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Court of Appeal decision provides product diversification lessons for brand owners **Passing off**
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In *Woolley v Ultimate Products Ltd* ([2012] EWCA Civ 1038, July 26 2012), the Court of Appeal has upheld a decision of the High Court and, in doing so, has considered the effect of a licence, consumer confusion "the wrong way" and concurrent goodwill on passing off.

Since 2004 Mr Woolley and his wholesale company, Timesource Ltd, had used the HENLEY mark for watches. HENLEY was registered as a Community trademark (CTM) in Classes 9, 14 and 18 of the Nice Classification.

Henleys Clothing Limited (HCL) is a youth clothing retailer. Ultimate Products Limited (UPL) took a licence from HCL to import and sell watches under the HENLEYS mark in 2007.

Foreseeing conflict, UPL approached Woolley for a licence which permitted the sale of watches under the HENLEYS mark in return for safeguards for the HENLEY mark, including approval of Henleys marketing and trade channels and a 5% royalty.

In 2009 UPL terminated the licence. Woolley sued for passing off and trademark infringement. The infringement claim was stayed pending the result of an application to invalidate Woolley's CTM registration at OHIM.

Deputy Judge Robert Englehart QC considered the *Jif Lemon* passing-off trinity of goodwill, misrepresentation and damage. Woolley's goodwill in relation to watches was common ground, so the case hinged on misrepresentation and damage. Evidence relating to misrepresentation was inconclusive and the judge made it clear that he would reach his own conclusions having reviewed all the facts.

The existence of the licence was not taken into account because it favoured neither party. The grant of a licence and its operation without harm to the HENLEY mark suggested peaceful coexistence. On the other hand, Woolley required a 5% royalty as compensation and various safeguards, none of which applied post termination.

Further, the evidence concerning trade and consumer confusion favoured UPL and HCL. Initial interest confusion was resolved before any purchase decision. Mistaken enquiries stemmed from the belief that Woolley's Henley watches originated from HCL - the wrong way round for passing off.

Turning to the "real" evidence, the court found that the marks were virtually indistinguishable, particularly on the watch dials. Both were 'fashion' lines with some overlap in retail outlets. HCL's existing goodwill did not mean that purchases were due to this association, without reference to the watch's qualities, particularly as it only extended to the youth market.

The judge concluded that there was a misrepresentation stemming from the use of the HENLEYS mark on watches, but not on other accessories, where Woolley did not own a trading goodwill.

Claims for loss of royalties and erosion of goodwill were rejected. However, a small loss of sales was likely. Lack of evidence of damage to date was unsurprising as the licence had only just ceased.

UPL and HCL appealed the following points:

- Misrepresentation:
    - The evidence showed "reverse misrepresentation" with consumers confusing Henley watches for Henleys watches. This proved that no passing off was occurring.
    - The licence was material; safeguards for Woolley were never needed and use of HENLEYS was unaltered since termination.
    - Insufficient weight was given to HCL's concurrent goodwill. Consumers would associate Henleys watches with HCL's branded clothing.
    - The judge had failed to consider whether a substantial number of consumers were deceived, even though he concluded that lost sales would be minor.
- The judge's position on loss of sales was inconsistent with the lack of erosion of goodwill. The good reputation of Henleys watches both prevented damage to Woolley's goodwill and caused HCL's sales.

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Dismissing the appeal, Lady Justice Arden found that the judge was entitled to come to the conclusions reached. UPL and HCL had been unable to show that he was plainly wrong on any of the key points:

- The judge was not bound by the lack of direct evidence of misrepresentation to find that Woolley's case failed. He was entitled to make his own judgement based on his assessment of all the evidence and its relative weight.
- The issues raised by the licence and the weight to be given to them were finely balanced. The middle way taken by the judge in discounting the licence altogether was not plainly wrong.
- Although concurrent goodwill had been established by HCL, it did not extend to the mark HENLEYS alone or to watches.
- On substantiality, the judge was entitled to take the view that the marks HENLEY and HENLEYS would be viewed as virtually identical by almost all prospective purchasers and that this would amount to a substantial number of consumers. Woolley's HENLEY mark enjoyed goodwill for watches, while HCL's reputation for clothing was limited to the youth market. The judge was thus entitled to reason that misrepresentation the "right" way round was likely.
- Where there was little direct evidence regarding misrepresentation, the judge was justified in giving more weight to the "real" evidence and his own experience.
- On damage, the judge was entitled to infer lost sales. There was no requirement for the loss to be substantial. The judge's findings on the other heads of damages did not undermine his conclusion on loss of sales.

This case provides a number of lessons for brand owners in situations where product diversification brings two similar existing brands into conflict.

When assessing the strength of a passing-off claim, evidence showing substantial wrong attribution the "right" way is likely to establish passing off, but the lack of any such evidence is unlikely to be determinative for the defence. It is important to remember the requirement for the judge to take an overall view, comparing the products in question in their market context.

No matter how strong the existing goodwill and reputation enjoyed by a mark in one field, this may not be sufficient to avoid passing off in relation to products in a new field.

It is vital that an existing rights holder remembers that the provisions of any licence that they might grant to a third party to use a similar mark are likely to be scrutinised in detail in any subsequent dispute, particularly where the licence is for use of a similar, entirely separate brand, rather than the brand holder's own mark.

Finally, rights holders should note that a challenge to the validity of a CTM filed at OHIM will likely lead to the staying of any trademark infringement claims and leave you relying on much more complex passing-off rights.

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