Intellectual Property
Professor Grimmelmann
New York Law School
Spring 2009

Supplement

Drug Dealers Pushing "Brand Loyalty" 1

Warner-Lambert v. John J. Reynolds 2

Flaming Moe Hypothetical 4

In re Coonan 6

Juicy Whip v. Orange Bang 7

Juicy Whip Patent 9

Electro Source LLC v. Brandess-Kalt-Aetna Group, Inc 10

Barcamerica Int'l Trust Co. v Tyfield Importers Co. 14

Clorox Co. Puerto Rico v. Proctor & Gamble Commercial Co. 20

Drug dealers pushing 'brand loyalty'

Ryan Haggerty, Pittsburgh Post-Gazette
Thursday, June 08, 2006

In the illegal drug trade, as in many enterprises, marketing is key. The words and images stamped on packets of heroin — from the phrase "Get High or Die Trying" to pictures of cartoon character Scooby-Doo or the Playboy bunny — serve the same purpose as a corporate logo or a familiar jingle in a TV commercial.

"It's a marketing ploy," said Capt. David Young, director of the state police Drug Law Enforcement Division. "It identifies the product and establishes product loyalty."

Stamp bags are the most common form of packaging used for individual doses of heroin. New users can get a high from one bag, but experienced users often need multiple bags to get their fix.

The glassine bags derive their name not only from the images and words stamped on them, but from their intended purpose: protecting postage stamps gathered by collectors.

The bags can be bought in any hobby store, and dealers can either purchase the rubber stamps or make them themselves, said Pittsburgh police narcotics Cmdr. Maurita Bryant.

When an image or phrase is used to brand a particular set of stamp bags, that batch of heroin is known on the streets by its stamp.

"The heroin trade goes by word of mouth," Cmdr. Bryant said. "Say there's a user who has a stamp bag with a smiley face on it. The user will start talking about how good the stuff was, and it's almost like free advertising."

When a new batch of especially potent heroin appears on the street — such as the fentanyl-laced heroin in bags labeled "Get High or Die Trying" that has caused a spate of overdoses and at least six deaths locally — it's not long before demand skyrockets.

Dealers are "competing for the best product," said Dr. Neil Capretto, medical director of Gateway Rehabilitation Center. "The word on the street is that this is the strongest stuff, so demand is high. I think the dealers, especially the high-level ones, know exactly what they're doing."

The forces of the drug market are even felt inside Gateway, where Dr. Capretto had to persuade a recovering addict to stay at the center after the man received a call from a friend informing him that their dealer was selling the bags stamped "Get High or Die Trying."

"He wanted to leave. We actually had to talk him into staying," Dr. Capretto said. "His first reaction was, 'I want that. I want to try the new stuff.' Fortunately, he was here, but if he was out on the streets, he would have been drawn to it."

Dealers selling a popular brand of stamp bags have to stay a step ahead of copycats, Capt. Young said. "The problem is there's no copyright laws, so as soon as you put a good product on the street, people will copy your stamp," he said. "A good dealer will let his customers know and say, 'Hey, next week we're coming out with a different stamp on our bag. We only sell from this corner or this house, so only buy from me.' "

Because stamps are often copied and are modified from city to city, it's practically impossible to trace a drug's supply line from the stamps on its bags, Capt. Young said. For instance, similar fentanyl-laced heroin causing overdoses in Philadelphia was stamped as "fefe," "flatline" and "exorcist," among other brand names.

Making it even harder to track the path of drugs like Pittsburgh's tainted heroin is the well-hidden route such drugs typically take from supplier to dealer to user, Cmdr. Bryant said.

A regional supplier will take a shipment of heroin from another city and pass it along to one or two trusted people, she said. Those people will each divide the supply among about 15 dealers, who then divide it even further and distribute it to drug runners who sell it on the streets.

The shipment is diluted along the way, increasing its yield but also leaving both dealers and users unsure of its potency, Cmdr. Bryant said.

"The big guy's never out there doing the hand-to-hand [distributing]," she said. "It's very difficult to get to the suppliers. They have people working for them, just like a business enterprise. It's difficult to get close to them unless you have inside information to know when a shipment is coming in or where an exchange is going to take place."

Stamp bags generally sell for about $10, although the price can fluctuate, Cmdr. Bryant said. Suburban dealers who buy a bundle of 10 stamp bags or a brick of 50 in the city turn a profit by selling bags for $12 each back in the suburbs, she said. The relatively low price for a stamp bag and the use of cartoon characters and other familiar images on the bags can make heroin alluring to young people, said Mike Manko, a spokesman for Allegheny County District Attorney Stephen A. Zappala Jr.

WARNER-LAMBERT PHARMACEUTICAL COMPANY,
v.
JOHN J. REYNOLDS, INC.,

178 F. Supp. 655 (S.D.N.Y. 1959)

Plaintiff sues under the Federal Declaratory Judgment Act, *28 U.S.C. 2201* and *2202*, for a judgment declaring that it is no longer obligated to make periodic payments to defendants based on its manufacture or sale of the well known product 'Listerine', under agreements made between Dr. J. J. Lawrence and J. W. Lambert in 1881, and between Dr. Lawrence and Lambert Pharmacal Company in 1885. Plaintiff also seeks to recover the payments made to defendants pursuant to these agreements since the commencement of the action.

Plaintiff is a Delaware corporation which manufactures and sells Listerine, among other pharmaceutical products. It is the successor in interest to Lambert and Lambert Pharmacal Company which acquired the formula for Listerine from Dr. Lawrence under the agreements in question. Defendants are the successors in interest to Dr. Lawrence. . . .

For some seventy-five years plaintiff and its predecessors have been making the periodic payments based on the quantity of Listerine manufactured or sold which are called for by the agreements in suit. The payments have totalled more than twenty-two million dollars and are presently in excess of one million five hundred thousand dollars yearly. . . .

In the early 1880's Dr. Lawrence, a physician and editor of a medical journal in St. Louis, Missouri, devised a formula for an antiseptic liquid compound which was given the name 'Listerine'. . . . Thereafter Lambert assigned his rights to Listerine and other Lawrence compounds to the [company that ultimately became Warner-Lambert] and this company on January 2, 1885 executed an instrument assuming Lambert's obligations under these agreements with Lawrence and other obligations on account of other formulas which Lawrence had furnished, in the following language:

> 'J. J. Lawrence of St Louis Mo, having originated & heretofore sold to J W Lambert, the formulae & processes for the manufacture of two medical preparations, known as Listerine and Lithiated Hydrangea . . . and furthermore said J. J. Lawrence having sold to said Corporation his sole & exclusive right to the formulae & processes originated by him for making two preparations called 'Dugongol' & Menthated Camphor, therefore know all men by these presents that for & in consideration of these facts, the said Lambert Pharmacal Co. hereby agrees and contracts for itself & assigns to pay to the said J. J. Lawrence, his heirs, executors & assigns, six dollars on each & every gross of Listerine & Lithiated Hydrangea manufactured or sold by the said Lambert Pharmacal Co. or its assigns, and ten per cent (10%) on gross amount of sales of the said Dugongol & Menthated Camphor, and all other goods which said Lambert Pharmacal Co. or its assigns may hereafter manufacture or sell on formulae furnished by said J J Lawrence . . .

It is then alleged that the 'trade secret' (the formula for Listerine) has gradually become a matter of public knowledge through the years following 1881 and prior to 1949, and has been published in the United States Pharmacopoia, the National Formulary and the Journal of the American Medical Association, and also as a result of proceedings brought against plaintiff's predecessor by the Federal Trade Commission. Such publications were not the fault of plaintiff or its predecessors.

The complaint recites the chains of interest running respectively from Lambert to the present plaintiff and from Lawrence to the defendants, and concludes with a prayer for a declaration that plaintiff is 'no longer liable to the defendants' for any further 'royalties'. . . .

One who acquires a trade secret or secret formula takes it subject to the risk that there be a disclosure. The inventor makes no representation that the secret is non-discoverable. All the in-

ventor does is to convey the knowledge of the formula or process which is unknown to the purchaser and which in so far as both parties then know is unknown to any one else. The terms upon which they contract with reference to this subject matter are purely up to them and are governed by what the contract they enter into provides.

