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Foreign term of art in licence must be construed in foreign technical sense
United States - McDermott Will & Emery LLP

Licensing

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In *Sunstar Inc v Alberto-Culver Co* (Case 07-3288, October 28 2009), in the latest round of “an immense, unwieldy, complex” nine-year old trademark dispute, the US Court of Appeals for the Seventh Circuit has declared that a foreign technical legal term used in a licence agreement should be construed in accordance with the meaning ascribed to it under foreign law, even if the agreement is to be construed generally under domestic state law.

In 1980 *Alberto-Culver Co*, owner of the well-known trademark ALBERTO VO5, sold Japanese trademark registrations to *Sunstar Inc*, a Japanese manufacturer of hair care products. Most of the trademark registrations involved variants of 'Alberto VO5' or 'VO5'. Under the agreement of sale, Sunstar was obligated to transfer ownership of the Japanese trademarks to *Bank One Corporation* to hold in trust for 99 years. Bank One simultaneously licensed the use of the marks back to Sunstar.

Bank One, as trustee, had the right to require Sunstar to cease using the licensed trademarks if it had reasonable grounds for concluding that Sunstar committed acts that created a danger to the value or validity of Bank One's ownership in the marks. In the event of an actual breach of the agreement by Sunstar, Bank One had the right to rescind the licence and re-convey the trademarks to Alberto-Culver. Sunstar asked permission from Alberto-Culver to use a variation of the registered VO5 mark, which Alberto-Culver denied. Sunstar used the variation anyway. Bank One concluded that Sunstar's unauthorized use of the variation damaged the validity the VO5 mark and sought to rescind the licence agreement.

Sunstar then sought a declaratory judgment that its use of the variation was permitted under the licence. The agreement between Alberto-Culver and Sunstar referred to the licence granted to Sunstar as a *senyoshiyoken*. A *senyoshiyoken*, a legal term of art used in the *Japanese Trademark Act*, conveys to the holder of the *senyoshiyoken*:

- the exclusive use of the marks in the geographic territory;
- the right to register the licence with the *Japanese Trademark Office*; and
- the right to sue infringers in its own name.

The suit was tried to a jury. Because the agreement, by its terms, was to be construed under Illinois law, the district court refused to instruct the jury as to the Japanese legal construction of *senyoshiyoken*. The jury found for Alberto-Culver and Sunstar appealed.

The Seventh Circuit determined that, under Japanese law, a *senyoshiyoken* also permits the holder to use variations of the licensed trademark. Thus, the Seventh Circuit vacated and remanded, declaring that:

- a foreign technical legal term in a licence agreement is presumed to be used in its foreign technical sense; and
- the district court erred in failing to so instruct the jury.

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