

# INCONTESTABLE®

*Finnegan's monthly review of essential decisions, key developments, evolving trends in trademark law, and more.*

## October 2009 Issue

### Civil Cases

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2009 WL 3147888 (N.D. Tex. Sept. 29, 2009)**

*by David M. Kelly*

District court upholds the jury's verdict finding that a reseller of expired MARY KAY goods was liable for trademark infringement, awards Mary Kay over \$1.1 million in the reseller's pretax profits, and permanently enjoins the reseller from various uses of the MARY KAY mark, but permits the reseller to continue to purchase MARY KAY as a search-engine keyword in connection with the sale of genuine, nonexpired MARY KAY products.

***Pfizer Inc. v. Sachs,*  
2009 WL 2876255 (S.D.N.Y. Sept. 8, 2009)**

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#### ***Mary Kay, Inc. v. Weber,* 2009 WL 3147888 (N.D. Tex. Sept. 29, 2009)**

*by David M. Kelly*

#### **ABSTRACT**

A jury found that a reseller of expired MARY KAY cosmetic products infringed Mary Kay's trademark rights and awarded Mary Kay an accounting of the reseller's profits. The Northern District of Texas then awarded Mary Kay over \$1.1 million in the seller's pretax profits and permanently enjoined many uses of Mary Kay's trademarks. However, the court refused to enjoin defendant from uses of the marks that did not imply sponsorship by or affiliation with plaintiff, including the sales of genuine, nonexpired Mary Kay products, provided the reseller explained that it was not affiliated with Mary Kay. Moreover, the court refused to enjoin the reseller from purchasing MARY KAY as a search-engine keyword or from non-misleading use of the mark in advertising.

#### **CASE SUMMARY**

#### **FACTS**

Plaintiff Mary Kay, Inc. ("Mary Kay") sells cosmetics, toiletries, and skin-care products under the trademark MARY KAY and is known for its use of the color pink. Mary Kay distributes and sells its products through Independent Beauty Consultants ("IBCs"), who purchase the products at wholesale rates from Mary Kay and resell them to consumers. Defendant Amy Weber was an IBC for more than four years, during which time she accumulated a large inventory of unsold products, many of which were "expired." Weber began selling her inventory on eBay via an online store named "marykay1stop." Mary Kay demanded that Weber cease using its MARY KAY trademark in her store name, and terminated Weber as an IBC. Weber changed the name of her eBay store to "Touch of Pink." She also created a website at [www.touchofpinkcosmetics.com](http://www.touchofpinkcosmetics.com) through which she sold her inventory of Mary Kay products as well as products acquired from other IBCs. Weber also used the MARY KAY mark on her eBay store and website to identify the products she sold and as search-engine keywords she purchased that triggered sponsored ads promoting her store. Mary Kay sued for trademark infringement, among other claims.

#### **ANALYSIS**

In an earlier decision, the court denied Weber's motion for summary judgment on her affirmative defenses of the first-sale doctrine, nominative fair use, and laches due to genuine issues of material fact. Regarding the first-sale doctrine, the court held that the products sold by Weber were materially different

from genuine MARY KAY products because approximately 75% were expired. The court also held that there was a genuine issue of material fact as to whether Weber's expired products were prevalent enough to affect or diminish the MARY KAY mark and concerning Weber's use of the MARY KAY mark on her website and in her keyword-triggered ads. The court rejected Mary Kay's claim that Weber's purchase of its marks as keywords precluded a nominative fair-use defense as a matter of law. It stated that the fair-use doctrine "allows second hand sellers to inform customers that it sells a mark holder's product so long as it conveys the information 'fairly,' *i.e.*, in a way that uses no more of the mark than necessary to identify the product, and does not suggest affiliation or sponsorship," and that this principle should also apply to resellers on the Internet. However, there was a genuine issue of material fact regarding Weber's use of the MARY KAY mark in the text of her keyword-triggered ad, which read: "Mary Kay Sale 50% Off: Free Shipping on Orders over \$100 Get up to 50% Off-Fast Shipping [www.touchofpinkcosmetics.com](http://www.touchofpinkcosmetics.com)." The court believed that this ad could cause consumers to believe that Weber's site either was Mary Kay or had Mary Kay's approval.

The case was later tried to a jury, and the jury found for Mary Kay on its trademark-infringement and unfair-competition claims and rejected all of Weber's defenses. The jury also awarded Mary Kay an accounting of Weber's profits. Mary Kay then moved the court to enter a judgment of \$1,139,962 in Weber's pretax profits and to issue a permanent injunction against Weber. The court granted both of Mary Kay's requests.