If they desire the payments or royalties should continue only until the secret is disclosed to the public it is easy enough for them to say so. But there is no justification for implying such a provi- sion if the parties do not include it in their contract, particularly where the language which they use by fair intendment provides otherwise.

The case at bar illustrates what may occur in such cases. As the undisputed facts show, the acquisition of the Lawrence formula was the base on which plaintiff's predecessors built up a very large and successful business in the antiseptic or germicide field. Even now, twenty-five or more years after it is claimed that the trade secret was disclosed to the public, plaintiff retains more than 50% of the national market in these products.

Plaintiff lays stress on the large sums which have been spent in advertising and promoting the product, and there is no doubt that this and the business acumen of plaintiff's predecessors have contributed greatly to the success of the business. But it may be noted that the advertising and promotional material is primarily based on what are claimed to be the extraordinary merits of the formula for Listerine which plaintiff's predecessors acquired from Dr. Lawrence. Plaintiff and its predecessors have proclaimed for many years through the widest variety of advertising and promotional media the unique, indeed, almost magical properties of the formula from which Listerine is still made which is the formula conveyed by Lawrence to Lambert. . . .

If plaintiff wishes to avoid its obligations under the contract it is free to do so, and, indeed, the contract itself indicates how this may be done. The fact that neither the plaintiff nor its predecessors have done so, and that the plaintiff continues to manufacture and sell Listerine under the Lawrence formula with great success, indicates how valuable the rights under the contract are and how unjust it would be to permit it to have its cake and eat it too.

Thus, I hold that under the agreements in suit plaintiff is obligated to make the periodic payments called for by them as long as it continues to manufacture and sell the preparation described in them as Listerine. . . .

Let's All Go to Flaming Moe's

Moe Szyslak is the owner of Moe's Tavern, where the specialty drink is a "Flaming Moe." Moe mixes the drinks in a back room, then sets them on fire in front of the customer.

(1) A representative from Tipsy McStagger's Good-Time Drinking and Eating Emporium meets with Moe to discuss licensing the recipe. As part of the negotiations, Moe tells them how it's made. Tipsy McStagger's breaks off talks and start selling its own version. What result?

(2) The Tipsy's rep orders a Flaming Moe, pours it into a thermos, and uses a gas

chromatograph to analyze its chemical composition. By so doing, they learn that the secret ingredient is cough syrup. What result?

(3) The Tipsy's rep goes to Moe's Tavern and bribes a bartender to tell them the formula. What result?

(4) Same facts as in (3), except that anyone who tastes the drink can recognize that it's cough syrup. Tipsy's still bribes the bartender to tell them. What result?

UK Intellectual Property Office
For Creativity and Innovation

BL O/156/08

5th June 2008

PATENTS ACT 1977

APPLICANT BLAISE COONAN

ISSUE Whether patent application GB 2430471 complies with section 1(1)(c)

HEARING OFFICER Stephen Probert

DECISION

1 This is an application for a patent in relation to a device, the operation of which is based on a fundamental misunderstanding of the basic laws of physics - ie. it's a form of perpetual motion machine. The applicant, Mr Coonan, has requested a decision on the basis of the papers on the file.

2 The invention is a variable buoyancy device that supposedly moves up and down in a fluid, by using eg. hydraulic forces within the fluid to change the volume (and hence buoyancy) of the device; the motion of the device being harnessed via cables and pulleys to generate electricity. The invention purports to create energy from nothing, and is therefore contrary to the law of conservation of energy. (Claim 1 is reproduced in an annex to this decision.)

3 The examiner has made several attempts to explain the flaws in the 'physics' of the invention, but he has not persuaded the applicant that his invention will not work. I do not think that I could do any better than the examiner in this regard, so I am not going to try.

4 I note that the Comptroller's Hearing Officers have refused many applications for perpetual motion machines in recent years[1], and therefore I am also refusing this application under section 18(3) because it is not capable of industrial application (as required by section 1(1)(c) of the Act) for all the same reasons that have been given in those earlier decisions.

Appeal

5 Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal against this decision must be lodged within 28 days.

S J PROBERT
Deputy Director acting for the Comptroller

---

[1] Eg. BL's O/112/08, O/086/08, O/285/07, O/216/07, O/080/07, O/034/07, O/275/06, O/150/06, O/044/06, O/228/05, O/164/05, O/162/05, O/224/02, O/213/02, O/389/00, O/368/00

JUICY WHIP, INC.,
v.
ORANGE BANG, INC.

185 F.3d 1364 (Fed. Cir. 1999)

Bryson, Circuit Judge

Juicy Whip, Inc., is the assignee of *United States Patent No. 5,575,405*, which is entitled "Post-Mix Beverage Dispenser With an Associated Simulated Display of Beverage." A "post-mix" beverage dispenser stores beverage syrup concentrate and water in separate locations until the beverage is ready to be dispensed. The syrup and water are mixed together immediately before the beverage is dispensed, which is usually after the consumer requests the beverage. In contrast, in a "pre-mix" beverage dispenser, the syrup concentrate and water are pre-mixed and the beverage is stored in a display reservoir bowl until it is ready to be dispensed. The display bowl is said to stimulate impulse buying by providing the consumer with a visual beverage display. A pre-mix display bowl, however, has a limited capacity and is subject to contamination by bacteria. It therefore must be refilled and cleaned frequently.

The invention claimed in the *'405 patent* is a post-mix beverage dispenser that is designed to look like a pre-mix beverage dispenser. The claims require the post-mix dispenser to have a transparent bowl that is filled with a fluid that simulates the appearance of the dispensed beverage and is resistant to bacterial growth. The claims also require that the dispenser create the visual impression that the bowl is the principal source of the dispensed beverage, although in fact the beverage is mixed immediately before it is dispensed, as in conventional post-mix dispensers...

The threshold of utility is not high: An invention is "useful" under *section 101* if it is capable of providing some identifiable benefit.

To be sure, since Justice Story's opinion in *Lowell v. Lewis, 15 F. Cas. 1018 (C.C.D. Mass. 1817)*, it has been stated that inventions that are "injurious to the well-being, good policy, or sound morals of society" are unpatentable. As examples of such inventions, Justice Story listed "a new invention to poison people, or to promote debauchery, or to facilitate private assassination." *Id. at 1019*. Courts have continued to recite Justice Story's formulation, but the principle that inventions are invalid if they are principally designed to serve immoral or illegal purposes has not been applied broadly in recent years. For example, years ago courts invalidated patents on gambling devices on the ground that they were immoral, but that is no longer the law. . . .

We decline to follow [older cases invalidating patents on deceptive products as lacking utility], as we do not regard them as representing the correct view of the doctrine of utility under the
Patent Act of 1952. The fact that one product can be altered to make it look like another is in itself a specific benefit sufficient to satisfy the statutory requirement of utility.

It is not at all unusual for a product to be designed to appear to viewers to be something it is not. For example, cubic zirconium is designed to simulate a diamond, imitation gold leaf is de-

signed to imitate real gold leaf, synthetic fabrics are designed to simulate expensive natural fabrics, and imitation leather is designed to look like real leather. In each case, the invention of the product or process that makes such imitation possible has "utility" within the meaning of the patent statute, and indeed there are numerous patents directed toward making one product imitate another. *See*, *e.g.*, *U.S. Pat. No. 5,762,968* (method for producing imitation grill marks on food without using heat); *U.S. Pat. No. 5,899,038* (laminated flooring imitating wood); *U.S. Pat. No. 5,571,545* (imitation hamburger). Much of the value of such products resides in the fact that they appear to be something they are not. Thus, in this case the claimed post-mix dispenser meets the statutory requirement of utility by embodying the features of a post-mix dispenser while imitating the visual appearance of a pre-mix dispenser.

The fact that customers may believe they are receiving fluid directly from the display tank does not deprive the invention of utility. Orange Bang has not argued that it is unlawful to display a representation of the beverage in the manner that fluid is displayed in the reservoir of the invention, even though the fluid is not what the customer will actually receive. Moreover, even if the use of a reservoir containing fluid that is not dispensed is considered deceptive, that is not by itself sufficient to render the invention unpatentable. The requirement of "utility" in patent law is not a directive to the Patent and Trademark Office or the courts to serve as arbiters of deceptive trade practices. Other agencies, such as the Federal Trade Commission and the Food and Drug Administration, are assigned the task of protecting consumers from fraud and deception in the sale of food products.

