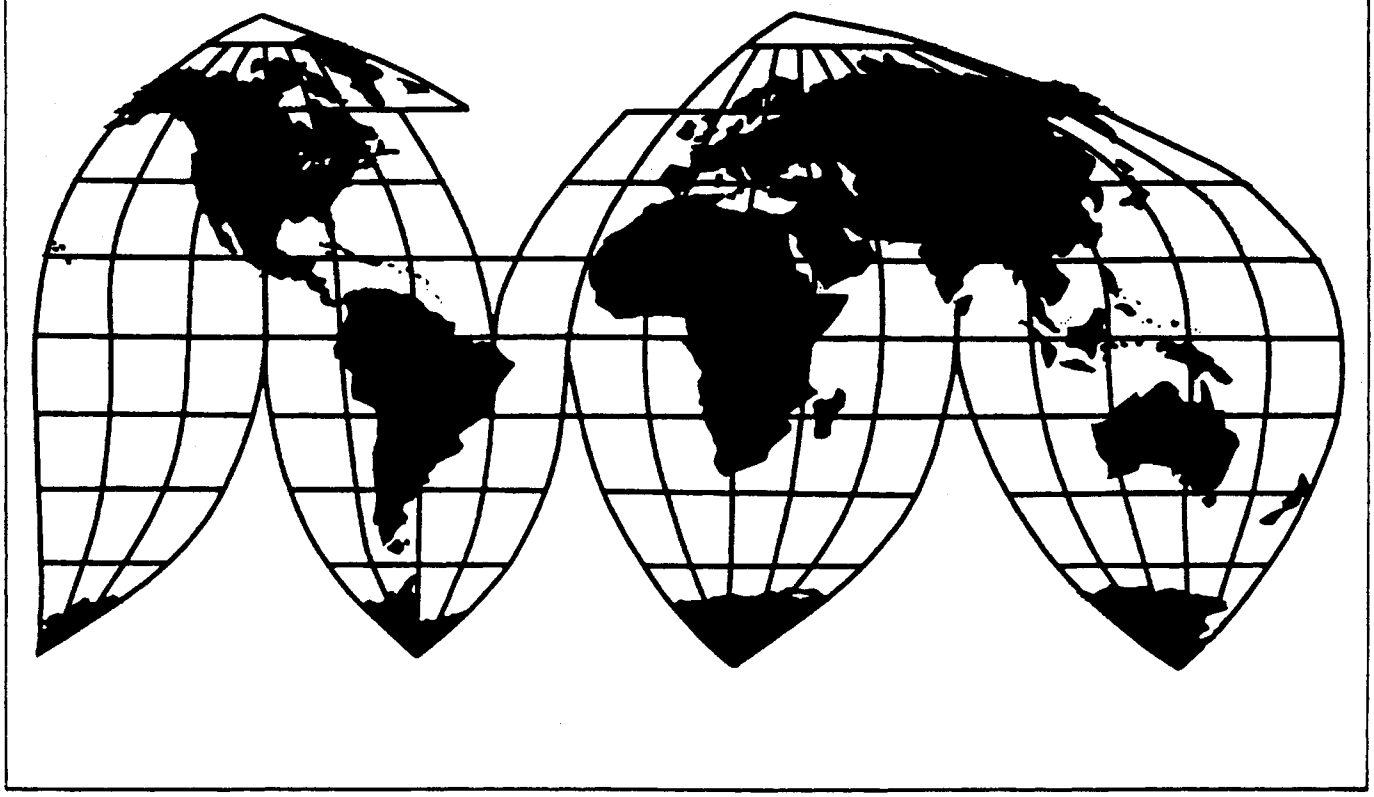
In the Matter of

Certain Cigarettes and Packaging Thereof

Investigation No. 337-TA-424

Publication 3366 **November 2000**

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

COMMISSIONERS

Stephen Koplan, Chairman
Deanna Tanner Okun, Vice Chairman
Lynn M. Bragg
Marcia E. Miller
Jennifer A. Hillman
Thelma J. Askey

Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

U.S. International Trade Commission

Washington, DC 20436
www.usitc.gov

In the Matter of

Certain Cigarettes and Packaging Thereof

Investigation No. 337-TA-424

Publication 3366

November 2000

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

CERTAIN CIGARETTES AND PACKAGING THEREOF	)	**Investigation No. 337-TA-424**

NOTICE OF ISSUANCE OF GENERAL EXCLUSION ORDER AND CEASE AND DESIST ORDER

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has issued a general exclusion order and a cease and desist order in the above-captioned investigation.

FOR FURTHER INFORMATION CONTACT: Shara L. Aranoff, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone (202) 205-3090, e-mail saranoff@usitc.gov.

SUPPLEMENTARY INFORMATION: The Commission instituted this investigation on September 16, 1999, based on a complaint and supplement to the complaint filed by Brown & Williamson Tobacco Corporation ("complainant" or "Brown & Williamson"). Complainant alleged unfair acts in violation of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) in the importation, sale for importation, and/or sale within the United States after importation of certain cigarettes and packaging thereof, by reason of (a) infringement of 11 federally registered U.S. trademarks (U.S. Reg. Nos. 118,372; 311,961; 335,113; 366,744; 404,302; 508,538; 747,482; 747,490; 2,055,297; 2,174,493; and 2,218,589) ("the Brown & Williamson trademarks"); (b) trademark dilution; (c) false representation of source; and (d) false advertising. The Commission's notice of investigation named Allstate Cigarette Distributors, Inc. ("Allstate"), Dood Enterprises, Inc. ("Dood"), Prestige Storage and Distribution, Inc. ("Prestige"), and R.E. Tobacco Sales, Inc. ("R.E. Tobacco") as respondents.

On December 15, 1999, the Commission determined not to review an initial determination ("ID") (Order No. 15) granting the motion of PTI, Inc., doing business as Ampac Trading ("PTI" or "intervenor"), to intervene in this investigation. On February 22, 2000, the Commission determined to review and affirm an ID (Order No. 30) granting the motion of respondent Allstate to terminate the investigation as to it based on a consent order. On March 24, 2000, the Commission determined not to review two IDs (Orders Nos. 60 and 61) granting the motions of respondents Prestige and R.E. Tobacco to terminate the investigation as to them based on consent orders. On April 27, 2000, the Commission determined not to review an ID (Order No. 68) granting the motion of respondent Dood to terminate the investigation as to it based on a consent order.

On March 24, 2000, the Commission determined not to review an ID (Order No. 59) granting complainant's motion for partial summary determination that a domestic industry exists with respect to

complainant's trademarks.

The presiding administrative law judge ("ALJ") held an evidentiary hearing on violation beginning on March 20, 2000. On March 24, 2000, the last day of the hearing, PTI filed a motion for dismissal of Brown & Williamson's complaint pursuant to Federal Rule of Civil Procedure ("FRCP") 41(a), alleging that Brown & Williamson failed to set forth facts showing entitlement to relief for trademark infringement. The ALJ permitted complainant and the Commission investigative attorney ("IA") to respond to PTI's motion in their posthearing briefs.

On June 22, 2000, the ALJ issued her final ID finding a violation of section 337 and denying PTI's motion to dismiss. She found that there had been imports of the accused products by intervenor PTI; that PTI's importation and sale of certain "KOOL" and "LUCKY STRIKE" cigarettes infringed the Brown & Williamson trademarks; that PTI's importation and sale of accused cigarettes diluted the Brown & Williamson trademarks; that PTI's importation and sale of accused cigarettes constituted a false designation of origin; that complainant had failed to demonstrate that PTI engaged in false advertising with respect to the accused cigarettes; that PTI's trademark dilution and false designation had the threat or effect of substantially injuring the domestic industry; and that PTI was not denied due process in proceedings before the ALJ in this investigation.

On June 27, 2000, the Commission determined to extend the date by which it was required determine whether to review the instant ID to August 28, 2000, and to extend the target date in this investigation to October 16, 2000.

On July 12, 2000, intervenor PTI filed a petition for review of the final ID. On July 17, 2000, complainant and the IA filed responses to the petition. On August 28, 2000, the Commission determined not to review the ID and requested written submissions on the issues of remedy, the public interest, and bonding. 65 Fed. Reg. 53334 (Sept. 1, 2000).

Submissions on remedy, the public interest, and bonding were received from complainant, intervenor PTI, and the IA. Reply submissions were received from complainant and the IA. Comments on the public interest were received from one U.S. Senator, nineteen Members of Congress, the National Association of Attorneys General, the Attorney General of Florida, the Petroleum Marketers Association of America, the National Association of Convenience Stores, and the National Grocers Association.

Having reviewed the record in this investigation, including the written submissions of the parties and the public comments, the Commission has determined that the appropriate form of relief is a general exclusion order prohibiting the unlicenced entry for consumption of KOOL and LUCKY STRIKE cigarettes manufactured by Brown & Williamson that infringe the eleven federally-registered Brown & Williamson trademarks (U.S. Reg. Nos. 118,372; 311,961; 335,113; 366,744; 404,302; 508,538; 747,482; 747,490; 2,055,297; 2,174,493; and 2,218,589), dilute the identified trademarks, or bear the identified trademarks and falsely represent that the trademark owner is the source of such product, and a cease and desist order directed to intervenor PTI, prohibiting the importation, sale for importation, or sale in the United States after importation of KOOL and LUCKY STRIKE cigarettes that infringe the Brown & Williamson trademarks.

The Commission has also determined that the public interest factors enumerated in subsections 1337(d) and (f) do not preclude the issuance of the general exclusion order and the cease and desist

order, and that the bond during the Presidential review period shall be in the amount of seven dollars ($7.00) per carton of cigarettes.

This action is taken under the authority of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) and section 210.50 of the Commission's Rules of Practice and Procedure (19 C.F.R. § 210.50).

Copies of the Commission's orders, the public version of the Commission's opinion in support thereof, and all other nonconfidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436, telephone (202) 205-2000. Hearing impaired persons are advised that information can be obtained by contacting the Commission's TDD terminal on (202) 205-1810. Public documents are available for downloading from the Commission's Internet server (http://www.usitc.gov). General information concerning the Commission may also be obtained by accessing its Internet server.

By order of the Commission.

Donna R. Koehnke

Donna R. Koehnke
Secretary

Issued: October 16, 2000

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

CERTAIN CIGARETTES AND PACKAGING THEREOF	)	Investigation No. 337-TA-424

GENERAL EXCLUSION ORDER

The Commission has determined that there is a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) in the unlawful importation, sale for importation, and sale after importation of certain cigarettes and packaging thereof that infringe U.S. Trademark Registration Nos. 508,538; 747,482; 747,490; 2,218,589; 118,372; 335,113; 366,744; 404,302; 2,174,493; 2,055,297; and 311,961. In addition, the Commission has found violations of section 337 by reason of dilution of the aforementioned trademarks and false representation of source of cigarettes and packaging bearing the aforementioned trademarks.

Having reviewed the record in this investigation, including the written submissions of the parties and the comments of other agencies and the public, the Commission has made its determination on the issues of remedy, the public interest, and bonding. The Commission has determined that a general exclusion from entry for consumption of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons because there is a pattern of violation of section 337 and it is difficult to identify the source of infringing products. Accordingly, the Commission has determined to issue a general exclusion order prohibiting the unlicenced importation, sale for importation, and sale after importation of infringing cigarettes and packaging thereof.