Regarding the jury's award of profits, the court found that Mary Kay was entitled to the full *pretax* amount of Weber's profits due to the jury's finding that Weber willfully infringed Mary Kay's rights. As a result, Weber could not deduct the federal income taxes she paid on the profits.

Turning to Mary Kay's requested permanent injunction, Weber did not contest the propriety of an injunction, but argued that it should be narrow in scope. The court disagreed, granting almost all of Mary Kay's fourteen requested terms. Weber was enjoined from, among other things, using the names "Touch of Pink" and "MaryKay1Stop"; selling expired or past-shelf life Mary Kay products; using Mary Kay's product descriptions to describe her products for sale; telling customers to contact their local Mary Kay representatives if they want nonexpired products; representing to customers that Touch of Pink is a "one stop shop" for their Mary Kay needs; referring to any previous relationship Weber had with Mary Kay; and selling Mary Kay catalogs.

But the court refused to enjoin Weber from selling Mary Kay consultant stickers, sales aids, and other *genuine* Mary Kay products. It also denied Mary Kay's requests to enjoin Weber from using the MARY KAY mark in any "advertising, newsletters, or coupons" except to identify the name of the products for sale, and from purchasing keywords containing the MARY KAY mark unless those keywords identified the specific products for sale by name. According to the court, these requests were "slightly too broad" because it is lawful to use another's trademark "to the extent it is necessary to identify a product as having been manufactured by the mark owner."

Consistent with the requirements of nominative fair use, the court clarified that Weber could only use so much of the MARY KAY mark as was necessary to identify the genuine, nonexpired products she was selling. However, this did not mean that the words "Mary Kay" could only appear immediately before the name of a specific Mary Kay product, or that Weber could not purchase the MARY KAY mark as a keyword from search engines. But the court did state that Weber's use of the MARY KAY mark must "exist for the sole purpose of informing customers that [Weber], as an entity entirely separate and distinct from Mary Kay, offered Mary Kay products for sale." It also stated that any uses implying an affiliation

with, sponsorship by, or endorsement by Mary Kay would be unlawful, but that it could not be more specific given the many possible uses of a mark. The court reminded Weber to “use caution every time [she uses] the MARY KAY mark—even if that use directly precedes the name of a specific Mary Kay product.” And the court characterized as “suspect” any use of the words Mary Kay “without an explanation that [Weber] was not Mary Kay and [has] no affiliation with Mary Kay.”

Finally, the court refused to prohibit Weber from purchasing Mary Kay’s marks as search-engine keywords because of the value of search engines to “present users with the information they seek as well as related information the user may also find helpful or interesting.” Although, the court did not specifically comment on Weber’s use of the MARY KAY mark in her keyword-triggered sponsored ads, the court’s comments in this decision about Weber’s “advertising” generally and in its earlier summary judgment decision about Weber’s sponsored ads specifically suggest that Weber could do so if not used in a way to suggest affiliation with Mary Kay.

## CONCLUSION

This decision provides guidance on the trademark implications of purchasing trademarks as search-engine keywords and the paid advertisements they trigger. The court ruled here that, at least in the context of a reseller of trademarked goods, resellers can purchase the trademark as a keyword, and use the trademark in the resulting ad if not done in a misleading way.

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### Civil Cases

#### ***Pfizer Inc. v. Sachs,* 2009 WL 2876255 (S.D.N.Y. Sept. 8, 2009)**

*by Scott T. Harlan*

#### **ABSTRACT**

The Southern District of New York granted plaintiff's motion for summary judgment on its trademark-infringement and dilution claims against defendant advertiser who, without authorization, placed plaintiff's VIAGRA marks on a decommissioned military missile and towed it to plaintiff's Manhattan headquarters and to an adult-entertainment exposition to promote his business. The court rejected defendant's First Amendment defense, finding that whatever statement defendant was trying to make was not protected because there were alternate ways to make the statement without using plaintiff's marks and because defendant's true intent was self-promotion, not communication. The court also awarded attorney's fees, finding the case to be exceptional due to defendant's bad faith in ignoring plaintiff's demand letters, continued threats of future infringement, failure to obtain counsel, and intent to financially capitalize on plaintiff's marks.