Of course, Congress is free to declare particular types of inventions unpatentable for a variety of reasons, including deceptiveness. *Cf. 42 U.S.C. § 2181(a)* (exempting from patent protection inventions useful solely in connection with special nuclear material or atomic weapons). Until such time as Congress does so, however, we find no basis in *section 101* to hold that inventions can be ruled unpatentable for lack of utility simply because they have the capacity to fool some members of the public.

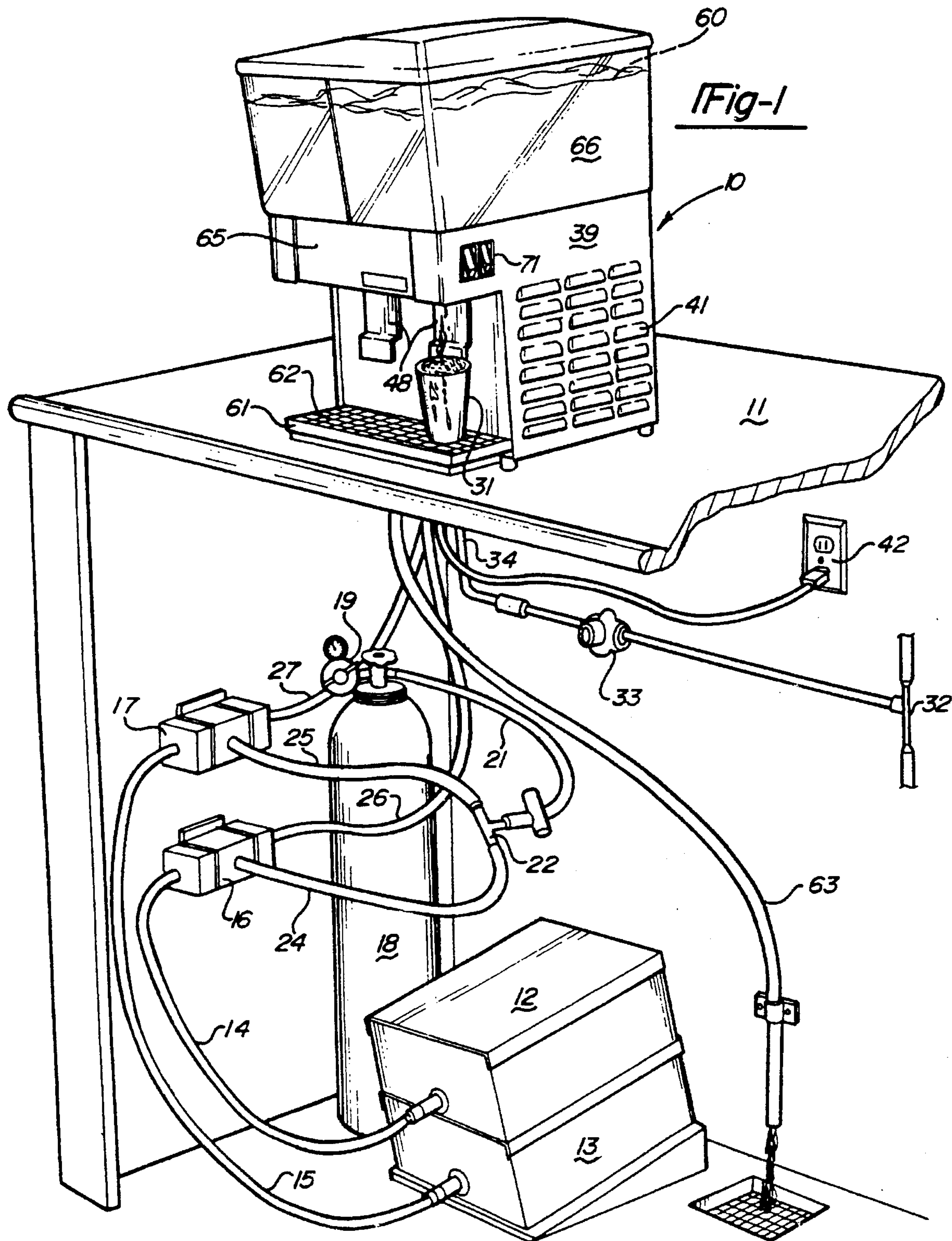
Fig-1
60
66
10
39
65
71
41
48
62
61
11
31
34
42
19
33
27
32
17
25
21
26
22
63
16
24
18
12
14
13
15

ELECTRO SOURCE, LLC
v.
BRANDESS-KALT-AETNA GROUP, INC.

458 F.3d 931 (9th Cir. 2006)

McKEOWN, Circuit Judge.

. . . Ronald Mallett owned federal Trademark No. 2,073,287 (the "Pelican Mark"), consisting of the word "pelican" below an outline of a flying pelican in a circle, for a backpack/luggage line. His business had enjoyed some modest success but later was set back by dwindling prospects. Nonetheless, Mallett kept plugging, selling a few backpacks and promoting them at trade shows for several years until he assigned the Pelican Mark to Electro Source, LLC ("Electro Source"). Because he continued to transport and sell his trademarked goods in commerce, he never ceased using the Pelican Mark. The district court concluded, however, that Mallet's use of the mark while depleting his inventory was neither bona fide nor in the ordinary course of trade, and that he therefore abandoned the mark. . . .

Pelican Products, Inc. and Brandess-Kalt-Aetna Group, Inc. (collectively "PPI") manufacture, market, and distribute a variety of products under the trademarks "Pelican Products," "Pelican," and "Peli Products." PPI also registered the mark "www.pelican.com." Electro Source commenced suit against PPI in 2002, setting forth a variety of claims, including trademark infringement of its Pelican Mark. PPI responded with various counterclaims and defenses alleging, among other things, that Mallett had abandoned the Pelican Mark prior to the assignment to Electro Source. PPI moved for summary judgment. The district court agreed with PPI that the Pelican Mark had been abandoned, thus rendering the subsequent assignment to Electro Source ineffective. The court ordered cancellation of the Pelican Mark but denied PPI's application for attorneys' fees. Electro Source appeals the determination of abandonment and the cancellation order, and PPI cross-appeals the denial of attorneys' fees.

This appeal focuses on a single legal question: does the Lanham Act mandate a finding of trademark abandonment where the record on summary judgment supports an inference that the trademark holder persisted in exhausting excess inventory of trademarked goods at reduced prices through good faith marketing and sales, despite the decline of his business?

The Lanham Act defines abandonment as (1) discontinuance of trademark use *and* (2) intent not to resume such use:

> A mark shall be deemed to be "abandoned" if ... the following occurs:
> (1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the *bona fide use* of such mark made in the *ordinary course of trade,* and not made merely to reserve a right in a mark.

15 U.S.C. § 1127 (emphasis added).

Neither "bona fide use" nor "ordinary course of trade" is defined in the statute. Both phrases, however, also appear in the statute's definition of "use in commerce," which provides:

> The term "use in commerce" means *the bona fide use of a mark in the ordinary course of trade,* and not made merely to reserve a right in a mark. For purposes of this chapter, a mark shall be deemed to be in use in commerce—
>
> (1) on goods when—
>
> (A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto ... and
>
> (B) the goods are sold or transported in commerce....

Id. (emphasis added). Because "trademark" is defined under the statute in part by the "bona fide intention to use [it] in commerce," *id.,* and because both "use in commerce" and "use" for the purposes of abandonment mean "bona fide use ... in the course of ordinary trade," the meaning of "use" for the purposes of abandonment necessarily signifies "use in commerce" and thus includes the placement of a mark on goods sold or transported. *See Money Store v. Harriscorp Fin., Inc.,* 689 F.2d 666, 676 (7th Cir.1982).

Section 1127 thus provides that "use" of a trademark defeats an allegation of abandonment when: the use includes placement on goods sold or transported in commerce; is bona fide;[3] is made in the ordinary course of trade; and is not made merely to reserve a right in a mark. Critically, for present purposes, nothing in the plain meaning of § 1127 excludes from the protections of the statute use of a trademark by a struggling or even a failing business that meets these requirements.