The Commission has also determined that the public interest factors enumerated in 19 U.S.C. §§ 1337(d) and (f) do not preclude the issuance of the general exclusion order and that the bond during the Presidential review period shall be in the amount of seven dollars ($7.00) per carton of the cigarettes in question.

Accordingly, the Commission hereby ORDERS that --

1. The following cigarettes and packaging thereof that are manufactured by Brown & Williamson Tobacco Corporation are excluded from entry into the United States for consumption, entry for consumption from a foreign trade zone, and withdrawal from a warehouse for consumption, except if imported by, under license from, or with the permission of the trademark owner, or as provided by law, until such date as the trademarks specified below are abandoned, canceled or rendered invalid or unenforceable:

   a. Cigarettes and packaging thereof that infringe one or more of the federally-registered U.S. trademarks KOOL + DESIGN (U.S. Reg. No. 508,538), KOOL (U.S. Reg. No. 747,482), KOOL + DESIGN (U.S. Reg. No. 747,490), KOOL + DESIGN (U.S. Reg. No. 2,218,589), LUCKY STRIKE (U.S. Reg. No. 118,372), LUCKIES (U.S. Reg. No. 335,113), LUCKY STRIKE + DESIGN (U.S. Reg. No. 366,744), LUCKY STRIKE + DESIGN (U.S. Reg. No. 404,302), LUCKY STRIKE + DESIGN (U.S. Reg. No. 2,174,493), AN AMERICAN ORIGINAL (U.S. Reg. No. 2,055,297), and INDIAN DESIGN (U.S. Reg. No. 311,961);[1]

   b. Cigarettes and packaging thereof that dilute the above listed trademarks; or

   c. Cigarettes and packaging thereof that bear any of the above listed trademarks and falsely represent the trademark owner to be the source of such products.

2. Notwithstanding paragraph 1 of this Order, the aforesaid cigarettes and packaging thereof are entitled to entry into the United States for consumption, entry for consumption from a foreign trade zone, and withdrawal from a warehouse for consumption under bond in the amount of seven dollars ($7.00) per carton of such articles pursuant to subsection (j) of section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337(j)), until such time as the President notifies the Commission that he approves or disapproves this action but no later than sixty (60) days after the date of receipt of this Order by the President.

3. Notwithstanding paragraphs 1 and 2 of this Order, the aforesaid cigarettes and packing thereof are entitled to entry into the United States for consumption, without payment of bond, if, upon importation, they accompany a person arriving in the United States and the U.S. Customs Service is satisfied that they are being imported for the arriving person's personal use rather than for commercial purposes.

4. In accordance with 19 U.S.C. § 1337(l), the provisions of this Order shall not apply to cigarettes and packaging thereof imported by and for the use of the United States, or imported for, and to be used for, the United States with the authorization or consent of the United States Government.

5. The Commission may modify this Order in accordance with the procedure described in section 210.76 of the Commission's Rules of Practice and Procedure (19 C.F.R. § 210.76).

6. The Secretary shall serve copies of this Order upon each party of record in this investigation and

---

[1] A copy of these registrations are attached.

upon the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and the U.S. Customs Service.

7. Notice of this Order shall be published in the *Federal Register*.

By Order of the Commission.

Donna R. Koehnke
Secretary

Issued: October 16, 2000

Registered Apr. 12, 1949

Registration No. 508,538

PRINCIPAL REGISTER
Trade-Mark
Section 2 (f)

UNITED STATES PATENT OFFICE

Brown & Williamson Tobacco Corporation,
Louisville, Ky.

Act of 1946

Application November 24, 1947, Serial No. 542,076

KOOL

(Statement)

Brown & Williamson Tobacco Corporation, a corporation duly organized under the laws of the State of Delaware and located in the city of Louisville, county of Jefferson and State of Kentucky, and doing business at 1600 West Hill Street, Louisville, Kentucky, has adopted and is using the trade-mark shown in the accompanying drawing, for CIGARETTES, in Class 17, Tobacco products, and presents herewith five specimens showing the trade-mark as actually used in connection with such goods, the trade-mark being applied to the goods or to containers, packages or wrappers for the goods, and requests that the same be registered in the United States Patent Office on the Principal Register in accordance with section 2(f) of the act of July 5, 1946.

The trade-mark was first used on November 20, 1931, was first used in commerce among the several States, which may be lawfully regulated by Congress, on November 20, 1931, and such use of the trade-mark has been exclusive and continuous since November 20, 1931.

Applicant is the owner of Registration No. 300,817, granted February 7, 1933.

(Declaration)

Addison Yeaman, assistant secretary of Brown & Williamson Tobacco Corporation, the applicant named in the foregoing statement, being duly sworn, deposes and says that he believes said corporation is the owner of the trade mark which is in use in commerce among the several States, and that no other person, firm, corporation, or association, to the best of his knowledge and belief, has the right to use such trade-mark in commerce, which may be lawfully regulated by Congress, either in the identical form thereof or in such near resemblance thereto as might be calculated to deceive; that the drawing and description truly represent the trade-mark sought to be registered; that the specimens show the trade-mark as actually used in connection with the goods, and that the facts set forth in the statement are true.

Registration is sought under section 2(f) of the act of July 5, 1946, and the claim of distinctiveness is based on substantially exclusive and continuous use of the mark by the applicant for a period of five years next preceding the filing of this application in commerce which may be lawfully regulated by Congress.

Applicant is the owner of Registration No. 300,817, granted February 7, 1933.

BROWN & WILLIAMSON TOBACCO CORPORATION,
By ADDISON YEAMAN,
Assistant Secretary.

United States Patent Office

747,482
Registered Apr. 2, 1963

PRINCIPAL REGISTER
Trademark

Ser. No. 148,295, filed July 3, 1962

KOOL

Brown & Williamson Tobacco Corporation (Delaware corporation)
1600 W. Hill St.
Louisville 1, Ky.

For: CIGARETTES, in CLASS 17.
First use Nov. 20, 1931; in commerce Nov. 20, 1931.
Owner of Reg. Nos. 300,817 and 508,538.

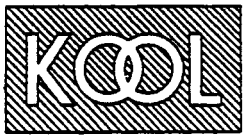
BW 111214

United States Patent Office

747,490
Registered Apr. 2, 1963

PRINCIPAL REGISTER
Trademark

Ser. No. 149,765, filed July 25, 1963



Brown & Williamson Tobacco Corporation (Delaware corporation)
1600 W. Hill St.
Louisville 1, Ky.

For: CIGARETTES, in CLASS 17.
First use December 1932; in commerce December 1932.
The drawing is lined for the color green.
Owner of Reg. Nos. 300,817 and 508,538.

BW 111234

Int. Cl.: 34

Prior U.S. Cls.: 2, 8, 9 and 17

Reg. No. 2,218,589

United States Patent and Trademark Office

Registered Jan. 19, 1999

TRADEMARK
PRINCIPAL REGISTER

KOOL

BROWN & WILLIAMSON TOBACCO CORPORATION (DELAWARE CORPORATION)
200 BROWN & WILLIAMSON TOWER
401 SOUTH FOURTH AVENUE
LOUISVILLE, KY 40202

FOR: CIGARETTES, IN CLASS 34 (U.S. CLS. 2, 8, 9 AND 17).

FIRST USE 9-24-1997; IN COMMERCE 9-24-1997.

OWNER OF U.S. REG. NOS. 508,538, 1,714,026 AND OTHERS.

SER. NO. 75-371,326, FILED 10-10-1997.

MARK T. MULLEN, EXAMINING ATTORNEY.

BW 111254

UNITED STATES PATENT OFFICE.

THE AMERICAN TOBACCO CO., OF NEW YORK, N. Y.

TRADE-MARK FOR SMOKING AND CHEWING TOBACCO, TOBACCO PLUGS, AND CIGARETTES.

118,372. Registered Sept. 4, 1917.

Application filed February 9, 1917. Serial No. 101,254.

STATEMENT.

To all whom it may concern:

Be it known that THE AMERICAN TOBACCO Co., a corporation duly organized under the laws of the State of New Jersey, and located in the city of New York, county of New York, and State of New York, and doing business at 111 Fifth avenue, New York city, New York, has adopted and used the trade-mark shown in the accompanying drawing, for smoking and chewing tobacco, tobacco plugs, and cigarettes, in Class 17, Tobacco products.

The trade-mark has been continuously used in the business of said corporation and in the business of its predecessor, R. A. Patterson & Co., since about January 1, 1883, and said corporation is the owner of the registered Trade-Mark No. 13,382, to R. A. Patterson & Co., registered December 14, 1886, said R. A. Patterson & Co., being the predecessor herein mentioned.

The trade-mark is applied or affixed to the goods or to the packages containing the same, by placing thereon a printed label on which the trade-mark is shown, or by imprinting or stenciling the trade-mark directly upon the packages containing the goods.

[L. S.] THE AMERICAN TOBACCO CO.,
By W. H. O'BRIEN.

LUCKY STRIKE

DECLARATION.

State of New York county of New York ss.

W. H. O'BRIEN, being duly sworn, deposes and says that he is the vice president of the corporation, the applicant named in the foregoing statement; that he believes the foregoing statement is true; that he believes said corporation is the owner of the trade-mark sought to be registered; that no other person, firm, corporation, or association, to the best of his knowledge and belief, has the right to use said trade-mark in the United States, either in the identical form or in any such near resemblance thereto as might be calculated to deceive; that such trade-mark is used by the said corporation in commerce among the several States of the United States; that the description and drawing presented truly represent the mark sought to be registered, and that the specimens show the mark as actually used upon the goods.

W. H. O'BRIEN.

Sworn and subscribed to before me, a notary public, this 6th day of February, 1917.

[L. S.] J. K. CUMMINGS,
Notary Public.

Copies of this trade-mark may be obtained for five cents each, by addressing the "Commissioner of Patents, Washington, D. C."

BW 111424

Int. Cl.: 34

Prior U.S. Cl.: 17

United States Patent and Trademark Office

10 Year Renewal

Reg. No. 333,113

Registered May 26, 1936

Renewal Term Begins May 26, 1996

TRADEMARK
PRINCIPAL REGISTER

Luckies

BROWN & WILLIAMSON TOBACCO CORPORATION (DELAWARE CORPORATION)
THE BROWN & WILLIAMSON TOWER
LOUISVILLE, KY 40202, BY CHANGE OF NAME, MERGER AND MERGER WITH AMERICAN TOBACCO COMPANY, THE (NEW JERSEY CORPORATION) NEW YORK, NY

(OWNER OF U.S. REG. NOS. 118,372, 223,214 AND 290,158)

FOR: CIGARETTES, IN CLASS 17 (INT. CL.: 34).

FIRST USE 6-0-1926; IN COMMERCE 6-0-1926.

SER. NO. 71-373,985, FILED 12-26-1935.

In testimony whereof I have hereunto set my hand and caused the seal of The Patent and Trademark Office to be affixed on Aug. 20, 1996.

