

The Journal of **PROPRIETARY RIGHTS**

Volume 1, Number 8, August 1989 Copyright © 1989 Prentice Hall Law & Business, Inc.

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Commercial Defamation and Trade Disparagement: The Newly Expanded Scope of the Lanham Act

By J. Rodman Steele, Jr. and
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The torts of commercial defamation and trade disparagement have previously been delineated by state law. However, on November 16, 1988, the President signed into law "The Trademark Law Revision Act of 1988", Pub.L. 100-667, representing a major change in federal law governing, among other things, false advertising and misleading comparative advertising. Revised section 43(a) (Lanham Act, 15 U.S.C. §1125(a)), which will become effective on November 16, 1989, creates a federal statutory cause of action for commercial defamation and trade disparagement.

The newly revised §43(a) provides:

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—

(1) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(2) 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.

The Prior Legislation

The courts interpreted the old §43(a)¹ not to give rise to a cause of action when a competitor falsely misrepresented the nature, quality, characteristics of the plaintiff's goods or services. Only material factual misrepresentation pertaining to the advertiser's own products or services were actionable as a false description or representation under the old

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§43(a). This limitation that only misleading advertisements regarding the advertiser's own goods or services gave rise to a violation under 43(a) was based principally upon a 1969 Seventh Circuit Court of Appeals decision in *Bernard Food Industries v. Dentyne Co.*, 415 F.2d 1279, 163 USPQ 264 (7th Cir. 1969), cert. denied, 397 U.S. 912, 164 USPQ 481 (1970).

As an example of the scope of the old §43(a), the Sixth Circuit Court of Appeals stated in a recent case that "the plain meaning of that statutory phrase [in §43(a)] clearly encompasses a false description or misrepresentation about the characteristics or qualities or overall quality of a product." *Coca-Cola Company v. Procter & Gamble Co.*, 822 F.2d 28, 3 USPQ2d 1364, 1366 (6th Cir. 1987). In this case, Coca-Cola (which produces Minute Maid orange juice) alleged that Procter & Gamble's advertisements for Citrus Hill Select orange juice misrepresented to the public that Citrus Hill Select was made from the heart or cube center of the orange, thereby making the Citrus Hill juice sweeter and better than other juices, when in fact the Citrus Hill juice utilizes the entire interior portion of the orange.

In *Bernard Food Industries v. Dentyne Co.*, supra, 415 F.2d 1279 (7th Cir. 1969), the district court had found that Dentyne had falsely advertised and misrepresented the Bernard Custard Mix as being inferior in flavor, texture, nutrition and cost when compared to Dentyne's custard mix. The Seventh Circuit Court of Appeals reversed, holding that there was no cause of action under the old §43(a) where the defendant makes disparaging misrepresentations only as to the competitor/plaintiff's products. The Seventh Circuit's reasoning was based upon the theory that since the Federal Trademark Act dealt chiefly with trademarks, §43(a) should be limited as to false representations of substantially the same nature as a trademark infringement. Since trademark infringement can only occur when a defendant misuses a trademark with respect to its own products, then false representations about a competitor's products are not be actionable under §43(a). Although this statutory construction by the Seventh Circuit is not supported by legislative history of the old §43(a) nor by plain reading of the language, the *Bernard Food* decision was followed by many courts. See, e.g., *Fur Information and Fashion Council, Inc. v. E.F. Timme & Son, Inc.*, 501 F.2d 1048, 1051, 183 USPQ

129, 131 (2d Cir. 1974), *cert. denied*, 419 U.S. 1022, 183 USPQ 641 (1974); *Borden, Inc. v. Kraft, Inc.*, 224 USPQ 811, 818 (N.D. Ill. 1984); *Skil Corp. v. Rockwell International Corp.*,³ 375 F. Supp. 777, 782-83, 183 USPQ 157, 160 (N.D. Ill. 1974); *Universal Athletic Sales Co. v. American Gym Recreational & Athletic Equipment Corp.*, 397 F. Supp. 1063, 1073, 187 USPQ 104, 111 (W.D. Pa. 1975), *vacated* 546 F.2d 530, 192 USPQ 193 (3d Cir. 1976), *cert. denied*, 430 U.S. 984, 197 USPQ 783 (1977).