#### **CASE SUMMARY**

#### **FACTS**

Plaintiff Pfizer Inc. ("Pfizer") manufactures and sells the erectile-dysfunction drug Viagra under the registered mark VIAGRA and the pending mark VIVA VIAGRA. Defendant Sachs is the operator and "chief fun officer" of "JetAngel.com," which sells outdoor advertising on decommissioned military equipment such as fighter jets and missiles.

In September 2008, Sachs towed a trailer carrying a twenty-foot decommissioned United States Air Force missile bearing the mark VIVA VIAGRA into Manhattan, parked it in front of Pfizer's world headquarters, and passed out information about his company. The next day, defendant emailed Pfizer, boasting that it would return the following week with the missile, only this time the missile would feature models riding the missile and handing out condoms. Pfizer immediately sent defendant two cease-and-desist letters.

Without responding to Pfizer's letters, Sachs towed the VIAGRA-branded missile to an adult-entertainment exposition the following weekend and displayed a banner promoting his services. After the expo, Sachs emailed Pfizer again, this time threatening to tour the missile through New York City and twelve other major cities, passing out condoms with pictures of the presidential candidates along the

way. Subsequently, Sachs issued a press release detailing the tour and his advertising services.

The following day, Pfizer filed suit seeking preliminary injunctive relief for trademark infringement and dilution by tarnishment. The court granted Pfizer's request for a temporary restraining order and, subsequently, for a preliminary injunction enjoining Sachs from further use or display of the Viagra marks in connection with any goods or services.

## **ANALYSIS**

As an initial matter, the court addressed Sachs's claim that the marks VIAGRA and VIVA VIAGRA had become generic and unprotectable due to their fame. Sachs supported his argument with an "ad hoc survey" obtained from an advertisement on Craigslist that asked approximately 100 people "what brand name they will use to describe an erectile dysfunction drug." The court dispatched the survey as too methodologically flawed to rebut the presumption of validity of Pfizer's coined and inherently protectable marks.

Next, in evaluating Pfizer's infringement and unfair-competition claims, the court found that every likelihood-of-confusion factor, except the actual confusion factor (which was neutral), favored Pfizer. The court rejected Sachs's First Amendment defense that his use of the marks was a protected statement about erectile dysfunction. Finding that Sachs could have made his "statement" (whatever it was) without the use of Pfizer's marks, and that the true purpose of the use was self-promotion, the court declined to find First Amendment protection.

In considering Pfizer's dilution claims, the court noted Sachs's concession of the fame of Pfizer's marks and of their use in commerce. Turning to the question of tarnishment, and noting that Sachs displayed Pfizer's marks on a missile at an adult-entertainment exhibition and threatened to do so again with two models riding the missile and passing out condoms, the court found that Sachs was likely to harm Pfizer's reputation and cause dilution by tarnishment of Pfizer's marks.

The court rejected Pfizer's false-advertising claims, however, because, while Pfizer showed Sachs's advertising was misleading, it had not shown any actual harm.

Finally, finding the case to be "exceptional," the court awarded Pfizer its attorney's fees. Sachs's actions in ignoring Pfizer's cease-and-desist letters, not obtaining the advice of counsel, continuing his infringing activities despite Pfizer's letters, and using Pfizer's marks with an obvious intent to financially benefit from their reputation, all supported a finding of sufficient bad faith to make the case exceptional.

## **CONCLUSION**

The First Amendment offers no safe harbor to infringers who use third-party trademarks in a tongue-in-cheek manner solely for self-promotional purposes.

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#### ***Rainbow Play Sys., Inc. v. Backyard Adventure, Inc.,* 2009 WL 3150984 (D.S.D. Sept. 28, 2009)**

*by Michael R. Justus*

#### **ABSTRACT**

The District of South Dakota granted defendants' motion for summary judgment on plaintiff's false-advertising claim based on the affirmative defense of unclean hands where plaintiff engaged in the same misconduct alleged against defendants.