COMMISSIONER OF PATENTS AND TRADEMARKS

BW 111282

Registered Apr. 25, 1939 **Trade-Mark 366,744**

RENEWED

UNITED STATES PATENT OFFICE

The American Tobacco Company,
New York, N. Y.

Act of February 20, 1905

Int. Cl.: 34
Prior U.S. Cls.: 17
United States Patent and Trademark Office
10 Year Renewal

Reg. No. 366,744
Registered Apr. 25, 1939
Renewal Term Begins Apr. 25, 1999

TRADEMARK
PRINCIPAL REGISTER

LUCKY STRIKE

BROWN & WILLIAMSON TOBACCO CORPORATION (DELAWARE CORPORATION)
LIB BROWN & WILLIAMSON TOWER
LOUISVILLE, KY 40202, BY CHANGE OF NAME, MERGER AND MERGER WITH AMERICAN TOBACCO COMPANY THE (NEW JERSEY CORPORATION) NEW YORK, NY

OWNER OF U.S. REG. NOS. 114,372, 183,113 AND OTHERS.

FOR: CIGARETTES AND SMOKING TOBACCO, IN CLASS 17 (INT. CL. 34).

FIRST USE 5-23-1871; IN COMMERCE 1-23-1871.

SER. NO. 71-414,346, FILED 1-3-1939.

In testimony whereof I have hereunto set my hand and caused the seal of The Patent and Trademark Office to be affixed on June 8, 1999.

COMMISSIONER OF PATENTS AND TRADEMARKS

Registered Nov. 16, 1943

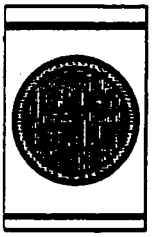
Trade-Mark 404,302

UNITED STATES PATENT OFFICE

The American Tobacco Company, New York, N. Y.

Act of February 20, 1905

Application June 29, 1943, Serial No. 461,733



STATEMENT

To the Commissioner of Patents:

The American Tobacco Company, a corporation duly organized under the laws of the State of New Jersey, with an office located at 111 Fifth Avenue, in the city and State of New York, has adopted and used the trade-mark shown in the accompanying drawing, for CIGARETTES AND SMOKING TOBACCO, in Class 17, Tobacco products, and presents herewith five specimens showing the mark as actually used by applicant upon the goods and requests that the same be registered in the United States Patent Office in accordance with the act of February 20, 1905.

The trade-mark, in substantially its present form, has been continuously used and applied to said goods in the business of the applicant and its predecessors since May 22, 1871, and the trade-mark in the form shown in the drawing filed herewith has been continuously used and applied to said goods in applicant's business as follows: to cigarettes since October 16, 1942, and to smoking tobacco since February 15, 1943.

No claim is made herein to the representation of the label per se.

The trade-mark is applied or affixed to the goods or to the packages containing the same by placing thereon a printed label on which the trade-mark is shown and in other convenient ways. The drawing is lined to indicate the colors red and gray.

Applicant is the owner of the following United States trade-mark registrations: No. 118,372, dated Sept. 4, 1917; No. 278,270, dated Jan. 13, 1931; No. 290,158, dated Dec. 22, 1931; No. 335,113, dated May 26, 1936; No. 366,744, dated April 25, 1939; and No. 393,781, dated Mar. 3, 1942.

The undersigned hereby appoints James P. Hoge and L. B. Stoughton, 41 East 42nd Street, New York, 17, New York, and E. F. Wenderoth, 900 F Street, N. W., Washington, D. C., its attorneys to prosecute this application, with full powers of substitution and revocation, to make alterations and amendments therein, to receive the certificate, and to transact all business in the Patent Office connected therewith.

THE AMERICAN
TOBACCO COMPANY,
By JOHN W. HANLON,
Assistant Secretary.

BW 111327

at. Cl.: 34

Prior U.S. Cls.: 2, 8, 9 and 17

Reg. No. 2,174,493

United States Patent and Trademark Office

Registered July 21, 1998

TRADEMARK
PRINCIPAL REGISTER

LUCKIES
AN AMERICAN ORIGINAL

LUCKY STRIKE
IT'S TOASTED

FILTERS

BROWN & WILLIAMSON TABACCO CORPORATION (DELAWARE CORPORATION)
1500 BROWN & WILLIAMSON TOWER
LOUISVILLE, KY 40202

FOR: CIGARETTES, IN CLASS 34 (U.S. CLS. 2, 8, 9 AND 17).
FIRST USE 8-0-1995; IN COMMERCE 8-0-1995.
OWNER OF U.S. REG. NOS. 118,372, 2,055,297 AND OTHERS.

NO CLAIM IS MADE TO THE EXCLUSIVE RIGHT TO USE "FILTERS", APART FROM THE MARK AS SHOWN.

SEC. 2(F) AS TO "IT'S TOASTED" AND "AN AMERICAN ORIGINAL".

SER. NO. 75-226,134, FILED 12-20-1996.

TINA L. SNAPP, EXAMINING ATTORNEY

BW 111359

Int. Cl.: 34

Prior U.S. Cls.: 2, 8, 9 and 17

Reg. No. 2,055,297

United States Patent and Trademark Office

Registered Apr. 22, 1997

TRADEMARK
PRINCIPAL REGISTER

AN AMERICAN ORIGINAL

BROWN & WILLIAMSON TOBACCO CORPORATION (DELAWARE CORPORATION)
1500 BROWN & WILLIAMSON TOWER
LOUISVILLE, KY 40232

FOR: CIGARETTES, IN CLASS 34 (U.S. CLS. 2, 8, 9 AND 17).

FIRST USE 8-0-1993; IN COMMERCE 8-0-1993.

OWNER OF U.S. REG. NOS. 1,545,583, 1,780,497 AND OTHERS.

NO CLAIM IS MADE TO THE EXCLUSIVE RIGHT TO USE "ORIGINAL", APART FROM THE MARK AS SHOWN.

SEC. 2(F) AS TO "AMERICAN".

SER. NO. 75-115,601, FILED 6-7-1996.

JOHN MICHOS, EXAMINING ATTORNEY

BW 111376

Registered Apr. 10, 1934

Trade-Mark 311,961

UNITED STATES PATENT OFFICE

The American Tobacco Company, New York, N. Y.

Act of February 20, 1905

Application December 15, 1933, Serial No. 244,965

STATEMENT

To all whom it may concern:

The American Tobacco Company, a corporation duly organized under the laws of the State of New Jersey, and located and doing business at #111 Fifth Avenue, New York city, N. Y., has adopted and used the trade-mark shown in the accompanying drawing, for CIGARETTES, CIGARS, SMOKING AND CHEWING TOBACCO, in Class 17, Tobacco products.

The trade-mark has been continuously used by said corporation and its predecessors in business since in or about the year 1890.

Applicant is owner of registration No. 41,223, dated Oct. 20th, 1903.

The trade-mark is printed, painted and otherwise applied and affixed to the wrappers of the goods and cases, packages and other receptacles containing the same, and to invoices, letters, papers, signs, show-cards, labels circulars and other advertisements relating thereto.

[L. S.] THE AMERICAN TOBACCO COMPANY,

By J. R. CUMMINGS,
Assistant Secretary.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

CERTAIN CIGARETTES AND PACKAGING THEREOF	)	Investigation No. 337-TA-424

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED THAT PTI, Inc., doing business as Ampac Trading, 1130 Watson Center Road, Carson, California (business address), 520 Kirkland Way, Suite 400, Kirkland, Washington 98033 (address of incorporation), cease and desist from importing, selling for importation into the United States, selling in the United States, marketing, advertising, distributing, offering for sale, transferring (except for exportation), or soliciting U.S. agents or distributors for certain cigarettes and packaging thereof, as described below, in violation of Section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337, except as provided in Section IV.

I.

(Definitions)

As used in this Order:

(A) "Commission" shall mean the United States International Trade Commission.

(B) "Brown & Williamson" shall mean Brown & Williamson Tobacco Corporation, 401 South 4th Avenue, Suite 200, Louisville, Kentucky 40202-3426, complainant in this investigation, and its successors and assigns.

(C) "Intervenor" shall mean PTI, Inc. doing business as Ampac Trading, 1130 Watson Center Road, Carson, California (business address), 520 Kirkland Way, Suite 400, Kirkland, Washington 98033 (address of incorporation).

(D) "Person" shall mean an individual, or any nongovernmental partnership, firm, association, corporation, or other legal or business entity other than Intervenor or its majority owned or controlled

subsidiaries, their successors, or assigns.

(E) "United States" shall mean the fifty States, the District of Columbia, and Puerto Rico.

(F) "Covered Product" shall mean cigarettes and packaging thereof imported into the United States, that are not imported by, under license from, or with the permission of the trademark owner, or as provided by law, that:

(1) infringe one or more of the federally-registered U.S. trademarks KOOL + DESIGN (U.S. Reg. No. 508,538), KOOL (U.S. Reg. No. 747,482), KOOL + DESIGN (U.S. Reg. No. 747,490), KOOL + DESIGN (U.S. Reg. No. 2,218,589), LUCKY STRIKE (U.S. Reg. No. 118,372), LUCKIES (U.S. Reg. No. 335,113), LUCKY STRIKE + DESIGN (U.S. Reg. No. 366,744), LUCKY STRIKE + DESIGN (U.S. Reg. No. 404,302), LUCKY STRIKE + DESIGN (U.S. Reg. No. 2,174,493), AN AMERICAN ORIGINAL (U.S. Reg. No. 2,055,297), and INDIAN DESIGN (U.S. Reg. No. 311,961);

(2) dilute one or more of the above listed trademarks; or

(3) bear one or more of the above listed trademarks and falsely represent the trademark owner to be the source of such products

until such date as the trademarks specified above are abandoned, canceled, or rendered invalid or unenforceable.

(G) The terms "import" or "importation" refer to importation for entry for consumption, entry for consumption from a foreign trade zone, and withdrawal from a warehouse for consumption under the Customs Laws of the United States.

(Applicability)

The provisions of this Cease and Desist Order shall apply to Intervenor and to any of its principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and/or majority-owned business entities, successors, and assigns, and to each of

them, insofar as they are engaging in conduct prohibited by Section III, *infra*, for, with, or otherwise on behalf of Intervenor.

III.

(Conduct Prohibited)

The following conduct of Intervenor in the United States is prohibited by this Order. Intervenor shall not:

(A) import or sell for importation into the United States covered product;

(B) sell, market, distribute, offer for sale, or otherwise transfer (except for exportation) in the United States imported covered product;

(C) advertise covered product;

(D) solicit U.S. agents or distributors for covered product; or

(E) aid or abet other entities in the importation, sale for importation, sale after importation, transfer, or distribution of covered product.

IV.