The New Legislation

Revised §43(a) and particularly newly added subsection (2) provides essentially that any person who uses a false designation of origin, false or misleading description of fact, or false or misleading representation of fact which, "in commercial advertising or promotion, misrepresents the nature, characteristics, qualities or geographic origin of another person's goods, services or commercial activities" shall be liable to any person who believes he or she will be damaged thereby. The legislative history of the newly enacted §43(a)(2) indicates that this is an expansion of federal law that covers commercial defamation of the plaintiff's goods or services by a defendant. Vol. 134, No. 150 Cong. Rec. S16973 (Oct. 20, 1988) (Statements by Senator DeConcini); Vol. 134, No. 149 Cong. Rec. H10419-420 (Oct. 19, 1988) (Statements by Representative Kastenmeier). Commentators have stated that the construction given to the old §43(a) by the Seventh Circuit was illogical both from a practical standpoint and based upon public policy.⁴

Although the legislative history indicates that the newly revised §43(a) should not be construed to pre-empt state unfair competition laws, Vol. 134, No. 149 Cong. Rec. H10422 (Oct. 19, 1988), and Vol. 134, No. 150 Cong. Rec. S16973 (Oct. 20, 1988), it appears clear that §43(a)(2) creates a new federal cause of action for commercial defamation that will be favored over most state law actions charging commercial defamation, trade disparagement and trade libel.

State Law

Most states have recognized a common law cause of action for commercial defamation, trade disparagement, trade libel or slander. For example, New York recognizes the action of slander or disparagement of property or the title thereto. *Payrolls & Tabulating, Inc. v. Sperry Rand Corp.*, 22 A.D.2d 595, 257 N.Y.S.2d 884 (1st Dept. 1965). The elements of such a cause of action include malice, falsity of the statement and special damages. No

showing of special damages is required if the statement impeaches the integrity or business methods of the manufacturer. However, language which merely disparages the quality of the articles sold by the plaintiff is not actionable absent the showing of special damage or specific economic loss. *Payrolls & Tabulating, Inc. v. Sperry Rand Corp. Id.* New Jersey recognizes the common law action for product disparagement or slander of title. The plaintiff must prove publication, with malice, false allegations concerning plaintiff's property or product, and special damages, i.e., pecuniary harm. *System Operations v. Scientific Games Development Corp.*, 555 F.2d 1131 (3d Cir. 1977).

Pennsylvania is probably typical of the common law action of commercial disparagement. The seller must make a false assertion of fact that disparages goods of another in an unfair manner. Trade libel is defamatory or disparaging advertising that tends to harm the reputation of another so as to lower him in the eyes of the community or to deter third persons from dealing with him. *Testing Systems Inc. v. Magnaflux Corp.*, 251 F. Supp. 286 (E.D. Pa. 1966). However, additional burdens have been placed on the plaintiff in these actions to show that the statement is false and that the publisher intends to cause pecuniary loss or should recognize that it will cause pecuniary loss, *Testing Systems Inc. v. Magnaflux Corp., id.*, and pecuniary loss does in fact result and the publisher either knows that the statement is false or acts in reckless disregard of its truth or falsity. *Zerpol Corp. v. DMP Corp.*, 561 F. Supp. 404 (E.D. Pa. 1983). In other words, to prevail in the action, the plaintiff must show scienter and actual damages.

In California, the elements of a cause of action for common law trade libel are a publication concerning the quality of plaintiff's property that induces others not to deal with him and special damages. *Nichols v. Great American Ins. Companies*, 169 Ca. App. 3d 766, 215 Cal. Rptr. 416 (1985). Most importantly, special damages must be shown that are linked to a pecuniary certainty. *Erlick v. Etner*, 244 Cal. App. 2d 69, 36 Cal. Rptr. 256 (1964). This requirement to prove special damages in an action for trade libel in California is a commonly recognized element in other states.⁵

Other states, such as Delaware, have adopted the Uniform Deceptive Trade Practices Act (UDTPA) which prohibits "disparaging the goods, services, or business of another by false or misleading representation of fact." 6 Del. C. §2532. Although a number of states have adopted the UDTPA,⁶ decisions under the California statute, Cal. Civ. Code §3369 (Supp. 1963), are illustrative⁷ and suggest some liberalization of common law requirements such as found in New York, New

Jersey and Pennsylvania.⁸ Since the UDTPA §3(c) specifically states that the relief provided under the Act is in addition to remedies available under the common law or other statutes in the state, the Act has not supplanted common law actions in the states of enactment.