PPI does not challenge the fact that good faith sales of goods bearing the Pelican Mark were made during the critical time period (from 1998, when Mallett's business was clearly suffering, until the Pelican Mark was assigned to Electro Source in 2002). Instead, PPI argues that "those transactions were not made and could not have been 'bona fide' trademark uses because they were not made by or in connection with any business to which goodwill accrued" in light of Mallett's alleged intent to abandon his business after his inventory was depleted.

The district court implicitly adopted PPI's formulation, which is predicated on prospective abandonment. In its summary judgment order, the district court correctly recited the elements of abandonment, but went on to weigh the evidence and "find, as a matter of law, that Mallett abandoned" the Pelican Mark because Mallett's sales, characterized as attempts to merely "rid oneself of inventory," were not bona fide uses in the ordinary course of trade.

---

[3] We note that "bona fide" is not defined in § 1127. *Black's Law Dictionary* provides two similar definitions for "bona fide": "1. Made in good faith; without fraud or deceit. 2. Sincere; genuine." *Id.* at 186 (8th ed.2004). These definitions are unsurprising, as the term "bona fide" in common parlance means " 'made or carried out in good faith; sincere.' " *Nike, Inc. v. McCarthy,* 379 F.3d 576, 582 (9th Cir.2004) (quoting THE AMERICAN HERITAGE COLLEGE DICTIONARY 158 (3d. ed.2000)).

This summary judgment conclusion was erroneous for two reasons. Although it acknowledged that abandonment is generally a factual issue in resolving the issue the court weighed evidence and drew inferences against Mallett as to his intent and as to what constituted sales in the ordinary course of trade. This approach contravenes the rule on summary judgment that all reasonable inferences are to be made in favor of the non-moving party. In addition, the district court did not hew to the strict statutory standard for abandonment, which requires complete discontinuance of use, even for a business on its way out. If there is continued use, a prospective intent to abandon the mark or business does not decide the issue of abandonment.

Abandonment under § 1127 requires an intent not to resume trademark use, as opposed to a prospective intent to abandon the mark in the future. This distinction is not merely semantic. An intent not to *resume* use presupposes that the use has already ceased—the first prong of the abandonment statute. In contrast, a prospective intent to abandon says nothing about whether use of the mark has been discontinued.

Of course, we recognize that "[n]othing in the statute entitles a registrant who has formerly used a mark to overcome a presumption of abandonment arising from subsequent non-use by simply averring a subjective affirmative 'intent not to abandon.' " *Imperial Tobacco Ltd. v. Philip Morris, Inc.,* 899 F.2d 1575, 1581 (Fed.Cir.1990). However, a prospective declaration of intent to cease use in the future, made during a period of legitimate trademark use, does not meet the intent not to resume standard. Thus, the district court's collapsing of the standards was at odds with the statute.

Consequently, unless the trademark use is actually terminated, the intent not to resume use prong of abandonment does not come into play. *See Money Store,* 689 F.2d at 675-76. In *Money Store,* a trademark holder decided to stop using its trademark, yet continued to make some good faith use of the mark on billboard displays until it sold and assigned the mark. The court held "[t]he statutory definition makes clear ... that abandonment requires *discontinuance of use* .... Although United's use of the mark may have declined by the date of the assignment, any use ... of the mark was 'in commerce' " and defeats abandonment. *Id.* at 675-76. The question, then, is whether Mallett ceased use of the mark before assignment, not whether Mallett harbored an intent to cease use in the future. . . .

Our decision in *Carter-Wallace, Inc. v. Procter & Gamble Co.* offers a bright line rule: "Even a single instance of use is sufficient against a claim of abandonment of a mark if such use is made in good faith." 434 F.2d 794, 804 (9th Cir.1970). In *Carter-Wallace,* the trademark holder made nominal sales over a period of four years in order to maintain the mark while the trademark rights were litigated in court:

During the period of the above litigation and thereafter defendant sold deodorant products with the mark SURE, albeit in small quantities. Defendant has not advertised or promoted SURE deodorant other than by listing the product in trade directories. Defendant's sales of SURE deodorant were not made for profit but for the purpose of continuing the business ... so that the SURE mark would be available for use on a major advertised product when the legal problems ... were resolved.

Id. at 798.

We rejected the argument that the trademark had been abandoned because "only nominal" sales were made "with the sole intent of sustaining the mark." *Id.* at 803. Rather, we held that the mark had not been abandoned because the trademark holder "proferred [sic] legitimate business reasons for its action" in waiting for the trademark ownership issues to be fully litigated and resolved.

Good faith nominal or limited commercial sales of trademarked goods are sufficient, we held, to avoid abandonment, where the circumstances legitimately explained the paucity of the sales.

The district court did not follow *Carter-Wallace's* principle that a single legitimate sale satisfies the use criteria of § 1127. Instead the court assumed that declining sales, discounted sales, depletion of inventory, and the decision not to sue potential infringers were factors that, in combination, were tantamount to discontinuance of bona fide use in the ordinary course of trade. The court made that determination as a matter of law in the face of obvious factual disputes. . . .

The same general notion merits consideration in the trademark context. Indeed, it is not unusual for a troubled or failing business to sell and assign its trademark, along with the corresponding goodwill and the remaining business. Some business and financial firms even specialize in rescuing troubled companies, rehabilitating the business, and capitalizing on their goodwill and intellectual property, including trademarks. If trademark protection were stripped the minute a company runs into financial trouble or decides to liquidate, the two cornerstone interests in trademark would be defeated— protection of the public through source identification of goods and protection of the registrant's investment in the trademark.

Looking at the circumstances of this case, we evaluate the legal requirements for abandonment against the record of Mallett's sales and his transport of Pelican Mark goods, making all reasonable inferences in favor of Electro Source as the non-moving party. There are no allegations that Mallett's activities were feigned, non-commercial, insufficiently public, or made merely to reserve the mark. Neither are there allegations that Mallett's efforts were unreasonable in relation to his circumstances—a continuing yet failing business trying to sell excess inventory—or to the relevant market. To the contrary, the record suggests that in the ordinary course of his small, struggling business, Mallett transported and publicly displayed his Pelican Mark goods over a number of years in an earnest effort to sell them, and made actual sales. These are core trademark activities that necessarily contemplate trading upon the goodwill of the mark.

In sum, the record does not support summary judgment in favor of PPI on the claim of abandonment. We therefore reverse the district court's grant of summary judgment as to abandonment and vacate the order canceling the Pelican Mark. . . .

BARCAMERICA INT'L USA TRUST v. TYFIELD IMPORTERS, INC.
289 F.3d 589 (9th Cir. 2002)

O'SCANNLAIN, Circuit Judge.

We must decide whether a company engaged in "naked licensing" of its trademark, thus resulting in abandonment of the mark and ultimately its cancellation.

This case involves a dispute over who may use the "Leonardo Da Vinci" trademark for wines.

Barcamerica International USA Trust ("Barcamerica") traces its rights in the Leonardo Da Vinci mark to a February 14, 1984 registration granted by the United States Patent and Trademark Office ("PTO"), on an application filed in 1982. [FN1] On August 7, 1989, the PTO acknowledged the mark's "incontestability." *See* 15 U.S.C. § 1115(b). Barcamerica asserts that it has used the mark continuously since the early 1980s. In the district court, it produced invoices evidencing two sales per year for the years 1980 through 1993: one to a former employee and the other to a barter exchange company. Barcamerica further produced invoices evidencing between three and seven sales per year for the years 1994 through 1998. These include sales to the same former employee, two barter exchange companies, and various sales for "cash." The sales volume reflected in the invoices for the years 1980 through 1988 range from 160 to 410 cases of wine per year. Barcamerica also produced sales summaries for the years 1980 through 1996 which reflect significantly higher sales volumes; these summaries do not indicate, however, to whom the wine was sold.