(Conduct Permitted)

Notwithstanding any other provision of this Order, specific conduct otherwise prohibited by the terms of this Order shall be permitted if, in a written instrument, the owner of federally-registered U.S. trademarks KOOL + DESIGN (U.S. Reg. No. 508,538), KOOL (U.S. Reg. No. 747,482), KOOL + DESIGN (U.S. Reg. No. 747,490), KOOL + DESIGN (U.S. Reg. No. 2,218,589), LUCKY STRIKE (U.S. Reg. No. 118,372), LUCKIES (U.S. Reg. No. 335,113), LUCKY STRIKE + DESIGN (U.S. Reg. No. 366,744), LUCKY STRIKE + DESIGN (U.S. Reg. No. 404,302), LUCKY STRIKE + DESIGN (U.S. Reg. No. 2,174,493), AN AMERICAN ORIGINAL (U.S. Reg. No. 2,055,297), and INDIAN DESIGN (U.S. Reg. No. 311,961) licenses or authorizes such specific conduct, or such specific conduct is related to the importation or sale of covered product by or for the United States.

V.

(Reporting)

For purposes of this reporting requirement, the reporting period shall commence on July 1 of each year and shall end on the subsequent June 30. However, the first report required under this section shall cover the period from the date of issuance of this Order through June 30, 2001.

Within thirty (30) days of the last day of the reporting period, Intervenor shall report to the Commission the quantity in units and the value in dollars of covered product that Intervenor has imported and/or sold in the United States during the reporting period and the quantity and value of covered product that remains in inventory at the end of the reporting period.

Any failure to make the required report or the filing of any false or inaccurate report shall constitute a violation of this Order and may be referred to the U.S. Department of Justice as a possible criminal violation of 18 U.S.C. § 1001.

VI.

(Recordkeeping and Inspection)

(A) For the purpose of securing compliance with this Order, Intervenor shall retain any and all records relating to the importation, sale, offer for sale, marketing, or distribution in the United States of covered product made and received in the usual and ordinary course of business, whether in detail or in summary form, for a period of two (2) years from the close of the fiscal year to which they pertain.

(B) For the purpose of determining or securing compliance with this Order and for no other purpose, and subject to any privilege recognized by the federal courts of the United States, duly authorized representatives of the Commission, upon reasonable written notice by the Commission or its staff, shall be permitted access and the right to inspect and copy in Intervenor's principal offices during office hours, and in the presence of counsel or other representatives if Intervenor so chooses, all books, ledgers, accounts, correspondence, memoranda, and other records and documents, both in detail and in summary form, as are

required to be retained by subparagraph VI(A) of this Order.

VII.

(Service of Cease and Desist Order)

Intervenor is ordered and directed to:

(A) Serve, within fifteen (15) days after the effective date of this Order, a copy of this Order upon each of its respective officers, directors, managing agents, agents, and employees who have any responsibility for the marketing, distribution, or sale of covered product in the United States;

(B) Serve, within fifteen (15) days after the succession of any persons referred to in subparagraph VII(A) of this Order, a copy of the Order upon each successor; and

(C) Maintain such records as will show the name, title, and address of each person upon whom the Order has been served, as described in subparagraphs VII(A) and VII(B) of this Order, together with the date on which service was made.

The obligations set forth in subparagraph VII(B) and VII(C) shall remain in effect until such date on which the trademarks specified in Section I(F) herein are abandoned, canceled, or rendered invalid or unenforceable.

VIII.

(Confidentiality)

Any request for confidential treatment of information submitted to or obtained by the Commission pursuant to Sections V and VI of the Order should be in accordance with Commission Rule 201.6, 19 C.F.R. § 201.6. For all reports for which confidential treatment is sought, Intervenor must provide a public version of such report with confidential information redacted.

IX.

(Enforcement)

Violation of this Order may result in any of the actions specified in Commission Rule 210.75, 19

C.F.R. § 210.75, including an action for civil penalties in accordance with section 337(f) of the Tariff Act of 1930, 19 U.S.C. § 1337(f), and any other action as the Commission may deem appropriate. In determining whether Intervenor is in violation of this Order, the Commission may infer facts adverse to Intervenor if Intervenor fails to provide adequate or timely information.

X.

(Modification)

The Commission may amend this Order on its own motion or in accordance with the procedure described in Commission Rule 210.76, 19 C.F.R. §210.76.

XI.

(Bonding)

The conduct prohibited by Section III of this Order may be continued during the sixty (60) day period in which this Order is under review by the President pursuant to section 337(j) of the Tariff Act of 1930, 19 U.S.C. § 1337(j), subject to Intervenor posting a bond with the Commission in the amount of seven dollars ($7.00) per carton of covered product. This bond provision does not apply to conduct that is otherwise permitted by Section IV of this Order. Covered product imported on or after the date of issuance of this Order is subject to the entry bond as set forth in the general exclusion order issued by the Commission simultaneously herewith, and is not subject to this bond provision.

The bond prescribed in this section is to be posted in accordance with the procedures established by the Commission for the posting of bonds by complainants in connection with the issuance of temporary exclusion orders. *See* Commission rule 210.68, 19 C.F.R. § 210.68. The bond and any accompanying documentation is to be provided to and approved by the Commission prior to the commencement of conduct which is otherwise prohibited by Section III of this Order.

The bond is to be forfeited in the event that the President approves, or does not disapprove within the Presidential review period, this Order, unless the U.S. Court of Appeals for the Federal Circuit, in a final

judgment, reverses any Commission final determination and order as to Intervenor on appeal, or unless Intervenor exports the products subject to this bond or destroys them and provides certification to that effect satisfactory to the Commission.

The bond is to be released in the event the President disapproves this Order and no subsequent order is issued by the Commission and approved, or not disapproved, by the President, upon service on Intervenor of an Order issued by the Commission based upon application therefore made by Intervenor to the Commission.

By Order of the Commission.

Donna R. Koehnke

Donna R. Koehnke
Secretary

Issued: October 16 2000

CERTIFICATE OF SERVICE

I Donna R. Koehnke, hereby certify that the attached NOTICE OF ISSUANCE OF GENERAL EXCLUSION ORDER AND CEASE AND DESIST ORDER, was served upon the following parties. via first class mail and air mail, where necessary, on October 16, 2000.

Donna R. Koehnke

Donna R. Koehnke, Secretary
U.S. International Trade Commission
500 E Street, S.W., Room 112
Washington, D.C. 20436

ON BEHALF OF BROWN AND WILLIAMSON TOBACCO CORPORATION:

Kevin M. O'Brien, Esq.
John W. Polk, Esq.
Janet K, Kim, Esq.
BAKER & MCKENZIE
815 Connecticut Ave., NW
Washington, DC 20006-4078

ON BEHALF OF INTERVENOR, PTI, INC.:

Matthew J. Fairshter, Esq.
Joel R. Bennett, Esq.
BENNETT & FAIRSHTER
225 S. Lake Avenue, Ninth Floor
Pasadena, California 91101

ON BEHALF OF THE COMMISSION:

Anne M. Goalwin, Esq.
Office of Unfair Import Investigations
500 E Street, S.W., Room 401-P
Washington, D.C. 20436

Shara Aranoff, Esq.
Office of General Counsel
500 E Street, S.W., Room 707-U
Washington, D.C. 20436

Charles S. Stark
Department of Justice
Room 3264, Main Justice
Pennsylvania Avenue & 10th Street, N.W.
Washington, D.C. 20530

Joanne Stump, Chief
Intellectual Property Rights Branch
U.S. Customs Service
Ronald Regan Building, 3rd Floor
1300 Penn. Avenue, N.W.
Washington, D.C. 20229

Richard Lambert, Esq.
Office of the General Counsel
National Institute of Health
9000 Rockville Pike
Bldg. 31, Room 2B50
Bethesda, MD 20892-2111

Randy Tritell, Esq.
Director for International
Antitrust
Federal Trade Commission
Room 380
Pennsylvania Avenue & 6th Street, N.W.
Washington, D.C. 20580

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

CERTAIN CIGARETTES AND PACKAGING THEREOF	)	Investigation No. 337-TA-424

COMMISSION OPINION

INTRODUCTION

On June 22, 2000, the presiding administrative law judge ("ALJ") issued her final initial determination ("ID") finding a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337). In the ID, she found that intervenor PTI, Inc., doing business as Ampac Trading ("PTI" or "intervenor"), violated (1) section 337(a)(1)(C) by infringing eleven of complainant Brown & Williamson Tobacco Corporation's ("Brown & Williamson" or "complainant") federally-registered trademarks; (2) section 337(a)(1)(A) by diluting complainant's trademarks; and (3) section 337(a)(1)(A) by making a false designation of source. On August 28, 2000, the Commission determined not to review the ID, thus adopting the ID's findings with regard to violation issues, and requested written submissions on the issues of remedy, the public interest, and bonding. On October 16, 2000, the Commission concluded that the appropriate remedy in this investigation is a general exclusion order and a cease and desist order directed to PTI; that the public interest factors enumerated in section 337(d) do not preclude such a remedy; and that the bond during the Presidential review period should be set in the amount of seven dollars ($7.00) per carton of the articles in question.

PROCEDURAL BACKGROUND

The Commission instituted this investigation on September 16, 1999, based on a complaint and supplement to the complaint filed by Brown & Williamson. In its complaint, Brown & Williamson alleged unfair acts in violation of section 337 in the importation, sale for importation, and/or sale within the United States after importation of certain cigarettes and packaging thereof, by reason of (a) infringement of 11 federally registered U.S. trademarks ("the Brown & Williamson trademarks")[1]; (b) trademark dilution; (c) false representation of source; and (d) false advertising. The Commission's notice of investigation named Allstate Cigarette Distributors, Inc. ("Allstate"), Dood Enterprises, Inc. ("Dood"), Prestige Storage and Distribution, Inc. ("Prestige"), and R.E. Tobacco Sales, Inc. ("R.E. Tobacco") as respondents.

[1] The Brown & Williamson trademarks are as follows: KOOL + DESIGN (Reg. No. 508,538); KOOL (Reg. No. 747,482); KOOL + DESIGN (Reg. No. 747,490); KOOL + DESIGN (Reg. No. 2, 218,589); LUCKY STRIKE (Reg. No. 118,372); LUCKIES (Reg. No. 335,113); LUCKY STRIKE + DESIGN (Reg. No. 366,744); LUCKY STRIKE + DESIGN (Reg. No. 404,302); LUCKY STRIKE + DESIGN (Reg. No. 2,174,493); AN AMERICAN ORIGINAL (Reg. No. 2,055,297); and INDIAN DESIGN (Reg. No. 311,961). ID at 81, Finding of Fact ("FF") 12.

On December 15, 1999, the Commission determined not to review an ID (Order No. 15) granting the motion of PTI, Inc., doing business as Ampac Trading ("PTI" or "intervenor"), to intervene in this investigation. On February 22, 2000, the Commission determined to review and affirm an ID (Order No. 30) granting the motion of respondent Allstate to terminate the investigation as to it based on a consent order. On March 24, 2000, the Commission determined not to review two IDs (Orders Nos. 60 and 61) granting the motions of respondents Prestige and R.E. Tobacco to terminate the investigation as to them based on consent orders. On April 27, 2000, the Commission determined not to review an ID (Order No. 68) granting the motion of respondent Dood to terminate the investigation as to it based on a consent order.

On March 24, 2000, the Commission determined not to review an ID (Order No. 59) granting complainant's motion for partial summary determination that a domestic industry exists with respect to complainant's trademarks.