#### **CASE SUMMARY**

#### **FACTS**

Plaintiff Rainbow Play Systems, Inc. ("Rainbow") and Defendants Backyard Adventure, Inc. and Leisure Time Products offer competing wooden children's play sets. Both plaintiff and defendants advertised that their play sets were constructed of "cedar" lumber when they were, in fact, both constructed out of types of cypress falling in a separate scientific classification. The evidence showed that Rainbow used both *Thuja plicata* and *Calocedrus decurrens* lumber, and defendants used *Nunninghamia lanceolata*, each of which are classified as types of cypress. In its 2006 sales brochure, Rainbow stated that competing manufacturers were misleading consumers by mislabeling *Nunninghamia lanceolata* as "cedar" when it was actually a "fir." Rainbow brought suit against defendants seeking monetary and injunctive relief for alleged acts of false advertising and unfair competition under the Lanham Act and the South Dakota Unfair and Deceptive Trade Practices Act based on defendants' advertisements for "cedar" play sets. Defendants counterclaimed against Rainbow for both injunctive and monetary relief for alleged acts of false advertising, deceptive trade practices, and unfair competition, as well as for libel. The parties filed cross-motions for summary judgment.

#### **ANALYSIS**

To establish a claim of false or deceptive advertising under Section 43(a) of the Lanham Act, a plaintiff must prove (1) that a defendant made a false statement of fact about its product in a commercial advertisement; (2) that the statement actually deceived or has a tendency to deceive a substantial segment of its audience; (3) that the deception is likely to influence the purchasing decision; (4) that the defendant caused the false statement to enter interstate commerce; and (5) that the plaintiff has been or is likely to be injured as a result.

As an initial matter, the court considered whether advertising a category of “fir” as “cedar” would qualify as “false” within the meaning of the Act. In doing so, the court examined an analogous U.S. Supreme Court case, *Federal Trade Comm’n v. Algoma Lumber Co.*, 291 U.S. 67 (1934), holding that sales of yellow-pine products under the name “California white pine” constituted unfair competition, even where yellow pine was held to be as good as genuine white pine. In *Algoma*, the Court observed that yellow pine was “not a white pine, whether the tests to be applied are those of botanical science or of commercial practice and understanding.” *Id.* at 70. Unlike in *Algoma*, where the answer to the “commercial practice and understanding” test was clear, the court noted the lack of clarity as to whether the different types of cypress used by the parties would be properly advertised as “cedar.”

In response, defendants argued that even if the court accepted Rainbow’s assertion that defendants’ advertisements contained false statements about the nature of the wood, defendants were still entitled to summary judgment based on the affirmative defense of unclean hands. The unclean-hands doctrine may be asserted as an affirmative defense in Lanham Act cases. To sustain an unclean-hands defense, a defendant must show that the plaintiff has engaged in inequitable conduct or bad faith which misconduct has a material relation to the equitable relief sought by the plaintiff. A defendant need not be injured by the plaintiff’s misconduct to be able to successfully assert a defense of unclean hands.

Defendants argued that since all three types of lumber used by Rainbow and defendants were cypress rather than cedar, Rainbow’s advertisements were just as false as those of defendants. Further, defendants argued, if the court were to ultimately conclude that defendants’ reference to “cedar” was a violation of the law, so too was Rainbow’s reference to “cedar,” and the doctrine of unclean hands accordingly should bar all of Rainbow’s claims.

The court agreed with defendants, finding that if defendants had engaged in inequitable conduct by referring to its lumber as cedar despite its different scientific classification, Rainbow was guilty of the same inequitable conduct. Finding that Rainbow’s conduct had a material relation to the equitable relief that it sought, the court granted summary judgment to defendants on Rainbow’s Lanham Act claims.

The court next analyzed whether defendants were entitled to summary judgment on Rainbow’s South Dakota Unfair and Deceptive Trade Practices Act claim. The statute provides: “It is a deceptive act or practice for any person to: knowingly and intentionally act, use or employ any deceptive act or practice, fraud, false pretense, false promises, or misrepresentation or to conceal, suppress, or omit any material fact in connection with the sale or advertisement of any merchandise, regardless of whether any person has in fact been mislead [sic], deceived, or damaged thereby.” The statute, which provides for criminal prosecution, allows a civil action for damages only where the plaintiff can demonstrate both reliance and a causal connection between the alleged deceptive practice and the damages suffered. Because Rainbow failed to produce evidence of its reliance on defendants’ alleged misrepresentation and did not establish the requisite causal connection, the court granted summary judgment to defendants on this claim as well.

Finally, the court examined whether defendants were entitled to summary judgment on their counterclaims for violation of the Lanham Act and the South Dakota Unfair and Deceptive Trade Practices Act. Defendants’ claims were based on Rainbow’s communication in its promotional materials that *Nunninghamia lanceolata* is not “cedar” but a “fir.” Defendants argued that they were prejudiced and damaged by that communication. In response, Rainbow argued that the statement was made with a reasonable, good-faith basis based upon evidence demonstrating that *Nunninghamia lanceolata* was considered by some as belonging to the fir family at the time of the advertisement. Rainbow

subsequently changed these statements in its 2007 catalog. In considering both parties' evidence, the court concluded that genuine issues of material fact remained as to whether the statement was deceptive and material, and whether there was any reliance upon that statement, and, accordingly, denied defendants' summary-judgment motion.