A few other states, such as Florida, also take a more liberal approach even in the absence of the UDTPA.⁹ In Florida, the elements of cause of action for common law trade libel include an untrue statement of fact, disparaging to the quality of another's goods, under circumstances that would lead a person to foresee that the conduct of a third person or purchaser would be affected by the statement, to the impairment of the property's vendability. *Upton House Collier Corp. v. Alldritt*, 73 So.2d 848 (Fla. 1954). An action in trade libel arises where a publication prejudices the plaintiff in its conduct of trade or business, deters third persons from dealing with it, assails its management, impinges its methods of doing business or inflicts injury on its credit or business. *McIver v. Tallahassee Democrat, Inc.*, 489 So.2d 793 (Fla. Ct. App. 1986).

Practical Implications

In stark contrast to the causes of action available in the majority of states, new §43(a)(2) appears to provide a federal cause of action whenever the defendant misrepresents the nature, characteristics, qualities or geographic origin of the plaintiff's goods, services or commercial activities. Proof of special damages is not required because the Act provides that liability arises whenever a person "is likely to be damaged by [the defendant's] act."¹⁰

Under other provisions of the revised Lanham Act, violations under §43(a) will entitle the plaintiff, under certain circumstances, to defendant's profits, damages sustained by the plaintiff, costs of the action, and up to three times the amount found as actual damages, in the discretion of the court and according to equitable principles. See §35 (15 U.S.C. 1117 (a)). Attorney's fees are available for exceptional circumstances. *Id.* In addition, violators of §43(a) are subject to injunctions under §34 of the Act (15 U.S.C. §1116) and destruction orders pursuant to §36 such that the court may order that the labels, signs, prints, packages, wrappers, receptacles and advertisements in the possession of the defendant be delivered up and destroyed. Although these remedies were not explicitly available under the statutory provisions of the old Lanham Act for §43(a) violations, several circuit courts have concluded otherwise. For example, the Second, Sixth, Seventh, Eighth, Ninth, Tenth and Eleventh Circuits have concluded that old §35(a) permits mone-

tary relief in actions under §43(a) which do not involve a registered mark.¹¹

Contrary to the legislative history that new §43(a) will not supplant state common law rights, new §43(a)(2) provides a new federal statutory tort that is substantially *sui generis*. One learned commentator has stated that the old §43(a) "created a federal statutory tort *sui generis* which would apply to various forms of unfair competition but not to others such as trade secret piracy, commercial bribery, and trade disparagement." *Gilson* §7.02 p. 7-8.1. Although the development of federal common law governing trade disparagement was substantially halted many years ago by *Erie Railroad Co. v. Tompkins*, 304 U.S. 64, (1938), which required the federal courts to apply state law rather than develop federal common law, the presently amended §43(a) now permits a federal statutory, broad based cause of action against product disparagement and trade libel.

In conclusion, new §43(a) will likely be construed by the courts to go far beyond prohibiting false or misleading advertisement by a competitor with regard only to the advertiser's own goods or services. There will now be a federal remedy for the common law theories of product disparagement, commercial disparagement, trade libel and slander as developed by the various state courts.

In practical terms, without the necessity of proving scienter and special damages, the federal forum becomes significantly more attractive to the plaintiff than state courts. A substantial increase of litigation under §43(a) must therefore be anticipated. A dampening effect on today's rampant comparative advertising may be expected, as virtually any type of misrepresentation will be fair game where there is even a likelihood of damage.

NOTES

1. §43(a), 15 U.S.C. 1125(a), provides:

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

2. "Any person who shall . . . use in connection with any goods. . . any false description or representation, including words or other symbols tending falsely to describe or represent the same. . . shall be liable to a civil action. . . by any person who believes that he is or is likely to be damaged by the use of any such false description or representation." §43(a)

3. The district court in *Skil*, although obligated to follow the *Bernard Food* decision, criticized the holding in a footnote:

[I]t does not seem logical to distinguish between a false statement about the plaintiff's product and a false statement about the defendant's product in a case where the particular statement is contained in comparison advertising by the defendant, such that in the first instance the plaintiff does not have a cause of action whereas in the latter he does. Rather, it would seem in comparison advertising, a false statement by the defendant about plaintiff's product would have the same detrimental effect as a false statement about defendant's product. I.e., it would tend to mislead the buying public concerning the relative merits and qualities of the products, thereby inducing the purchase of a possibly inferior product.