The ALJ held an evidentiary hearing on the merits beginning on March 20, 2000. On March 24, 2000, the last day of the hearing, PTI filed a motion for dismissal of Brown & Williamson's complaint pursuant to Federal Rule of Civil Procedure ("FRCP") 41(a), alleging that Brown & Williamson failed to set forth facts showing entitlement to relief for trademark infringement. The ALJ permitted complainant and the Commission investigative attorney ("IA") to respond to PTI's motion in their posthearing briefs.

On June 22, 2000, the ALJ issued her final ID finding a violation of section 337 and denying PTI's motion to dismiss. She found that there had been imports of the accused products[2] by intervenor PTI; that PTI's importation and sale of the accused KOOL and LUCKY STRIKE cigarettes infringed the Brown & Williamson trademarks; that PTI's importation and sale of accused cigarettes diluted the Brown & Williamson trademarks; that PTI's importation and sale of accused cigarettes constituted a false designation of source; that complainant had failed to demonstrate that PTI engaged in false advertising

---

[2] The accused products at issue are certain KOOL and LUCKY STRIKE brand cigarettes manufactured by Brown & Williamson in Macon, Georgia, but intended for sale only outside the United States. The accused cigarettes are sold in packages bearing one or more of the Brown & Williamson trademarks and bearing the legend "Tax Exempt. For Use Outside U.S." Brown & Williamson sells these "for export only" versions of KOOL and LUCKY STRIKE for export, with the intention that they be sold to and used by consumers only outside the United States. ID at FF 9, 18, 62, 67. The accused cigarettes are then acquired by traders who re-import them into the United States, where they are sold to domestic cigarette retailers by the former respondents, intervenor PTI, and others. ID at 6, 21 and FF 156-158, 160, 166, 169-171, 174-175. We refer to the accused cigarettes as "for-export" or "re-imported" versions of KOOL and LUCKY STRIKE cigarettes. Although many of the submissions made by the parties and the public in this proceeding, as well as the ALJ's Recommended Determination ("RD"), sometimes refer to the accused cigarettes as "gray market imports," and that term appears in our summaries of the RD and the various party and public submissions, we do not ourselves use the term "gray market" to refer to the accused cigarettes for purposes of this opinion.

Brown & Williamson also manufactures KOOL and LUCKY STRIKE brand cigarettes authorized for sale in the United States market. These "domestic" cigarettes are manufactured at the same facility in Macon, Georgia, bear one or more of the Brown & Williamson trademarks, and are sold to wholesalers and retailers for eventual sale to U.S. consumers. ID at 1 and FF 14, 15, 18, 20, 21. We refer to these products as "domestic" versions of KOOL and LUCKY STRIKE cigarettes.

with respect to the accused cigarettes; that PTI's trademark dilution and false designation had the threat or effect of substantially injuring the domestic industry; and that PTI was not denied due process in proceedings before the ALJ in this investigation.

On June 27, 2000, the Commission determined to extend the date by which it would determine whether to review the instant ID to August 28, 2000, and to extend the target date in this investigation to October 16, 2000. On July 12, 2000, intervenor PTI filed a petition for review of the final ID. On July 17, 2000, complainant and the IA filed timely responses to the petition.

On August 28, 2000, the Commission determined not to review the ID, thus adopting the ID's findings with regard to violation issues, and requested written submissions on the issues of remedy, the public interest, and bonding. Submissions were received from complainant, PTI, the IA, one U.S. Senator, nineteen Members of Congress, the National Association of Attorneys General, the Attorney General of Florida, the Petroleum Marketers Association of America, the National Association of Convenience Stores, and the National Grocers Association. Reply submissions were received from Brown & Williamson and the IA.

For the following reasons, the Commission determined, on October 16, 2000, that the appropriate remedy in this investigation is a general exclusion order and a cease and desist order directed to PTI; that the public interest factors enumerated in section 337(d) do not preclude such a remedy; and that the bond during the Presidential review period should be set in the amount of seven dollars ($7.00) per carton of the articles in question.

DISCUSSION

I. REMEDY

Under subsections 337(d), the Commission may issue two types of exclusion orders: general exclusion orders and limited exclusion orders. A general exclusion order instructs the U.S. Customs Service to exclude from entry all articles that infringe the involved trademarks, without regard to source. Thus, a general exclusion order applies to persons who were not parties to the Commission's investigation and, indeed, to persons who could not have been parties, such as persons who decide to import after the Commission's investigation is concluded. A limited exclusion order instructs the Customs Service to exclude from entry all articles that infringe the involved trademarks and that originate from a firm that was a party to the Commission investigation.

A general exclusion order is the broadest type of relief available from the Commission. Because of its considerable impact on international trade, potentially extending beyond the parties and articles involved in the investigation, more than just the interests of the parties is involved. Therefore, the Commission exercises caution in issuing general exclusion orders and requires that certain conditions be met before one is issued. These conditions were set forth by the Commission in Certain Airless Paint Spray Pumps, Inv. No. 337-TA-90, USITC Pub. 1199, Commission Opinion at 17-18 (Nov. 1981), where the Commission stated that it would "require that a complainant seeking a general exclusion order prove both a widespread pattern of unauthorized use of its patented invention and certain business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation may attempt to enter the U.S. market with infringing articles."

In addition to exclusion orders, the Commission can also issue cease and desist orders. A cease and desist order is an order to a person to cease its unfair acts and is generally directed to respondents that maintain inventories of the accused product in the United States. Unlike an exclusion order, a cease and desist order is enforced by the Commission, through the courts, rather than by the Customs Service.

A. The RD

In the RD, the ALJ recommends that the Commission issue a general exclusion order prohibiting the importation of for-export KOOL and LUCKY STRIKE cigarettes. The RD notes that, under the standard set forth in Certain Airless Paint Spray Pumps and recently reaffirmed by the Commission in Certain Rare Earth Magnets and Magnetic Materials and Articles Containing Same,[3] a general exclusion order can issue given proof of a widespread pattern of unauthorized use and business conditions creating a reasonable inference that foreign manufacturers other than the respondents may attempt to enter the United States market. RD at 69-70. With respect to a widespread pattern of unauthorized use, the RD notes that, in addition to the acknowledgments by the four former respondents and PTI that they have imported and/or sold in the United States the accused products, the record includes the identification of a large number of other entities also involved in the same activities. The ALJ therefore concludes that a limited exclusion order directed only to known entities would not be sufficient to remedy the violations found. RD at 70. With respect to business conditions, the RD points to evidence that the gray market cigarette business in the United States continues to grow; that entering the gray market cigarette business requires little capital investment, a small number of relatively untrained employees, and minimal facilities; and that individuals engaged in the gray market cigarette business frequently change corporate entities and locations and tend to keep poor business records. RD at 68, 70.

Next, the RD recommends issuance of a cease and desist order against PTI. The RD notes that a cease and desist order is appropriate in a section 337 investigation where U.S. courts may exercise *in personam* jurisdiction over the party covered by the order and where the evidence suggests that the party has a "commercially significant" amount of the infringing product in the United States which might be used to undercut the effect of any exclusion order. The RD concludes that PTI is subject to personal jurisdiction in the United States in light of its voluntary intervention in this proceeding. RD at 71.

The ALJ bases her finding that PTI maintains commercially significant inventories principally on an adverse factual inference relating to the contents of the Customs documents that she finds were withheld by PTI in violation of Order No. 46. RD at 74. She draws the inference that the withheld Customs documents would have shown that PTI has imported a substantial amount of the infringing KOOL and LUCKY STRIKE cigarettes. She also relies on the deposition testimony of Mr. Lee, PTI's corporate designee, that PTI maintains a limited inventory of accused KOOL and LUCKY STRIKE cigarettes at its warehouse facilities and on the fact that Brown & Williamson observed boxes of KOOLs in PTI's warehouse during its inspection. Finally, she notes that Brown & Williamson's inspection is not conclusive on the extent of PTI's inventories, because PTI denied Brown & Williamson access to a significant portion of its facilities. Based on these facts, she concludes that issuance of a cease and desist order against PTI is appropriate. RD at 74-75.

---

[3] Inv. No. 337-TA-413, USITC Pub. 3307 (May 2000), Commission Opinion on Remedy, the Public Interest, and Bonding at 4-5.

B. Arguments of the Parties

1. Brown & Williamson

Brown & Williamson argues that the criteria for issuance of a general exclusion order are satisfied in this case. First, it argues that the accused KOOL and LUCKY STRIKE products are easily identifiable, such that an order will not discourage a foreign manufacturer of non-infringing articles from exporting to the United States out of concern that the exclusion order might be applied to his products. Next, it argues that there is a widespread pattern of unauthorized use of its trademarks, as evidenced by: the existence of numerous entities in addition to PTI and the former respondents engaged in the importation and sale after importation of the accused cigarettes; efforts by the former respondents and other gray market distributors and importers to conceal their operations by failing to maintain complete records; the fact that other cigarette manufacturers have initiated trademark infringement lawsuits against gray market cigarettes, which demonstrates that numerous additional actions would be needed to obtain relief equivalent to a general exclusion order; rising demand for gray market cigarettes in the United States as prices for domestic cigarettes have risen since the November 1998 tobacco settlement; and the inability to trace and identify entities involved in the re-importation of KOOL and LUCKY STRIKE cigarettes. B & W Remedy Brief at 6-13. Brown & Williamson further argues that business conditions indicate that other companies may enter the market, as evidenced by: the high retail price differential between re-imported and authorized domestic cigarettes, which creates the potential for high profits from sales of re-imported cigarettes; the exclusion of domestic sales of re-imported cigarettes from levies under the Master Tobacco Settlement Agreement, which results in significant cost savings for sellers of gray market cigarettes; the established brand recognition and demand for KOOL and LUCKY STRIKE cigarettes; the availability of multiple marketing and distribution networks for reaching consumers with re-imported products, including existing wholesale and retail distributors, the internet, and direct marketing; the minimal cost of entering the business; and the ability to use low-cost, unskilled employees. B & W Remedy Brief at 13-20. Brown & Williamson also argues that the general exclusion order issued in this investigation should totally exclude all unauthorized KOOL and LUCKY STRIKE cigarettes and packaging, rather than imposing a less restrictive form of relief, such as a labeling requirement. B & W Remedy Brief at 20-22.

Brown & Williamson also argues that the Commission should issue a cease and desist order directed to PTI. As evidence that PTI maintains commercially significant inventories of re-imported KOOL and LUCKY STRIKE cigarettes, Brown & Williamson points to: the testimony of PTI's corporate designee Mr. Lee that PTI sometimes imports KOOL and LUCKY STRIKE cigarettes without having specific orders from clients and keeps some inventory at its warehouse facilities; PTI's ability to obtain additional KOOL and LUCKY STRIKE cigarettes stockpiled in ports in Florida by other importers; and the ALJ's finding that inventories should be the subject of a factual inference due to PTI's failure to comply with Order No. 46 concerning its Customs documents. B & W Remedy Brief at 23-25. Brown & Williamson urges that the cease and desist order should be directed not just to PTI, but also to the officers and directors of PTI and to related companies, because the deposition testimony of Mr. Lee demonstrates that he controls numerous interrelated companies, any of which might take over PTI's re-imported cigarette business if the cease and desist order is narrowly written. *Id.* at 25-26.