In 1988, Barcamerica entered into a licensing agreement with Renaissance Vineyards ("Renaissance"). Under the agreement, Barcamerica granted Renaissance the nonexclusive right to use the "Da Vinci" mark for five years or 4,000 cases, "whichever comes first," in exchange for $2,500. The agreement contained no quality control provision. In 1989, Barcamerica and Renaissance entered into a second agreement in place of the 1988 agreement. The 1989 agreement granted Renaissance an exclusive license to use the "Da Vinci" mark in the United States for wine products or alcoholic beverages. The 1989 agreement was drafted by Barcamerica's counsel and, like the 1988 agreement, it did not contain a quality control provision. In fact, the only evidence in the record of any efforts by Barcamerica to exercise "quality control" over Renaissance's wines comprised (1) Barcamerica principal George Gino Barca's testimony that he occasionally, informally tasted of the wine, and (2) Barca's testimony that he relied on the reputation of a "world-famous winemaker" employed by Renaissance at the

time the agreements were signed.[3] (That winemaker is now deceased, although the record does not indicate when he died.) Nonetheless, Barcamerica contends that Renaissance's use of the mark inures to Barcamerica's benefit.

Cantine Leonardo Da Vinci Soc. Coop. a.r.l. ("Cantine"), an entity of Italy, is a wine producer located in Vinci, Italy. Cantine has sold wine products bearing the "Leonardo Da Vinci" tradename since 1972; it selected this name and mark based on the name of its home city, Vinci. Cantine began selling its "Leonardo Da Vinci" wine to importers in the United States in 1979. Since 1996, however, Tyfield Importers, Inc. ("Tyfield") has been the exclusive United States importer and distributor of Cantine wine products bearing the "Leonardo Da Vinci" mark. During the first eighteen months after Tyfield became Cantine's exclusive importer, Cantine sold approximately 55,000 cases of wine products bearing the "Leonardo Da Vinci" mark to Tyfield. During this same period, Tyfield spent between $250,000 and $300,000 advertising and promoting Cantine's products, advertising in *USA Today,* and such specialty magazines as *The Wine Spectator, Wine and Spirits,* and *Southern Beverage Journal.*

Cantine learned of Barcamerica's registration of the "Leonardo Da Vinci" mark in or about 1996, in the course of prosecuting its first trademark application in the United States. Cantine investigated Barcamerica's use of the mark and concluded that Barcamerica was no longer selling any wine products bearing the "Leonardo Da Vinci" mark and had long since abandoned the mark. As a result, in May 1997, Cantine commenced a proceeding in the PTO seeking cancellation of Barcamerica's registration for the mark based on abandonment. Barcamerica responded by filing the instant action on January 30, 1998, and thereafter moved to suspend the proceeding in the PTO. The PTO granted Barcamerica's motion and suspended the cancellation proceeding.

Although Barca has been aware of Cantine's use of the "Leonardo Da Vinci" mark since approximately 1993, Barcamerica initiated the instant action only after Tyfield and Cantine commenced the proceeding in the PTO. A month after Barcamerica filed the instant action, it moved for a preliminary injunction enjoining Tyfield and Cantine from any further use of the mark. The district court denied the motion, finding, among other things, that "there is a serious question as to whether [Barcamerica] will be able to demonstrate a bona fide use of the Leonardo Da Vinci mark in the ordinary course of trade and overcome [the] claim of abandonment." *Barcamerica Int'l U.S.A. Trust v. Tyfield Importers, Inc.,* No. CV-98-00206-FCD, at 4-5 (E.D. Cal. filed Apr. 13, 2000) (Damrell, J.).

---

[3] After the commencement of this litigation, Barcamerica proposed a new agreement to Renaissance. The proposed agreement included a quality control provision, and the letter from Barcamerica's attorney proposing this new agreement acknowledged that the agreement "addresses requirements of trademark law that the licensor maintain some control over the licensed product." Renaissance never accepted Barcamerica's invitation to enter into this new agreement. In 1999, Barcamerica again acknowledged it had an obligation to perform quality control for the licensed product and requested that Renaissance execute a declaration stating, *inter alia,* that Barcamerica had been involved in the quality control of the licensed product. Renaissance refused to execute this declaration, because it was "neither truthful nor accurate." . . .

Thereafter, Tyfield and Cantine moved for summary judgment on various grounds. The district court granted the motion, concluding that Barcamerica abandoned the mark through naked licensing. . . . This timely appeal followed. . . .

Barcamerica first challenges the district court's conclusion that Barcamerica abandoned its trademark by engaging in naked licensing. It is well-established that "[a] trademark owner may grant a license and remain protected provided quality control of the goods and services sold under the trademark by the licensee is maintained." *Moore Bus. Forms, Inc. v. Ryu,* 960 F.2d 486, 489 (5th Cir.1992). But "[u]ncontrolled or 'naked' licensing may result in the trademark ceasing to function as a symbol of quality and controlled source." *McCarthy on Trademarks and Unfair Competition* § 18:48, at 18-79 (4th ed.2001). Consequently, where the licensor fails to exercise adequate quality control over the licensee, "a court may find that the trademark owner has abandoned the trademark, in which case the owner would be estopped from asserting rights to the trademark." *Moore,* 960 F.2d at 489. Such abandonment "is purely an 'involuntary' forfeiture of trademark rights," for it need not be shown that the trademark owner had any subjective intent to abandon the mark. *McCarthy* § 18:48, at 18-79. Accordingly, the proponent of a naked license theory "faces a stringent standard" of proof. *Moore,* 960 F.2d at 489.

Judge Damrell's analysis of this issue in his memorandum opinion and order is correct and well-stated, and we adopt it as our own. As that court explained,

> . . . The lack of an express contract right to inspect and supervise a licensee's operations is not conclusive evidence of lack of control. "[T]here need not be formal quality control where 'the particular circumstances of the licensing arrangement [indicate] that the public will not be deceived.' " *Moore Bus. Forms, Inc.,* 960 F.2d at 489 (quoting *Taco Cabana Int'l, Inc.* [*v. Two Pesos, Inc.,* 932 F.2d 1113, 1121 (5th Cir.1991)]). Indeed, "[c]ourts have upheld licensing agreements where the licensor is familiar with and relies upon the licensee's own efforts to control quality." *Morgan Creek Prods., Inc. v. Capital Cities/ABC, Inc.,* 22 U.S.P.Q.2d 1881, 1884 (C.D.Cal.1991).
>
> Here, there is no evidence that [Barcamerica] is familiar with or relied upon Renaissance's efforts to control quality. Mr. Barca represents that Renaissance's use of the mark is "controlled by" plaintiff "with respect to the nature and quality of the wine sold under the license," and that "[t]he nature and quality of Renaissance wine sold under the trademark is good." [Barcamerica]'s sole evidence of any such control is Mr. Barca's own apparently random tastings and his reliance on Renaissance's reputation. According to Mr. Barca, the quality of Renaissance's wine is "good" and at the time plaintiff began licensing the mark to Renaissance, Renaissance's winemaker was Karl Werner, a "world famous" winemaker.
>
> Mr. Barca's conclusory statements as to the existence of quality controls is insufficient to create a triable issue of fact on the issue of naked licensing. While Mr. Barca's tastings perhaps demonstrate a minimal effort to monitor quality, Mr. Barca fails to state when, how often, and under what circumstances he tastes the wine. Mr. Barca's reliance on the reputation of the winemaker is no longer justified as he is deceased. Mr. Barca has not provided any information

> concerning the successor winemaker(s). While Renaissance's attorney, Mr. Goldman, testified that Renaissance "strive[s] extremely hard to have the highest possible standards," he has no knowledge of the quality control procedures utilized by Renaissance with regard to testing wine. Moreover, according to Renaissance, Mr. Barca never "had any involvement whatsoever regarding the quality of the wine and maintaining it at any level." [Barcamerica] has failed to demonstrate any knowledge of or reliance on the actual quality controls used by Renaissance, nor has it demonstrated any ongoing effort to monitor quality.
>
> [Barcamerica] and Renaissance did not and do not have the type of close working relationship required to establish adequate quality control in the absence of a formal agreement. No such familiarity or close working relationship ever existed between [Barcamerica] and Renaissance. Both the terms of the licensing agreements and the manner in which they were carried out show that [Barcamerica] engaged in naked licensing of the "Leonardo Da Vinci" mark. Accordingly, [Barcamerica] is estopped from asserting any rights in the mark.