#### **CONCLUSION**

This decision underscores the importance of the affirmative defense of unclean hands in the context of Lanham Act false-advertising claims. Where the misconduct alleged of defendant could also be attributed to plaintiff, and the parties' conduct is equally culpable, the unclean-hands doctrine could bar plaintiff's claims.

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#### YOU ® WHAT YOU EAT?

by Robert D. Litowitz

Not long ago, I sat down with the morning paper in hand (enjoying the feel of newsprint while I still can) and a bowl of heart-healthy, cholesterol-busting CHEERIOS® brand toasted oat cereal, when something I read caused me to execute a nearly flawless and spontaneous spit-take (the classic comedic technique in which a performer deliberately spits out his or her beverage in reaction to shocking news delivered by another performer). Fortunately, the rest of the family had left for work and school, so only our redoubtable schnoodle was on the receiving end of the fine mist of nonfat milk and pulverized whole-grain goodness. (This canine “amuse bouche” suited our high-priced designer mutt just fine and proved a perfect accompaniment to her breakfast Snausages® brand dog treat.)

What had caused me to literally lose a mouthful of breakfast was a report that Kellogg's of Battle Creek, Michigan, is planning one of the most audacious branding campaigns of all time. According to reliable sources, Kellogg's will use laser technology to imprint its *Kellogg's*® logo on individual flakes of corn, like so:



Now, according to the company's old slogan, if you see *Kellogg's* on the box, then you know it's *Kellogg's* in the box. Why then go through all the fuss of harnessing this groundbreaking laser technology to burn the logo on individual flakes like a rancher burns her brand on cattle?

According to sources, the company's iconic *Kellogg's* logo on the carton is not enough to stave off the perception that it is the source for golden flakes boxed in generic store brands. As one report puts it: if the public perceives that Kellogg's made “fake flakes” for competitors, it would take a serious bite out of the Corn Flakes brand and make it indistinguishable from private label producers. “Brand Channel,” October 15, 2009. Others speculate that blasting the logo onto individual flakes may appeal to brand-conscious consumers who have proved their appetite for premium-priced products adorned with logos as their main design element. Fashion mavens smarting from the economic downturn who for now can't afford to indulge in Gucci® or Louis Vuitton® may satisfy their hunger for cache and quality by dishing it

out in a bowl with fresh milk, preferably organic. In the present economy, apparently, status is a dish best served cold.

Kellogg's, of course, is not the first food producer to make a logo part of a product's allure. Perhaps the most famous examples come from the candy wars, where twin titans Hershey and Mars have for decades maintained a rivalry surpassed in intensity and secrecy only by the U.S. and Russia's arms race during the Cold War. With Hershey stamping its brand name on every segment of its flagship Hershey® bars, Mars was not to be outdone. Founder Forrest Mars, a relentless competitor, devised a technique to imprint the letter "m" on each and every M&M® candy, plain and peanut. How is it possible to stamp each colorful chocolate pellet without breaking the delicate candy shell? It's not done by moonlighting Keebler® Elves, Oompa Loompas, or other assorted fairy folk. According to Yahoo!®, the process is similar to off-set printing. Each piece rests in its own indentation and a special conveyor belt carries the pieces to a machine where each piece runs under rubber etch rollers that gently touch each candy to print the "m." Doing so is a stroke of sheer branding genius. By going extra step to put the "m" logo on each piece of candy, Mars ensures that after the candies have left the bag, consumers can always recognize the genuine article from an imposter. And by seeing to it that not just the chocolate, but the brand, melts in your mouth, Mars has cornered the candy-coated chocolate-pellet market. Perhaps that sort of category dominance is Kellogg's goal with its high-tech laser experiment. Or maybe the cereal giant is just seeking to reinvigorate or refresh a venerable but simple product that may have lost its luster amidst the onslaught of jazzier offerings bursting from the shelves of the cereal aisle. But whatever Kellogg's motives and objectives in filling our bowls with its name, one thing is certain. When print newspapers go the way of the dinosaurs, we'll still have something to read in the morning.

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