2. PTI

PTI argues that, at present, no importer can re-import American-made cigarettes under

"temporary" regulations promulgated by the Bureau of Alcohol, Tobacco, and Firearms ("ATF") on December 22, 1999. PTI also asserts that it is not presently importing the accused cigarettes, has not done so since before January 1, 2000, and will not be able to do so until and unless the ATF regulations are rescinded or changed. PTI contends that, because there is presently no basis under which any of the parties can import the accused cigarettes, there is no need for a general exclusion order. It urges the Commission not to issue any remedial relief in this case. PTI Remedy Brief at 2-3. PTI does not address the extent of its inventories or the appropriateness of a cease and desist order.

3. The IA

The IA agrees with the ALJ's recommendation that the Commission issue a general exclusion order directed against cigarettes and packaging thereof bearing the asserted trademarks. She contends that the ALJ correctly found that the record demonstrates the existence of a widespread pattern of infringing importation and sale of accused products by entities in addition to PTI and the former respondents. Similarly, she argues that the ALJ correctly found that certain business conditions exist from which one might infer that entities other than the parties to the investigation may attempt to import or sell infringing articles, including the established and growing network for distribution and sale of re-imported cigarettes and the minimal investment and employee training associated with starting such a business. OUII Remedy Brief at 5-10. Finally, the IA supports the RD's recommendation that the Commission issue a cease and desist order directed to PTI. She points out that the RD is consistent with a prior Commission decision that inferred the existence of commercially significant domestic inventories and issued cease and desist orders against respondents who refused to provide information about their inventory levels despite numerous opportunities and requests to do so. OUII Remedy Brief at 10-11, *citing* Certain Crystalline Cefadroxil Monohydrate, Inv. No. 337-TA-293, USITC Pub. 2391 (June 1991), Commission Opinion at 41-42.

C. Analysis

1. General Exclusion Order

a. Criteria for Issuance

We agree with complainant, the IA, and the ALJ that the prerequisites for issuance of a general exclusion order are satisfied in this case.

Section 337(d) provides that Commission exclusion orders "shall be limited to persons determined by the Commission to be violating this section" unless the Commission finds the existence of certain conditions that would undermine the effectiveness of such a limited order.[4] The legislative history to section 337(d) indicates that the statutory criteria for the issuance of a general exclusion order do not "differ significantly" from the criteria previously applied by the Commission in determining whether a general exclusion order is appropriate.[5] The Commission first enunciated these criteria in Certain Airless Paint Spray Pumps, in which it stated that it would "require that a complainant seeking a general exclusion order prove both a widespread pattern of unauthorized use of its patented invention and

---

[4] 19 U.S.C. § 1337(d).

[5] S. Rep. No. 103-412 at 120 (1994).

certain business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation may attempt to enter the U.S. market with infringing articles."[6] In that case, the Commission listed the following factors relevant to demonstrating whether there is a "widespread pattern of unauthorized use":

(a) a Commission determination of unauthorized importation into the United States of infringing articles by numerous foreign manufacturers;

(b) the pendency of foreign infringement suits based upon foreign patents which correspond to the domestic patent at issue; and

(c) other evidence which demonstrates a history of unauthorized foreign use of the patented invention.

In addition, the Commission listed the following factors relevant to showing whether "certain business conditions" exist:

(a) an established market for the patented product in the U.S. market and conditions of the world market;

(b) the availability of marketing and distribution networks in the United States for potential foreign manufacturers;

(c) the cost to foreign entrepreneurs of building a facility capable of producing the patented article;

(d) the number of foreign manufacturers whose facilities could be retooled to produce the patented article; or

(e) the cost to foreign manufacturers of retooling their facility to produce the patented article.

With respect to the first criterion, a "widespread pattern of unauthorized use," we note that the Certain Airless Paint Spray Pumps criteria focus on unauthorized importation by multiple foreign manufacturers. In this case, by contrast, the accused cigarettes are domestic goods that are sold for exportation by the domestic manufacturer and then re-imported into the United States by various foreign and domestic entities without the manufacturer's consent. Therefore, as in Certain Agricultural Tractors Under 50 Power Take-Off Horsepower,[7] our focus in this investigation is not on the conduct of foreign manufacturers, but on that of the exporters and importers who have directed the for-export KOOL and LUCKY STRIKE cigarettes back to the United States market. We agree with complainant, the IA, and the ALJ that the record provides evidence of a widespread pattern of unauthorized use of the Brown & Williamson trademarks. In particular, the evidence demonstrates that, in addition to PTI and the four former respondents, numerous other foreign and domestic entities have imported the accused cigarettes

---

[6] Inv. No. 337-TA-90, USITC Pub. 1199, Commission Opinion at 17-18 (Nov. 1981).

[7] Inv. No. 337-TA-380, USITC Pub. 3026 (Mar. 1997), Commission Opinion at 20.

or sold them in the United States after importation. ID at 70; FF 156-158, 160, 163, 166-167, 169-171, 173-175.

We likewise find that market conditions exist from which one might reasonably infer that foreign exporters and domestic importers other than PTI and the former respondents in this investigation might attempt to enter the U.S. market with infringing articles. First, there is considerable and growing demand for re-imported or gray market cigarettes in the U.S. market. ID at 70 (citing testimony); FF 153, 177. Second, entering the re-imported or gray market cigarette business requires little capital investment, a small number of relatively untrained employees, and minimal facilities. ID at 70; FF 152, 154-155, 161-162, 168, 172, 176. Third, individuals engaged in the re-imported or gray market cigarette business tend frequently to create new corporate entities through which to do business, such that remedial orders directed to existing businesses might encourage market participants simply to continue doing business under new names and at different locations. FF 165. Collectively, these factors strongly suggest that importation of for-export KOOL and LUCKY STRIKE cigarettes is an attractive business opportunity, entry into the market is easy, and, therefore, additional exporters and importers may attempt to enter the United States with infringing cigarettes. Accordingly, unless a general exclusion order is issued, it may become necessary to institute repeated section 337 investigations each time a new exporter or importer is identified.[8] Thus, we conclude that the interest in granting an effective remedy requires the issuance of a general exclusion order in this investigation.

b. Types of Entry Covered by the Order

As the Commission stated in Certain Devices for Connecting Computers Via Telephone Lines, Inv. No. 337-TA-360, USITC Pub. 2843 (Dec. 1994), Commission Opinion at 9, although the Commission's remedial authority is quite broad, it has applied this authority "in measured fashion and has issued only such relief as is adequate to redress the harm caused by the prohibited imports." Thus, the Commission generally limits the applicability of exclusion orders to entries for consumption unless there is evidence a prohibition of imports of the accused products made through other methods of entry is necessary in order to make the remedy effective.

In the instant investigation, there is evidence that, rather than being imported directly for consumption, the accused cigarettes are frequently imported into bonded warehouses or foreign trade zones. *See* FF 166; PTI's Supplemental Opposition to Complainant's Motion for an Order to Compel PTI to Permit Inspection and Photographs of its Warehouse (Feb. 12, 2000) (noting that PTI's warehouse is located in a foreign trade zone). Neither Brown & Williamson's remedy brief nor its proposed general exclusion order addresses these circumstances. Although the IA also provides no discussion of these circumstances, her proposed general exclusion order does refer to "entry into the United States for consumption, entry for consumption from a foreign-trade zone, and withdrawal from a warehouse for consumption." OUII Remedy Brief, Attachment A at ¶ 2. In order to avoid any possible confusion in Customs' administration of this general exclusion order,[9] we have specified that the order applies to

---

[8] *See* Spray Pumps at 18 (complainant should not be compelled to file a series of complaints as it becomes aware of new foreign participants in the market; such a result wastes the resources of both complainant and the Commission).

[9] *See generally* 19 C.F.R. §§ 141.0a(a), (f), and (g), 144.38, and 146.62 (distinguishing between (continued...)

entries for consumption from bonded warehouses and foreign trade zones as well as to direct entries for consumption.

In Certain Lens-Fitted Film Packages, Inv. No. 337-TA-406, the Commission included a personal use exception in its general exclusion order. The purpose of the exception was to facilitate Customs' administration of the order by obviating the need for Customs to detect and block the importation of non-commercial quantities of infringing disposable cameras by individual travelers returning to the United States. Complainant in that case had indicated that such an exception was acceptable. In the instant investigation, the IA has proposed that the exclusion order contain a personal use exception, and Brown & Williamson has not addressed the issue. Because cigarettes, like disposable cameras, are the kind of products that commonly accompany travelers returning to the United States, we conclude that the same concerns with the ease of administration of the Commission's order by Customs that were discussed in Certain Lens-Fitted Film Packages warrant inclusion of a similar exception in this case.[10]

c. Specific Provisions of the Exclusion Order

The general exclusion order that we are issuing in this investigation orders the U.S. Customs Service to exclude from entry for consumption into the United States (including entries for consumption from bonded warehouses and foreign trade zones) cigarettes and packaging thereof that are manufactured by Brown & Williamson Tobacco Corporation and (a) infringe one or more of the trademarks at issue in this investigation[11]; (b) dilute one or more of these trademarks; or (c) falsely represent the trademark owner to be the source of cigarettes and packaging thereof bearing one or more of such trademarks.[12] Under the terms of the exclusion order, accused cigarettes may be imported for consumption into the United States only: (1) if they are imported by, under license from, or with the permission of the trademark owner (that is, Brown & Williamson); (2) as otherwise provided by law; (3) if they fall within the existing personal use exception for cigarettes; or (4) if the importer demonstrates to the satisfaction of

---

[9] (...continued)
various types of entry for consumption).

[10] Indeed, a personal use exception is particularly appropriate in this investigation, because existing law specifies a precise number of cigarettes that travelers are entitled to bring into the United States duty free for personal use, and it is likely that traveling smokers are familiar with and act in reliance on this limit. *See* 19 U.S.C. § 1555(b)(6)(B).

[11] KOOL + DESIGN (U.S. Reg. No. 508,538), KOOL (U.S. Reg. No. 747,482), KOOL + DESIGN (U.S. Reg. No. 747,490), KOOL + DESIGN (U.S. Reg. No. 2,218,589), LUCKY STRIKE (U.S. Reg. No. 118,372), LUCKIES (U.S. Reg. No. 335,113), LUCKY STRIKE + DESIGN (U.S. Reg. No. 366,744), LUCKY STRIKE + DESIGN (U.S. Reg. No. 404,302), LUCKY STRIKE + DESIGN (U.S. Reg. No. 2,174,493), AN AMERICAN ORIGINAL (U.S. Reg. No. 2,055,297), and INDIAN DESIGN (U.S. Reg. No. 311,961).