On appeal, Barcamerica does not seriously contest any of the foregoing. Instead, it argues essentially that because Renaissance makes good wine, the public is not deceived by Renaissance's use of the "Da Vinci" mark, and thus, that the license was legally acceptable. This novel rationale, however, is faulty. Whether Renaissance's wine was objectively "good" or "bad" is simply irrelevant. What matters is that Barcamerica played no meaningful role in holding the wine to a standard of quality—good, bad, or otherwise. As McCarthy explains,

It is important to keep in mind that "quality control" does not necessarily mean that the licensed goods or services must be of "high" quality, but merely of equal quality, whether that quality is high, low or middle. *The point is that customers are entitled to assume that the nature and quality of goods and services sold under the mark at all licensed outlets will be consistent and predictable.*

McCarthy § 18:55, at 18-94 (emphasis added) (footnotes omitted). And "it is well established that where a trademark owner engages in naked licensing, without any control over the quality of goods produced by the licensee, such a practice is *inherently deceptive* and constitutes abandonment of any rights to the trademark by the licensor." *First Interstate Bancorp v. Stenquist,* 16 U.S.P.Q.2d 1704, 1706 (N.D.Cal.1990).

Certainly, "[i]t is difficult, if not impossible to define in the abstract exactly how much control and inspection is needed to satisfy the requirement of quality control over trademark licensees." *McCarthy,* § 18:55, at 18-94. And we recognize that "[t]he standard of quality control and the degree of necessary inspection and policing by the licensor will vary with the wide range of licensing situations in use in the modern marketplace." *Id.,* at 18-95. But in this case we deal with a relatively simple product: wine. Wine, of course, is bottled by season. Thus, at the very least, one might have expected Barca to sample (or to have some designated wine connoisseur sample) on an annual basis, in some organized way, some adequate number of bottles of the Renaissance wines which were to bear Barcamerica's mark to ensure that they were of sufficient quality to be called "Da Vinci." But Barca did not make even this minimal effort.

We therefore agree with Judge Damrell, and hold that Barcamerica engaged in naked

licensing of its "Leonardo Da Vinci" mark—and that by so doing, Barcamerica forfeited its rights in the mark. We also agree that cancellation of Barcamerica's registration of the mark was appropriate.

For the foregoing reasons, the decision of the district court is affirmed.

COMMENTS

1. *Policy underlying the Abandonment Defense.* Whether abandonment occurs because of non-use, as alleged in *Electro Source*, or because of naked licensing, as established in *Barcamerica*, the loss of rights reflects two underlying purposes of trademark law, protecting consumers from confusion and protecting the trademark owner's investment in goodwill. In *Electro Source*, the district court reasoned that Mallet had no further interest in investing in its goodwill because Mallet was going out of business. The appellate court replied that allowing a company that was going out of business to retain its trademark protected prior investments in goodwill and protected consumers who relied on that investment. As the court points out, goodwill in a trademark may be a valuable asset, indeed the most valuable asset of a failing company. A company that has stopped using its trademark, however, is no longer exploiting its goodwill and consumers are no longer relying on it. The court in *Barcamerica* was dealing with a situation in which there was no signal to consumers on which consumers could rely. Trademarks indicate both that goods so marked come from a particular source and that they have particular characteristics. A licensed mark that is subject to no quality controls does not indicate that the goods come from the owner of the mark (they come from the licensee) nor does it guarantee that the goods have any particular characteristics. As the court observed, "the trademark ceas[es] to function as a symbol of quality and controlled source." Naked licensing, it said, "is *inherently deceptive*."

2. *Quantity of Use Necessary to Avoid Abandonment.* Lanham Act § 45 creates a presumption of abandonment with no intent to resume use when there is non-use for three years, but that presumption may be rebutted by showing legitimate business reasons for the trademark owner's conduct that would show an intent to resume. The "good faith" requirement for "use in commerce" and the "intent to resume" language make it necessary to consider why the trademark owner only used the mark occasionally or neglected it for several years. Inferences about intent and good faith are drawn from the surrounding circumstances. In *Carter-Wallace*, discussed in *Electro Source*, the nominal sales using the SURE mark in connection with deodorant over a period of four years were made to reserve rights to a make during the course of litigation, not for profit but for the legitimate "purpose of continuing the business." While a few casual sales may not suffice to establish rights initially, as the discussion of Zazú Hair Designs in Chapter 2 demonstrated, a few casual sales may be enough to retain rights if the trademark owner is going out of business.

Desire to maintain trademark rights is not enough to prevent abandonment. For instance, a "trademark maintenance program" designed to retain rights in order to keep an attractive mark out of the hands of competitors will not suffice, even if it includes some minimal commercial use of the mark, because it is not a "good faith" use. See La Societe Anonyme des Parfum le Falion v. Jean Patou, Inc., 495 F.2d 12 65 (2d Cir. 1974). Similarly, "a mere trickle of business," 89 sales in 20 years designed solely to establish and maintain the trademark right was held to be

inconsistent with commercial exploitation in Uncas Mfg. Co. v. Clark & Coombs Co., 309 F.2d 818 (1st Cir. 1962). And in Anvil Brand Inc. v. Consol. Foods Corp., 464 F.Supp. 474 (S.D.N.Y. 1978), the use of leftover trademark labels were affixed to random promotional shirts in an attempt to maintain trademark rights was held not to be a good faith commercial use.

3. *Quantity of Control Necessary to Avoid Abandonment.* Courts look at the facts to determine the nature of the relationship between the trademark owner and licensee. The trademark owner in *Barcamerica* exercised no control and only engaged in occasional and casual tasting of the licensee's wine. By contrast, in Arner v. Sharper Image Corp., 39 U.S.P.Q.2d 1282 (C.D.Cal. 1995), the court found that the relationship between the inventor of a mechanized tie rack and manufacturers of that invention demonstrated sufficient control. The analysis started, as it did in *Barcamerica*, with consideration of the contractual relationship between the parties. In the license, the trademark owner retained some rights (such as the right to terminate the relationship in the event a key employee left the employ of the licensee) that might have formed the basis for the right to control quality. A provision requiring regular inspections or supervision might be optimal but is not required if there is other evidence of actual control and may not be sufficient if there is no actual control. In *Arner*, the trademark owner had a close personal relationship with several key employees and relied on them for quality control and had regular discussions with the licensee regarding design and manufacturing of the tie racks. This evidence was sufficient to defeat the abandonment claim.

4. *Improper Tacking as Abandonment.* Occasionally a trademark owner will begin to use a modified version of a mark to which it has a legal right. "Tacking" (or "tacking on") is the term used to describe the carryover of trademark rights from an earlier to a later version of the mark. A restaurant owner might begin his operation of a restaurant using the service mark LONE STAR STEAKHOUSE and later change the name of the restaurant and started using the mark LONE STAR CAFÉ. The date of first use of the LONE STAR STEAKHOUSE mark would carry over to the LONE STAR CAFÉ mark for the purpose of establishing priority only if the marks create the same, continuing commercial impression. Consumers should consider both as the same mark. If the marks do not create the same commercial impression, the former mark might be considered abandoned if the other requirements are met. If they do create the same commercial impression, the rights continue despite continued use of only the modified version. An example of commercial impressions that are not the same occurred in Data Concepts, Inc, v. Digital Consulting, Inc., 150 F.3d 620 (6th Cir. 1998), in which the holder of a trademark on the stylized initials "dci" shown in the logo in the margin was not permitted to tack-on later use of the initials DCI.

The implication of tacking-on is that priority, the question of who used a mark first, depends on whether the rights from the first version of the mark carry over to the second version. Imagine that a restauranteur first used the LONE STAR STEAKHOUSE mark but later changed to the LONE STAR CAFÉ mark. After the change, a second restaurant owner opened a restaurant using the service mark LONE STAR STEAKS. If the first sued the second for trademark infringement, the argument between the parties might have three logical steps:

1. The defendant, second restauranteur, could argue that her mark, LONE STAR STEAKS was not confusingly similar to LONE STAR CAFÉ.
2. The plaintiff might respond that LONE STAR STEAKS <u>is</u> confusingly similar to

LONE STAR STEAKHOUSE and the rights from that earlier mark are tacked onto the newer mark. Because LONE STAR STEAKS is more likely to be confused with LONE STAR STEAKHOUSE, the infringement claim is more likely to be successful.

