TRADEMARKS AND DECEPTIVE PRACTICES

Final Exam—April 27, 2010

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INSTRUCTIONS:

This exam is composed of one long essay question, one short essay question, and two short answer questions, worth a total of 70 points. The questions are not evenly weighted, so, allocate your time accordingly. You have 2 hours to complete the exam unless otherwise stated by the proctor.

Although the essay questions refer to actual events, companies, and individuals, facts have been added or altered for examination purposes. In formulating your responses, you should assume that all facts stated in the essay questions are true, and you should not assume the existence of any facts not stated.

The exam is open-book and you may take any written material that you wish into the exam with you. ***Do not work with any of your classmates during the exam.***

1. (40 pts.) Johnnie Walker blended scotch whiskey is manufactured by Diageo, a public limited company located in the U.K. Diageo's product is the most distributed scotch whiskey in the world with yearly sales of over 120 million bottles a year, amounting to annual revenue to the company of over $1.5 billion. Several versions of the whiskey exist but the most popular version is Johnnie Walker Black Label, pictured below on the right, which is considered to be a premium scotch whiskey. It sells for approximately $35 a bottle in the U.S. and is sold through retail outlets licensed to sell distilled spirits.



The product bears the company's "striding man" logo on the label between the words "Johnnie" and "Walker" just above the phrase "Black Label." An enlarged version of the logo is pictured below the bottle of Johnnie Walker scotch whiskey. The Johnnie Walker Black Label brand and the bottle's label and trade dress shown here, including the striding man logo, were introduced to the market by Diageo's predecessor in 1908, and the product continues to be sold with the same trademark and trade dress today. The phrase "Johnnie Walker Black Label" is a federally-registered word mark that has achieved incontestable status. The stylized version of the word mark, the striding man logo, and other aspects of the trade dress are not federally registered.

At a recent stockholder's meeting for Diageo, several irate attendees demanded to know why the Board of Directors had allowed the company to license its core brand for use on liver-flavored bottled water for dogs. The stockholders seemed particularly upset about the message such a license would send consumers of their scotch whiskey about the purity of the distillation process and the taste of Diageo's premier product. The Directors denied the existence of such a license. Upon later investigation, the Directors discovered that a Michigan business named Doggie Treats, Inc., began selling Johnnie Barker Black Lab Canine Water earlier this year without seeking Diageo's permission. (A "Black Lab" is a particular breed of dog and a "barker" is defined, *inter alia*, as a dog.) The Doggie Treats product and an enlargement of its label are pictured to the left of the bottle of whiskey and the striding man logo, respectively. At the bottom of the Doggie Treats bottle is the legend "Enjoy Irresponsibly," which is in direct contrast to the advertising message given by Diageo and other distilled spirits manufacturers who are concerned that they not appear to promote either drinking to excess or drinking and driving.





It is too soon to know how popular the Doggie Treats product will prove to be but the novelty item has attracted the attention of the press. When interviewed by a reporter for a major news outlet about his product, the president of Doggie Treats explained that

inspiration for the product came to him one evening as he sat in his favorite arm chair, warmed by more than a few drinks of Johnnie Walker Black Label scotch whiskey and the domestic harmony of his pet Black Lab sitting at his feet. The Doggie Treats product is not marketed directly to ultimate consumers but is sold to companies that create gift baskets filled with items for the family pet. The baskets, priced between $30 and $40 apiece, are purchased online by consumers throughout the U.S. The cost of the Doggie Treats product to gift basket companies is $2.95 a bottle.

Diageo filed a complaint against Doggie Treats in federal district court under §43(a)(1)(A) and §43(c), citing both a likelihood that consumers will believe that Diageo has sponsored, endorsed, or otherwise authorized the Doggie Treats product and a likelihood that the Doggie Treats product will tarnish the reputations of its premier scotch whiskey specifically and the company generally. After an opportunity for discovery, both parties have agreed to submit the case to the court for resolution based upon the stipulated facts recited above. As the U.S. district judge assigned to this case, how would you rule and why? For purposes of your answer, you should assume that Diageo's trade dress is valid and that Doggie Treats has raised the defense of parody in its answer to the complaint.

2. (5 pts.) If a federal district court determines that a defendant is liable for cybersquatting under §43(d) and assesses damages for plaintiff's lost profits in the amount of $75,000, may the court increase the damages award to $250, 000 in order to punish the cybersquatter's egregious bad faith? If your answer is "yes," specify the statutory authority for such an action. If your answer is "no," specify the statutory limits on the court's discretion and indicate why such an action would constitute an abuse of discretion.

3. (5 pts.) Trademark counterfeiting is both a civil wrong and a crime. Destruction of counterfeit articles is authorized under the Lanham Act, the statute that governs civil remedies related to trademark enforcement. How does the Lanham Act assure that such destruction will not interfere with the preservation of evidence for purposes of any criminal counterfeiting prosecution brought by the United States attorney?

4. (20 pts.) Head lice are prevalent in school age children who catch the parasites from sharing hats, combs, or sleeping bags. Because head lice infestation affects over 8 million children per year in the U.S. and because the prospect of summer camp is looming for many parents, the manufacturers of treatments to prevent or eradicate head lice are increasing their advertising. Although the presence of head lice on a child's scalp does not indicate a lack of hygiene or sanitation, many parents are embarrassed by the problem and, so, turn to the internet for a quick and private solution. Parents also turn to the internet because longstanding over-the-counter medications are reported to be losing their effectiveness as lice become resistant to the active ingredients in such products and because prescription medications contain pesticides that worry parents about health hazards.

Nitty Gritty Head Lice Repellant Spray, shown below on the right, is a relatively new product being marketed online. The repellant distributor makes the following claims:

PREVENT INFESTATION BEFORE IT OCCURS!

Apply Nitty Gritty Head Lice Repellant Spray daily to your child's scalp. Its non-toxic formula will not irritate sensitive skin. It coats the scalp with an effective barrier that repels head lice.



Although the distributor did not conduct any tests in a controlled laboratory setting, the company did test the spray in a "human laboratory," i.e., in several childcare facilities, over a six month period, prior to running the advertising in question. With the permission of parents, childcare workers applied the spray daily to each child's scalp and recorded periodic observations of their charges' treated scalps. No head lice infestations were recorded and no scalp irritation was noted. A report from a noted dermatology institute, released before the ad claims appeared, confirms that the chemicals used in the Nitty Gritty repellant tend to have a calming, soothing effect on the skin.

Buggone shampoo, also marketed online, is a treatment for children who have developed a head lice problem. The shampoo contains a naturopathic remedy that kills lice but, like most such products, is less effective at killing the eggs and, so, requires use over a period of several weeks in order to eradicate the problem. The worse the infestation, the longer the shampoo must be used to be effective. The makers of Buggone shampoo have filed suit under §43(a)(1)(B) against the distributor of Nitty Gritty repellant spray, arguing that the ad claims recited above are literally false because (1) the repellant distributor did not have prior substantiation for its claims; and (2) a recent article published by an independent testing laboratory shows that most head lice infestation treatments have limited efficacy unless they are used repeatedly throughout the day because active children sweat and the chemicals are diluted or washed away altogether. The makers of Buggone argue that futile use of the Nitty Gritty repellant will lead to serious infestations and, only then--when it may be too late for a naturopathic remedy to be effective--will parents purchase Buggone shampoo.

As counsel for the makers of Buggone shampoo, you know that your client does not have the financial resources to conduct either a consumer survey or its own product testing on the Nitty Gritty spray. How do you assess your chances of prevailing in the lawsuit with regard to each claim? Explain your assessment.