[12] We have found that a distinguishing feature of such cigarettes, by which Customs may identify them, is their "Tax Exempt. For Use Outside U.S." labeling, which is required by law. *See* ID at 19, 31, 32; 27 C.F.R. § 290.185.

the Customs Service that the KOOL or LUCKY STRIKE cigarettes and packaging at issue do not infringe or dilute the trademarks or falsely represent Brown & Williamson to be the source of such product.[13]

As noted above, the Commission has an obligation to impose a remedy no broader than necessary to eliminate the violation of section 337. In Tractors, the Commission considered whether requiring the accused tractors to be imported with a label alerting potential purchasers that the accused tractors were gray market goods would be sufficient to eliminate the likelihood of confusion; the Commission concluded that it would not. In particular, the Commission reasoned that, because it had no personal jurisdiction over many of the domestic entities engaged in the distribution of the infringing tractors, it could not guarantee that labels placed on the tractors at the point of importation would still be there at the time of ultimate sale to a consumer.[14]

No party in the current investigation raised the issue before the ALJ, but Brown & Williamson now urges the Commission not to include a labeling exception in the general exclusion order in this case. Although we do not agree with all its arguments, we agree with Brown & Williamson that a labeling remedy would not be appropriate in this instance. As in Tractors, the evidence in this investigation indicates that there are numerous entities, aside from PTI and the original respondents, who are engaged in the domestic sale of re-imported KOOL and LUCKY STRIKE cigarettes and whose use of appropriate labels therefore could not be enforced through issuance of cease and desist orders. Thus, the Commission's inability to enforce such a remedy at the point at which it would be effective -- *i.e.*, at the time of retail sale to a consumer -- is the same in this case as it was in Tractors. Moreover, PTI has never advocated a labeling remedy. For these reasons, we have not included a labeling exception in the general exclusion order in this investigation.

2. Cease and Desist Order

We concur with the ALJ's recommendation that the Commission issue a cease and desist order prohibiting the sale of infringing KOOL and LUCKY STRIKE cigarettes by intervenor PTI. In general, cease and desist orders are warranted with respect to domestic respondents that maintain significant U.S. inventories of the infringing product.[15]

---

[13] In the ID, the ALJ did not address the question whether certain "anomalous" KOOL cigarettes containing the domestic recipe, which were sold for export by Brown & Williamson in 1999, are materially different from the domestic version of KOOL cigarettes. ID at 25-26. Thus, in theory, an importer could attempt to persuade the Customs Service that re-imported KOOL cigarettes containing the domestic formulation and in packaging that differs from the domestic version only with respect to the "For Export" legend, are not materially different from the domestic version of such cigarettes. This scenario is unlikely to occur, however, because of the small volume and one-time nature of these "anomalous" for-export sales in 1999.

[14] USITC Pub. 3026 , Commission Opinion at 22-30, *aff'd,* Gamut Trading Co. v. U.S. Int'l Trade Comm'n, 200 F.3d 775, 784 (Fed. Cir. 1999).

[15] *See, e.g.,* Certain Crystalline Cefadroxil Monohydrate, Inv. No. 337-TA-293, USITC Pub. 2391, Commission Opinion at 37-42 (June 1991).

In this case, the record supports a finding that PTI maintains a commercially significant inventory of accused KOOL and LUCKY STRIKE cigarettes in the United States. In particular, we adopt the ALJ's recommended findings that: Mr. Lee, PTI's corporate designee, testified in his deposition that PTI maintains some inventory of accused KOOL and LUCKY STRIKE cigarettes at its warehouse facilities, RD at 73, 75; Brown & Williamson's inspection of PTI's warehouse revealed the presence of accused KOOL cigarettes held in inventory (and, because the inspection did not cover the entire premises, did not rule out the presence of LUCKY STRIKEs), RD at 72, 75; and an inference that PTI maintains commercially significant inventories of infringing cigarettes is appropriate due to PTI's failure to comply with Order No. 46 with respect to providing copies of Customs documentation that would have identified the volume of KOOL and LUCKY STRIKE cigarettes that it re-imported, RD at 74-75. We have therefore issued a cease and desist order directed to PTI.

II. THE PUBLIC INTEREST

Prior to issuing relief, the Commission is required to consider the effect of such relief on the public health and welfare, competitive conditions in the U.S. economy, the production of like or directly competitive articles in the United States, and U.S. consumers. 19 U.S.C. § 1337(d) and (f). If the Commission finds that a proposed remedy is not in the public interest, then the proposed remedy will not be ordered.

The Commission has found public interest concerns to be overriding in only three cases to date. In Certain Automatic Crankpin Grinders,[16] the Commission found issuance of an exclusion order would deprive the domestic automotive industry of a tool needed to supply the domestic market with parts for fuel efficient automobile engines. In Inclined Field Acceleration Tubes,[17] the Commission determined that continuing basic atomic research using high quality imported acceleration tubes was an overriding public concern and declined to issue an exclusion order. In Fluidized Support Apparatus,[18] the Commission found that the domestic manufacturer was unable to meet the demand for the patented hospital beds for burn patients and that no comparable product was available.

In Tractors, the Commission held that public interest considerations did not preclude the issuance of a remedy. It reasoned that, since the record indicated that there were numerous other sources of new and used tractors available to U.S. consumers, the exclusion and cease and desist orders would have limited economic impact in the United States and there would continue to be considerable competition in the U.S. market for small tractors if the infringing tractors were excluded.[19] With respect to the public health and welfare, the Commission recognized that used gray market tractors tend to be sold without up-to-date safety equipment, but stated that it did not give weight to this factor in deciding whether to

---

[16] Inv. No. 337-TA-60, USITC Pub. 1022 (1979).

[17] Inv. No. 337-TA-67, USITC Pub. 1119 (1980).

[18] Inv. Nos. 337-TA-182 and 337-TA-188, USITC Pub. 1667 (1984).

[19] USITC Pub. 3026, Commission Opinion at 34.

exclude gray market tractors or merely require informational labels.[20]

A. Arguments of the Parties

Brown & Williamson argues that the public interest supports the issuance of a remedy in this case for several reasons. First, it contends that the exclusion of the low-priced accused cigarettes helps prevent cigarette sales to minors. Second, it claims that the issuance of relief in this case would serve the public interest in the protection of intellectual property rights. Third, it argues that the public interest would be served by ending the evasion of payments to the states under the Master Settlement Agreement. Finally, it argues that competitive conditions in the U.S. market support the issuance of the requested remedy, because re-imported cigarettes are damaging to legitimate businesses, eliminating their ability to profit from legitimate cigarette sales. B & W Remedy Brief at 27-31.

PTI does not directly address the public interest factors. Its discussion of the ATF regulations could, however, be interpreted as an argument that the public interest in protecting intellectual property rights would not be served by issuance of Commission remedial orders in this case, since the goal of such orders -- the exclusion of the accused cigarettes from the U.S. market -- has already been achieved. PTI Remedy Brief at 2-3.

The IA argues that no known public interest concerns weigh against issuance of a remedy in this investigation. In particular, she contends that there is no evidence of record suggesting that Brown & Williamson and its domestic competitors do not or cannot produce an adequate supply of cigarettes designed for the domestic market. She contends that the temporary regulations recently implemented by the ATF to prohibit the re-importation of for-export cigarettes do not provide a basis for the Commission to decline to issue relief in this investigation. Rather, she suggests that the proposed relief would be consistent with the ATF's temporary regulations. In so arguing, she points to the statutory instruction that violations of section 337 "shall be dealt with, *in addition to* any other provision of law, as provided in this section." OUII Remedy Brief at 12-13, *citing* 27 C.F.R. § 275.82 and 19 U.S.C. § 1337(a) (emphasis added by the IA). She also cites pending legislation to ban the importation of gray market cigarettes as evidence that the temporary regulations have not been adequate to prevent continued evasion of United States taxes on cigarettes through gray market imports. *Id.* at 13.

B. Public Comments

As noted above, in addition to briefs from the parties, the Commission received comments on the public interest from one U.S. Senator,[21] nineteen Members of Congress,[22] the National Association of

---

[20] *Id.* at 28-29. The Commission stated that its "statutory obligation is to substantially eliminate any likelihood of confusion, not to make sure that the accused imports are made perfectly safe. . . . Nothing in section 337 forbids a consumer from purchasing a product that is not completely safe, so long as he is not acting under any misimpression resulting from a violation of the statute."

[21] Senator McConnell (Kentucky).

[22] Congressmen Armey (Texas), Boucher (Virginia), Boyd (Florida), Burr (North Carolina), Calvert (California), Camp (Michigan), Chambliss (Georgia), Cunningham (California), Etheridge (continued...)

Attorneys General, the Attorney General of Florida, the Petroleum Marketers Association of America, the National Association of Convenience Stores, and the National Grocers Association.

All of the public comments argue that adoption of the remedy recommended in the RD is in the public interest for various reasons, including that it will: (1) reduce the availability of low-cost cigarettes to underage smokers; (2) reduce the exposure of U.S. smokers to cigarette formulations that may be more dangerous than domestic cigarettes and/or do not contain required labeling; (3) stop the circumvention of payments to the states under the Master Settlement Agreement,[23] providing funds that states can use for public purposes; (4) support legislative and regulatory efforts to curb pervasive importation and sale of gray market cigarettes; (5) protect the economic interests of domestic distributors and retailers of legitimate cigarettes who not only lose sales to re-imported cigarettes, but also bear the brunt of consumer dissatisfaction with such products; and (6) protect domestic consumers from being deceived by cigarettes that may be materially different in content and quality control.

C. Analysis

In addressing the statutory public interest factors, the Commission is charged to consider whether public interest considerations suggest that, despite a violation of section 337, the Commission should not issue any remedy at all. We find that the public interest does not weigh against issuance of a remedy in this proceeding. In particular, we agree with the IA that there is no evidence of record suggesting that Brown & Williamson and its domestic competitors do not or cannot produce an adequate supply of cigarettes designed for the domestic market. Thus, although eliminating competition from lower-priced re-imported KOOL and LUCKY STRIKE cigarettes may cause some domestic consumers to have fewer choices and/or pay higher prices for their cigarettes, and may put some distributors of re-imported cigarettes out of business, any adverse effects on competitive conditions in the U.S. economy and on consumers would be too minor to warrant denying Brown & Williamson a remedy in this case. Aside from their lower prices and the business opportunity that those lower prices present, there is no evidence that the accused cigarettes make any affirmative contribution to the public health and welfare.

One further issue that warrants discussion is PTI's argument that no exclusion order should be

---

[22] (...continued)
(North Carolina), Ewing (Illinois), Fletcher (Kentucky), Hayes (North Carolina), Jenkins (Tennessee), Lewis (California), Lewis (Kentucky), Lucas (Kentucky), Northup (Kentucky), Rogers (Kentucky), and Whitfield (Kentucky).