Id. at 782, fn 10, 183 USPQ at 160.

4. USTA testimony before the Sub-committee on Courts, Civil Liberties and Administration Justice of the House Judiciary Committee, September 8, 1988.

5. In Illinois, if the statement requires innuendo to give it defamatory meaning, special damages must be shown. *Newell v. Field Enters., Inc.*, 91 Ill. App. 3d 735, 415 N.E. 2d 434 (1st Dist. 1980). In Massachusetts proof of special damages is required. *Boynton v. Shaw Stocking Co.*, 146 Mass. 219, 15 N.E. 507 (1888).

6. The Uniform Deceptive Trade Practices Act or portions thereof have been enacted in sixteen states. Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Maine, Minnesota, Ohio, Oklahoma, Oregon, Rhode Island and Texas.

7. For example, in *Metro-Goldwyn-Mayer, Inc. v. Lee*, 212 Cal. App. 2d 23, 27 Cal. Rptr. 833 (1963), the court held that

the likelihood of confusion is enough to prevail in an action under UDTPA. In *Visser v. Macres*, 214 Cal. App. 2d 249, 29 Cal. Rptr. 367 (1963), the court held that the defendant need not be an intentional wrongdoer. Section 13(a) of the statute provides solely for injunctive relief, although damages may also be awarded when otherwise permitted by law. See, e.g., *Hesse v. Grossman*, 152 Cal. App. 2d 536, 313 P.2d 625 (1957).

8. Illinois courts have recognized that the UDTPA purports to codify the common law of unfair competition. *Clairol Inc. v. Andrea Dumon, Inc.*, 179 USPQ 119 (Ill. App. 1973); *Mars, Inc. v. Curtiss Candy Co.*, 290 N.E.2d 701, 175 USPQ 710 (Ill. App. 1972).

9. The Florida Deceptive and Unfair Trade Practices Act, F.S. 501.201 *et seq.*, is not as comprehensive as the model UDTPA and does not encompass commercial disparagement. The Florida statute is principally directed to consumer transactions.

10. Under the old §43(a), special damages were not a prerequisite for the recovery of a monetary award. *PPX Enterprises, Inc. v. Audio Fidelity Enterprises, Inc.*, 818 F.2d 266, 2 USPQ2d 1672 (2d Cir. 1987); *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 4 USPQ2d 1497 (10th Cir. 1987).

11. *NuPulse Inc. v. Schlueter Co.*, ___ F.2d ___, 1988 U.S. App. LEXIS 11078, (7th Cir. 1988); *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 525-26 4 USPQ2d 1497, 1507 (10th Cir. 1987); *Centaur Communications, Limited v. A/S/M Communications, Inc.*, 830 F.2d 1217, 1229, 4 USPQ2d 1541, 1550-51 (2d Cir. 1987); *WSM, Inc. v. Wheeler Media Servs., Inc.*, 810 F.2d 113, 116, 1 USPQ2d 1641, 1643 (6th Cir. 1987); *U-Haul International, Inc. v. Jartran, Inc.*, 793 F.2d 1034, 1041-42, 230 USPQ 343, 348-49 (9th Cir. 1986); *Transgo, Inc. v. AJAC Transmission Parts Corp.*, 769 F.2d 1001, 1025-27, 227 USPQ 598, 611-12 (9th Cir. 1985) *cert. denied*, 106 S.Ct. 802 (1986); *Co-Rect Products, Inc. v. Marvyl Advertising Photography, Inc.*, 780 F.2d 1324, 1331, 228 USPQ 429, 433 (8th Cir. 1985); *Rickard v. Auto Publishers, Inc.*, 735 F.2d 450, 453-58, 222 USPQ 808, 810-15 (11th Cir. 1984); *Metric and Multi-Standard Components Corp. v. Metric's Inc.*, 635 F.2d 710, 715, 209 USPQ 97, 102 (8th Cir. 1980).