3. The defendant would then argue that the LONE STAR STEAKHOUSE mark had been abandoned, so the only relevant comparison was with the new mark LONE STAR CAFÉ. This argument is characterized as a claim that the newer version was improperly tacked onto the original mark.

Whether the old mark had been abandoned depends on whether it is permissible to tack the rights associated with the old version onto the new version onto the old version. At this point, the court would decide whether the newer and old versions conveyed the same commercial impression.

A related form of tacking-on applies to use of a mark on goods similar enough to the goods on which the mark was originally used so that consumers have the commercial impression that the goods come from the same source. The goods must be "substantially identical." Cessation of use of the TUFFHIDE mark on leather wallets might not constitute abandonment if the mark continues to be used on leather purses, but might if the mark is only used on leather upholstery. Attempted reliance on the date of first use of the TUFFHIDE mark to establish priority for the use of TUFFHIDE on upholstery might constitute impermissible tacking-on.

CLOROX CO. PUERTO RICO v. PROCTOR & GAMBLE COMMERCIAL CO.
228 F.3d 24 (1st Cir. 2000)

LIPEZ, Circuit Judge.

"Más blanco no se puede" (Whiter is not possible) was the advertising tag line used by the defendant, the Proctor and Gamble Commercial Company, to sell its detergent, Ace con Blanqueador (Ace with whitener), in Puerto Rico. The Clorox Company Puerto Rico cried foul, complaining that no detergent brings out the white like its chlorine bleach when used with a detergent. Proctor & Gamble modified its pitch, inviting consumers to "Compare con su detergente ... Más blanco no se puede" (Compare with your detergent ... Whiter is not possible). [The court referred to this as the "Doorstep Challenge" campaign.] Unimpressed by this change, Clorox sued, alleging, inter alia, that the advertisements were false and misleading in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). After Clorox moved for a preliminary injunction, the district court dismissed the false advertising claim sua sponte. . . .

The false advertising prong of the Lanham Act provides:

> (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . .
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another

person's goods, services, or commercial activities,
shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a).[6] A plaintiff can succeed on a false advertising claim by proving either that an advertisement is false on its face or that the advertisement is literally true or ambiguous but likely to mislead and confuse consumers. *See Southland Sod Farms v. Stover Seed Co.,* 108 F.3d 1134, 1139 (9th Cir.1997). If the advertisement is literally false, the court may grant relief without considering evidence of consumer reaction. *See United Indus. Corp. v. Clorox Co.,* 140 F.3d 1175, 1180 (8th Cir.1998). In the absence of such literal falsity, an additional burden is placed upon the plaintiff to show that the advertisement, though explicitly true, nonetheless conveys a misleading message to the viewing public. To satisfy its burden, the plaintiff must show how consumers have actually reacted to the challenged advertisement rather than merely demonstrating how they could have reacted. Clorox's amended complaint alleged that Proctor & Gamble's original and modified Doorstep Challenge television campaigns, as well as the promotional brochure, were false and misleading. Specifically, Clorox alleged that the Doorstep Challenge advertisements and promotions conveyed the false and misleading message to the Puerto Rican public that Ace con Blanqueador gets clothes as white or whiter than a detergent used with chlorine bleach. Clorox also alleged that the name "Ace con Blanqueador" is literally false with respect to Ace liquid detergent.

1. *Claims of Literal Falsity*

Clorox challenged two features of Proctor & Gamble's advertising campaign as literally false. First, Clorox alleged that the television commercials that aired in the original and modified campaign claimed that Ace gets clothes as white or whiter than chlorine bleach. According to Clorox, that claim is literally false because tests prove that chlorine bleach whitens better than detergent used alone. Second, Clorox alleged that the name, "Ace con Blanqueador," is literally false with respect to Ace liquid detergent because it falsely suggests that Ace liquid contains whitener or bleach.

a. *The Television Advertisements*

Whether an advertisement is literally false is typically an issue of fact. At least two factual questions must be answered in evaluating the accuracy of any particular advertisement. First, a factfinder must determine the claim conveyed by the advertisement. Once the claim made by the advertisement has been determined, the factfinder must then evaluate whether that claim is

---

[6] The elements of a false advertising claim under the Lanham Act are: (1) a false or misleading description of fact or representation of fact by the defendant in a commercial advertisement about its own or another's product; (2) the statement actually deceives or has the tendency to deceive a substantial segment of its audience; (3) the deception is material, in that it is likely to influence the purchasing decision; (4) the defendant placed the false or misleading statement in interstate commerce; and (5) the plaintiff has been or is likely to be injured as a result of the false or misleading statement, either by direct diversion of sales from itself to defendant or by a lessening of goodwill associated with its products.

false.

In the case at hand, the parties focus their attention solely upon the first of these factual determinations. The complaint asserts that in head-to-head whitening tests, Clorox achieved "by far, superior results" to Ace. Clorox also emphasizes that "Ace's own boxes" state that in certain cases, for better results, the consumers must use chlorine bleach. In reviewing the motion to dismiss, we therefore assume as true that chlorine bleach whitens better than Ace and that a contrary claim would be literally false. The primary dispute between the parties is not which product whitens better,[8] but rather whether any of Proctor & Gamble's advertisements make a claim of whitening superiority over chlorine bleach.

Although factfinders usually base literal falsity determinations upon the explicit claims made by an advertisement, they may also consider any claims the advertisement conveys by "necessary implication." *See Southland Sod Farms,* 108 F.3d at 1139. A claim is conveyed by necessary implication when, considering the advertisement in its entirety, the audience would recognize the claim as readily as if it had been explicitly stated. For instance, a factfinder found that an advertisement that claimed a motor oil provided "longer engine life and better engine protection" without explicitly mentioning competitors nonetheless drew a comparison by necessary implication vis à vis those competitors. This is not to say, however, that all messages implied by an advertisement will support a finding of literal falsity by a factfinder:

> The greater the degree to which a message relies upon the viewer or consumer to integrate its components and draw the apparent conclusion, however, the less likely it is that a finding of literal falsity will be supported. Commercial claims that are implicit, attenuated, or merely suggestive usually cannot fairly be characterized as literally false.

United Indus. Corp., 140 F.3d at 1181. Similarly, a factfinder might conclude that the message conveyed by a particular advertisement remains so balanced between several plausible meanings that the claim made by the advertisement is too uncertain to serve as the basis of a literal falsity claim, though even in that case it could still form the basis for a claim that the advertisement is misleading. . . .

We conclude that Clorox has stated a claim that Proctor & Gamble's original Doorstep Challenge commercials are literally false. These commercials juxtapose a tag line, "Whiter is not possible," with images of consumers who normally used bleach to achieve white clothes and who are favorably impressed by the results obtained from using Ace alone. The overall theme of the commercials is that bleach is unnecessary if clothes are washed with Ace . . . Some of the commercials also suggest that eliminating chlorine from the laundry process will save consumers time or money, or curtail the negative side effects of washing clothes with chlorine. A factfinder could reasonably conclude that, viewed in their entirety, these advertisements claim that Ace is equal or superior in whitening ability to a detergent and bleach combination.

The modified Doorstep Challenge campaign continued the same visual comparisons . . .

---

[8] Indeed, Proctor & Gamble does not challenge on appeal Clorox's assertion that chlorine bleach in combination with a detergent gets clothes whiter than its Ace detergent.

but added the words "Compare your detergent" to the "Whiter is not possible" tag line shown at the bottom of the screen at the end of the commercials. Although this change may render the comparative claim of the advertisements more ambiguous, we nonetheless conclude that it remains reasonable to interpret these advertisements as making by necessary implication a superiority claim for Ace over chlorine bleach. Consequently, the court erred in dismissing Clorox's literal falsity claims with respect to both Doorstep Challenge campaigns.

b. *The Name "Ace con Blanqueador"*

Clorox also alleged that the name, "Ace con Blanqueador," as applied to liquid Ace, is literally false. According to Clorox, the word "blanqueador" implies that liquid Ace has whitening capabilities like bleach. Clorox alleged that this is literally false because in its liquid form Ace does not contain bleach or whitening agents. Instead, it contains only a "color enhancer." Clorox emphasizes that liquid Ace uses the same formula as "Tide with Bleach Alternative" whose name, unlike "blanqueador," clearly signifies the absence of bleach. Proctor & Gamble responds that "blanqueador" means "whitener," and that the name cannot be literally false because tests show that the agents added to liquid Ace produce greater whiteness than detergents without those agents.

