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We provide you with updates on new decisions, the relevant legislative process and other trends in the fields of intellectual property and unfair competition law from a Swiss perspective.

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Assignment Action in Case of Trademark Usurpation of an Employee

In a recent decision, the High Court of the Canton of Zug ruled that the registration of a company name as a trademark by a (former) employee without any intention of use must be considered a trademark usurpation. In such cases, the company may file an action requesting the assignment of the usurped trademark (case no. Z2 2022 24 of 23 September 2022).

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Background

XYZ AG is a Swiss company which was founded in 2008 and used the sign "XYZ" for its entire business appearance for 14 years (company name, domain, website etc.). However, XYZ AG never registered the sign "XYZ" as a trademark.

X, one of the founders of the company, was employed as managing director of XYZ AG since 2008 and furthermore elected as board member in 2018. On 14 February 2022, X had a meeting with two other board members informing him that he had two options: either leave the company or stay, but in a different position (i.e. not as managing director or board member). Two days later, on 16 February 2022, X applied for the registration of the Swiss trademark "XYZ" in his own name. The Swiss Institute for Intellectual Property ("**Swiss IPI**") registered X as the holder of the trademark "XYZ" on 18 February 2022.

After finding out, that X had registered the trademark "XYZ" in his own name, XYZ AG requested X to assign the trademark to the company on several occasions in April and May 2022 (written demand letters). X did not comply with any of these requests.

On 11 May 2022, XYZ AG filed a statement of action and requested the High Court of the Canton of Zug ("**Court**") to order the assignment of the trademark to the company. As an *ex-parte* interim measure, XYZ AG furthermore requested the Court to prohibit X from disposing over the trademark for the duration of the proceedings and to issue a blocking order for the trademark register. The *ex-parte* interim measure was granted by the Court on 13 May 2022. Following his statement of defense, X was formally questioned on the merits of the case and the Court subsequently conducted a main hearing with both parties on 30 June 2022.

Decision

In its decision of 23 September 2023, the Court approved XYZ AG's action based on several legal grounds (trademark, unfair competition and contract law) and ordered the Swiss IPI to assign the trademark "XYZ" to XYZ AG.

The Court mainly held that the assignment of the trademark is to be ordered based on art. 53 of the Trademark Protection Act ("**TmPA**"). According to art. 53 TmPA an assignment action can be brought – instead of a nullity action (art. 52 TmPA) – if the holder has usurped the trademark, i.e. if the holder of the trademark knew or should have known of a prior right of another party. The Court ruled that, in case of an assignment action, the nullity reason must not be founded in trademark law. Rather, all nullity reasons based on any prior right of the plaintiff are sufficient to justify the

assignment of a trademark based on art. 53 TmPA (cons. 4.1).

In the Court's view, a prior right can be derived from art. 2 of the Federal Act on Unfair Competition ("**UCA**") if the holder registers a so-called "defensive trademark" with the potential to impair competition by preventing third parties from using an identical or similar sign (cons. 4.2).

The court considered X's allegation that he registered the trademark "XYZ" to protect XYZ AG not believable, since the relations between X and the other board members were already tense and X filed the trademark application only two days after he was presented with an ultimatum given the choice to leave or to be degraded (cons. 4.2.3). The alleged risk of registration of the sign "XYZ" by a third party was qualified a fabricated claim by the Court. X could furthermore not plausibly explain why he filed the trademark application in his own name and not in the name of XYZ AG (cons. 4.2.4-4.2.6). From the facts that X did not inform any other XYZ AG board member of his trademark application and later on refused to transfer the trademark to his employer, the Court concluded that X did not act in the interest of XYZ AG. X rather acted out of pure self-interest in order to use the trademark as a security or guarantee for his own claims against XYZ AG. Thus, the Court held that X acted in bad faith and in an unfair manner according to art. 2 UCA by registering the sign "XYZ" as a trademark (cons. 4.2.7-4.2.9).

Moreover, in the court's view, the registration of a defensive trademark constitutes an abuse of rights pursuant to art. 2 para. 2 of the Swiss Civil Code, as X registered the trademark without any intention or possibility of use, but merely as a security or guarantee for his own interests (cons. 4.3).

Finally, the Court concluded that X knew or should have known already at the time of the trademark application – but after the assignment requests of XYZ AG at the latest – that XYZ AG had the better and prior right to the sign "XYZ". X nevertheless appropriated the trademark to himself. Thus, X is obliged to assign the usurped trademark "XYZ" to XYZ AG based on art. 53 TmPA (cons. 4.4).

In terms of an alternative reasoning, the Court further ruled that, as an employee and managing director, X had the contractual obligation to protect the assets of his company, including its intellectual property rights. Accordingly, the trademark "XYZ" is to be qualified as the result of X's work in the course of his contractual activities for XYZ AG (which in the Court's opinion can also be intangible goods). An employee must immediately hand over such work results to the employer pursuant to art. 321b para. 2 of the Swiss Code of Obligations ("**CO**"). A duty to hand over the trademark under employment law is all the more relevant if the trademark application was – as X claims – in fact filed in order to protect XYZ AG (cons. 5.1).

Finally, the Court ruled that, even if the trademark application was not filed in the exercise of an employment contract, X had an obligation to assign the trademark based on the provisions on agency without authority (art. 422 or 423 CO). X (as the agent) intentionally conducted XYZ AG's business by filing the trademark application for the sign "XYZ" and therefore has an obligation to assign the trademark to the XYZ AG (as the principal), irrespective of whether X acted in good or bad faith (cons. 5.2).

Comment

The decision provides welcome guidance in relation to trademark assignment actions. The Court elaborated – in a well-reasoned manner – several legal grounds for the protection of company names and other business appearances against trademark usurpation by (former) employees.

The Court's decision fortunately confirms the majority doctrine's opinion that an assignment action (art. 53 TmPA) can be based on any other prior right in a sign. This generally strengthens the position of companies commercially using a sign in its business appearance (without registering it as a trademark) against bad faith registrations by (former) employees. The principles outlined by the Court can furthermore be applied to assignment actions against bad faith trademark applications of competitors. In all these cases, the rightful owner of a sign is given the opportunity to benefit from the trademarks priority date by means of an assignment action, instead of merely seeking for its invalidity and re-registering it.

In addition, the decision includes an interesting ruling from a labour law perspective. It seems to be one of the first published Swiss court decisions expressly confirming that the employee's duty to hand over his work results to the employer according to art. 321b para. 2 CO is also applicable to intangible goods, such as intellectual property rights.

Finally, the Court's handling of the case can be praised to be very efficient in terms of acceleration of proceedings. The pragmatic approach of using the tool of party examination (art. 191 of the Swiss Civil Procedure Code) in order to explore the inner motivation for trademark registration and the omission of a second exchange of writs allowed the Court to issue a decision within a few months in this relatively clear-cut case.