.* Consumers of expensive wares or services and owners of the associated trade marks are entitled to trademark guidance and protection as much as those acquiring and selling inexpensive wares or services (emphases added).

This decision also addressed expert evidence. The Supreme Court in *R. v Mohan*, [1994] 2 SCR 9 set out four requirements for accepting expert evidence: relevance, necessity, the absence of any exclusionary rule, and proper qualification. Justice Rothstein specifically endorsed these requirements, adding that the 'necessity' element is only met if the expert's testimony would likely be outside the experience and knowledge of the trial judge. After reminding participants that litigation was costly and that courts should fulfil their gatekeeper role by excluding 'unnecessary, irrelevant and potentially distracting expert and survey evidence', Justice Rothstein held that the expert evidence in this case should not have been admitted because it did not assist the court with the confusion analysis, Justice Rothstein being of the view that knowledge of retirement residences fell squarely within the experience(s) of the judiciary:

In cases of wares or services being marketed to the general public, such as retirement residences, judges should consider the marks at issue, each as a whole, but having regard to the dominant or most striking or unique feature of the trade mark. They should use their own common

sense, excluding influences of their 'own idiosyncratic knowledge or temperament' to determine whether the casual consumer would be likely to be confused.

Similarly, devising a reliable and valid survey for consumers with an 'imperfect recollection' would appear improbable, if not impossible:

... Simulating an 'imperfect recollection' through a series of lead-up questions to consumers will rarely be seen as reliable and valid

While I would not absolutely foreclose the possibility that a party may devise a valid survey in a case where a trademark user has not established a sufficient presence in the marketplace for consumers to have formed an imperfect recollection of its trade mark, I would venture that it is highly unlikely that such a survey would meet the requirements of reliability and validity.

Ultimately, the *Masterpiece* decision stands for five key propositions regarding confusion:

1. protection afforded under Canadian trade mark law is national in scope;
2. confusion analysis must be conducted on the hypothesis that the marks are within the same geographical area;
3. the trier of fact must place itself in position of the casual, hurried consumer with an imperfect recollection;
4. the mark must be viewed as a whole, having regard to their 'dominant or most striking or unique features'; and
5. expert evidence is only to be admitted when it is beyond the experience of the Court and survey evidence should rarely, if ever, be admitted, since it is well-nigh impossible to design a reliable and valid survey to capture how someone with 'imperfect recollection' would behave.

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*The authors would like to dedicate this article to the venerable and inspirational Dan Bereskin Q.C.