Clorox's allegations about the use of the name "Ace con Blanqueador" for the liquid detergent state a claim for literal falsity. Although "blanqueador," meaning "whitener," is broad enough to encompass both bleach and non-bleach whitening agents, the question remains whether liquid Ace is properly described as containing "whitening agents" of any sort. Clorox has alleged that it is not, insisting that Ace's ingredients are properly termed "color enhancers." Although the distinction between a "whitening agent" and a "color enhancer" eludes us, we must credit that allegation in this appeal from a 12(b)(6) dismissal. If Clorox succeeds in proving that liquid Ace contains only an "enhancer," rather than a "whitener," and if it further establishes the other elements of a false advertising claim, *see supra* note 6, it will be entitled to relief under the Lanham Act because Proctor & Gamble's designation of Ace liquid detergent as "Ace *con Blanqueador* " would be literally false.

2. *Claims of Misleading Advertising*

In addition to its claims of literal falsity, Clorox has alleged in its complaint that the Ace advertising campaign, even if true or ambiguous, makes an implied claim that is misleading to consumers. This second theory of recovery under the Lanham Act is independent of a literal falsity theory. Unlike the requirements of a claim of literal falsity, the plaintiff alleging a misleading advertisement has the burden of proving that a substantial portion of the audience for that advertisement was actually misled. *See Rhone-Poulenc Rorer,* 19 F.3d at 134 (citing *U.S. Healthcare v. Blue Cross,* 898 F.2d 914, 922 (3d Cir.1990)). An advertisement's propensity to deceive the viewing public is most often proven by consumer survey data. Clorox appended to the amended complaint a consumer survey prepared by David Whitehouse of Gaither International/Puerto Rico, Inc. [FN10] The survey consisted of a series of open-ended questions followed by several follow-up probes. In reliance on the survey, the complaint alleges that:

In open-ended questions, 35% of respondents of its scientifically valid survey responded

> that the main message of the Doorstep Challenge Campaign was that, with ACE, there is no need to use other products for maximum whitening performance. In addition, when the respondents were asked if "the Detergent in the Ad (ACE) Leaves Clothes as White or Whiter than If One Uses Bleach," 47% totally agreed and 20% somewhat agreed with that statement. Plainly, the Doorstep Challenge Campaign has been amply shown to be likely to cause consumer deception.

Clorox has also alleged in its complaint that "in its promotional activities and advertisements," Proctor & Gamble "deceiv[ed] and confus[ed] the public, causing consumers to wrongly believe they are buying a detergent that possesses the same qualities and characteristics as a detergent used with CLOROX."

The court was required to credit Clorox's allegations. It could not conduct its own evaluation of the advertising copy because whether advertising is misleading depends on "what message was actually conveyed to the viewing audience." *Smithkline Beecham Corp.,* 960 F.2d at 298. In deciding whether a message is "misleading," the message conveyed is discerned by "public reaction," not by judicial evaluation. That is, absent some other defect in its proof of the elements of a false advertising claim if Clorox's consumer survey data (or Proctor & Gamble's own market research data) shows that the advertisements "deceive[d] a substantial portion of the intended audience," *U.S. Healthcare,* 898 F.2d at 922, Clorox is entitled to relief under the Lanham Act. Hence, the claims asserting misleading advertising were improperly dismissed.

3. *Puffery*

Finally, the statements, "Compare with your detergent ... Whiter is not possible," and "Whiter is not possible," are not non-actionable puffing. " 'Puffing' is exaggerated advertising, blustering, and boasting upon which no reasonable buyer would rely...." 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 27:38 (4th ed.1997). "A specific and measurable advertisement claim of product superiority ... is not puffery." *Southland Sod Farms,* 108 F.3d at 1145 (claim that turfgrass seed requires "50% less mowing" was not puffery). Whether the "Doorstep Challenge" campaign conveys the message that Ace gets clothes whiter than chlorine bleach, or compares Ace with other detergents without implying that it whitens better than chlorine bleach, the claim is specific and measurable, not the kind of vague or subjective statement that characterizes puffery. Indeed, Proctor & Gamble concedes in its brief that its claim in its modified campaign, "Compare with your detergent ... Whiter is not possible," is not puffery. It contends that it is a true statement supported by its studies comparing Ace con Blanqueador with other detergents.

The original campaign tag line, "Whiter is not possible," is a closer call on the puffing issue. Standing alone, that statement might well constitute an unspecified boast, and hence puffing. In context, however, the statement invites consumers to compare Ace's whitening power against either other detergents acting alone or detergents used with chlorine bleach. Despite this ambiguity, it is a specific, measurable claim, and hence not puffing.

Proctor & Gamble's promotional brochure, on the other hand, contained statements like, "hit the white spot with just one shot," "Dare to pass the test. Wash with Ace and nothing else,"

"Say goodbye to the complications of cloro and other cleaners," and "Resist the 'bombs.' Put your ACE con Blanqueador to the test." We agree with Proctor & Gamble that each of these statements, viewed in isolation, is precisely the type of vague, unspecified boasting that typifies puffery. Nonetheless, the promotional brochure also states, "Whiter is not possible," the same statement that appears as the tag line on the original Doorstep Challenge television commercials. As in the television commercials, that statement may be literally false. Accordingly, the brochure cannot be dismissed as mere puffery.

Pursuant to § 43(a) of the Lanham Act, Clorox has stated a claim for literal falsity relating to the name of the Ace liquid detergent, "Ace con Blanqueador." Clorox has also stated claims for literal falsity and for misleading advertising with respect to the commercials aired in both the original and modified Doorstep Challenge advertising campaigns, as well as the promotional brochure. The district court erred by dismissing these claims pursuant to Rule 12(b)(6). We must vacate its judgment and remand the Lanham Act claims to the district court for further proceedings consistent with this decision. . . .

COMMENT

1. *Explicitly and Implicitly False Advertising.* The court in *Clorox* focused on the first of five elements of a Lanham Act false advertising claim listed in footnote 6 of the case. It identified different evidentiary requirements for explicitly or literally false advertising claims and implicitly false or misleading advertising claims. Only if a claim is true but misleading must the plaintiff prove how consumers actually reacted to the claim. Clorox relied on the survey to prove that consumers were actually misled. In addition to proving that the claim is either false or misleading, the plaintiff must also meet the other elements. The survey also demonstrated that "the statement actually deceive[d] or had the tendency to deceive a substantial segment of its audience," which is the second element. The third element, "materiality," was discussed the context of deceptive marks, see *In re Phillips-Van Heusen Corp.* in Chapter 2.D.3. The court in *Forschner Group, Inc.* did not consider these elements because the plaintiffs had claimed a misrepresentation of geographic origin and the court found that there was no geographic misrepresentation.

2. *Puffery.* The court in *Clorox* drew a distinction between specific, measurable claims, one's that could be proved true or false and vague, unspecific, subjective, boastful statements. The former, factual claims, are actionable while the latter is puffery and not actionable. Note that the first of five elements is a description or representation of fact. Whether Ace detergent has a whitener or not is a fact. Whether "whiter is possible" is a fact if it is suggested that consumers can verify the claim by testing the detergent on their clothes.

The Restatement (Third) of Unfair Competition Section 3, comment d, points out that the difference between facts and puffery is not as simple as the distinction between fact and opinion, even though the court refers to "subjective" statements as a kind of puffing. Some opinions falsely imply the existence of facts that justify the opinion. If, in reality, there are no such facts, consumers may be misled into giving the opinion more weight than it they would if they knew it was pure opinion. This might also be true if the advertising gives the misleading impression that seller has special knowledge on which consumers should rely.

The idea of reliance suggests that characterizing language as "puffery" suggests that

customers would not rely on it – that it would not be material. That section of the Restatement offers the following as an example of puffery – an automobile manufacturer describing its cars as "the best cars in America." The following is an example that is puffery if people are unlikely to rely on it – a maker of computerized chess games states that it "is like having a World Champion as your opponent." By contrast, since consumers are unlikely to have personal experience and to rely on a retail jeweler, a representation that its diamonds are "first quality" might not be puffery.