[23] The Master Settlement Agreement between various States and the tobacco manufacturers provides for payments by the tobacco companies into a settlement fund based on the volume of cigarettes "shipped for domestic consumption." It is generally agreed that sales of re-imported cigarettes are exempt from the required payments. Therefore, to the extent that such sales displace sales of cigarettes originally intended for domestic sale, less money is paid into the settlement fund. The payments made to the states out of the settlement fund are based on the manufacturers' total domestic cigarette sales nationwide, not on a state-by-state basis. Therefore, when sales subject to the payment requirement are displaced by exempt sales in any state, it reduces the settlement payments to all states, and no state has a way of preventing such exempt sales in another state or recouping payments from the sellers of re-imported or gray market cigarettes for such sales. *See, e.g.*, Letter from Attorney General Butterworth of Florida (Sept. 8, 2000).

issued in this case, because the accused products may not legally be imported after December 31, 1999 under temporary ATF regulations that were published on December 22, 1999. The regulations in question implement certain provisions of the Balanced Budget Act of 1997, which places restrictions on the importation of previously exported tobacco products in order to enhance the collection of federal excise taxes on such products.[24]

The regulations provide, in pertinent part, that after December 31, 1999, tobacco products that were previously exported from the United States "may only be imported or brought into the United States by release from customs custody for delivery to a manufacturer of tobacco products . . . or to the proprietor of an export warehouse." 27 C.F.R. §275.82(a) (2000). Further, these products may only be "sold, transferred, or delivered onto the domestic U.S. market by a manufacturer of tobacco products after repackaging of the product," which is defined to mean "the removal of the tobacco product from its original package bearing the export marks and placement of the product in a new package" meeting requirements for marking of domestic tobacco products. 27 C.F.R. § 275.82(b) (2000). Although the temporary regulations on their face apply to imports for personal use, ATF is currently enjoined from enforcing the regulations to the extent they have the effect of barring consumers purchasing tobacco products in duty free stores and proceeding into Canada from retaining those products (up to the legal limit for personal use of 200 cigarettes per person) when reentering the United States.[25]

The parties have argued at some length over whether the ATF temporary regulations would render the recommended remedial orders in this section 337 investigation superfluous. While there would clearly be considerable overlap, we note that the regulations do not prohibit or restrict the domestic sale of tobacco products re-imported prior to December 31, 1999. By contrast, PTI (but not other entities) would be prohibited from making such sales if the Commission issues a cease and desist order. Moreover, it is possible that the regulations could be revised before they become final or could be overturned by a court.[26]

---

[24] *See* 64 Fed. Reg. 71918 (Dec. 22, 1999). The ATF regulations are temporary regulations that may remain in effect for up to three years. ATF also published a notice of proposed rulemaking seeking comments on the temporary regulations. 64 Fed. Reg. 71927 (Dec. 22, 1999). The comment period has now closed, and we understand that a package of final regulations is undergoing internal review within ATF/Treasury. Telephone conversation on September 19, 2000, between Daniel Hiland, Regulations Division, ATF, and Shara Aranoff, Office of the General Counsel, U.S. International Trade Commission.

[25] *See* World Duty Free America, Inc. v. Summers, 94 F. Supp.2d 61 (D.D.C. 2000). The court held that an injunction was warranted based on a showing of likelihood of success on the merits on two claims: (1) that the regulations improperly preempt another statute (19 U.S.C. § 1555(b)(6)(B)) providing a personal exemption for up to 200 cigarettes brought into the United States for personal use; and (2) that the regulations were promulgated in violation of the notice and hearing requirements of the Administrative Procedure Act.

[26] Brown & Williamson argues that, under the ATF rules, a "manufacturer" of tobacco products other than Brown & Williamson would be permitted to continue to import the KOOL and LUCKY STRIKE cigarettes that the Commission found violate section 337. B & W Reply Brief on Remedy at (continued...)

The parties have also argued about whether the ATF rules have actually stopped the flow of re-imported cigarettes into the United States. *See* PTI Remedy Brief at 2-3; Confidential Transcript at 829-30, 835 (testimony of PTI's Customs broker); B & W Remedy Brief at Exhibit 4; B & W Reply Remedy Brief at 4. Overall, we do not believe that it is possible to come to a definite conclusion from the existing record as to whether the ATF regulations have stopped the flow of re-imported KOOL and LUCKY STRIKE cigarettes into the United States. In spite of the importance that the parties seem to ascribe to this issue, however, and for the reasons discussed below, we consider it to be largely irrelevant to our disposition of this investigation.

Section 337(a) provides that violations "shall be dealt with, *in addition to any other provision of law*, as provided in this section." 19 U.S.C. § 1337(a) (emphasis added). This provision has generally been understood to mean that the Commission is required to conduct an investigation, and impose a remedy for any violation it finds, regardless of whether another provision of law may be available that would duplicate in whole or in part the relief afforded by the Commission's order.[27] Thus, rather than providing a public interest basis on which the Commission should deny Brown & Williamson a remedy in this investigation, the ATF regulations merely represent another legal means available for curbing the flow of re-imported cigarettes, just as would a district court order enjoining an infringer. Having proven a violation of section 337, Brown & Williamson is entitled to a remedy, even if it were true that any relief afforded by the Commission would be wholly duplicative of that provided by the ATF regulations.

III. BONDING

Section 337(j) provides for the entry of infringing articles upon the payment of a bond during the 60-day Presidential review period. The bond is to be set at a level sufficient to "protect complainant from any injury" during the Presidential review period.[28]

A. The RD

The RD recommends that we set the amount of the bond during the 60-day Presidential review period at $7 per carton of repatriated KOOL and LUCKY STRIKE cigarettes. ID at 77. In so

---

[26] (...continued)
3. We do not view this as a serious loophole in the regulations, because: (1) the regulations are restrictive in their definition of who qualifies as a manufacturer; (2) the regulations require relabeling prior to any domestic sale, which would raise serious trademark or trade dress infringement issues if a manufacturer other than Brown & Williamson were to attempt to relabel and resell KOOL or LUCKY STRIKE cigarettes; and (3) we see no reason why any legitimate manufacturer of tobacco products would have any incentive to re-import a competitor's for-export products. Similarly, although Brown & Williamson correctly notes that the proprietor of an export warehouse may legally re-import for-export KOOL and LUCKY STRIKE cigarettes under the ATF regulations, it may do so only for the purpose of exporting them to another country.

[27] *See, e.g.*, In re Convertible Rowing Exerciser Patent Litigation, 616 F. Supp. 1134, 1143-44 (D.Del. 1985) (relying on section 337(a) as basis for denying request for court order staying ITC investigation pending outcome of parallel district court infringement litigation).

[28] 19 U.S.C. § 1337(e); 19 C.F.R. § 210.50(a)(3).

concluding, the RD relies on evidence that the price differential between domestic and repatriated cigarettes generally ranges from $5 to $7 per carton, and Brown & Williamson's concession that the magnitude of such a bond would be approximately equal to the bond of 100 percent of entered value that complainant proposed. ID at 76-77. The RD cites Certain Integrated Circuit Telecommunication Chips and Products Containing Same, Including Dialing Apparatus[29] as precedent for setting the bond at a specified monetary amount per imported product, rather than as a percentage of entered value. RD at 76.

B. Arguments of the Parties

Although Brown & Williamson initially opposed a per carton bond rate and favored a rate based on entered value, it now requests that the Commission set the bond rate at no less than $7 per carton. Brown & Williamson Remedy Brief at 28. The IA similarly supports adoption of the ALJ's recommendation. OUII Remedy Brief at 14.

PTI argues that there is no need for a bonding requirement of any kind, because the accused cigarettes are no longer being imported due to the ATF regulations prohibiting such imports. PTI represents that it does not presently import the accused cigarettes, has not done so since before January 1, 2000, and will not be able to do so until and unless the ATF regulations are rescinded or changed. PTI Remedy Brief at 2-3.

C. Analysis

Brown & Williamson appears to have abandoned its objection to a bonding rate of $7 per carton rather than a bonding rate based on entered value. PTI makes no argument as to the reasonableness of the recommended bond rate. With respect to PTI's objection that no bond is necessary because it cannot import the accused cigarettes under ATF regulations, we note, as discussed above, that it is not clear from the record that the ATF regulations are currently completely halting importation of these products and that the availability of an alternate remedy does not preclude relief under section 337. Moreover, even if it were true that no exclusion order, and hence no bond under the exclusion order, were necessary, a bond would still be necessary under the cease and desist order to cover any sales during the Presidential review period of accused cigarettes already held in U.S. inventory by PTI. We therefore adopt the ALJ's recommendation and set the bond at $7 per carton during the Presidential review period.

---

[29] Inv. No. 337-TA-337, USITC Pub. 2670 (Aug. 1993), Commission Opinion at 41-43 (finding that the record did not permit a direct price comparison between the accused and authorized products and setting a bond rate of $0.08 per infringing semiconductor chip).

CERTIFICATE OF SERVICE

I Donna R. Koehnke, hereby certify that the attached PUBLIC COMMISSION OPINION, was served upon the following parties, via first class mail and air mail, where necessary, on November 6, 2000.

Donna R. Koehnke

Donna R. Koehnke, Secretary
U.S. International Trade Commission
500 E Street, S.W., Room 112
Washington, D.C. 20436

ON BEHALF OF BROWN AND WILLIAMSON TOBACCO CORPORATION:

Kevin M. O'Brien, Esq.
BAKER & MCKENZIE
815 Connecticut Ave., NW
Washington, DC 20006-4078

ON BEHALF OF INTERVENOR, PTI, INC.:

Matthew J. Fairshter, Esq.
BENNETT & FAIRSHTER
225 S. Lake Avenue, Ninth Floor
Pasadena, California 91101

ON BEHALF OF THE COMMISSION:

Anne M. Goalwin, Esq.
Office of Unfair Import Investigations
500 E Street, S.W., Room 401-P
Washington, D.C. 20436

Shara Aranoff, Esq.
Office of General Counsel
500 E Street, S.W., Room 707-U
Washington, D.C. 20436

Draft

FINAL PUBLIC VERSION
UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of **Certain Cigarettes and Packaging Thereof**	**Inv. No. 337-TA-424**

Initial Determination And Recommended Determination

Appearances

Kevin M. O'Brien, John W. Polk, John G. Flaim, Kimberly F. Rich, Teresa A. Gleason, Brian F. Burke and Adam C. Underwood of Baker & McKenzie on behalf of Brown & Williamson Tobacco Corp.

Matthew L. Fairshter, Joel R. Bennett and Timothy L. Hayes of Bennett & Fairshter, L.L.P., on behalf of PTI, Inc.; Moises T. Grayson and Ian J. Kukoff of Blaxberg & Grayson on behalf of Allstate Cigarette Distributors, Inc.; Barry M. Boren on behalf of Dood Enterprises, Inc.; and Barbara A. Murphy and Michael L. Doane of Adduci, Mastriani, & Schaumberg, L.L.P., on behalf of Prestige Storage & Distribution, Inc. and R.E. Tobacco Sales Inc.

Smith R. Brittingham IV, Anne M. Goalwin, Jeffrey R. Whieldon, and Lynn I. Levine on behalf of the Office of Unfair Import Investigations, U.S. International Trade Commission.

Debra Morriss, Presiding Administrative Law Judge:

TABLE OF CONTENTS

PAGE

Procedural Background

Brown & Williamson Tobacco Corp. ("Brown & Williamson"), headquartered in Louisville, Kentucky, filed a complaint on August 17, 1999, supplemented on September 8, 1999, under 19 U.S.C. § 1337 ("Section 337") requesting relief in the form of a general exclusion order and permanent cease and desist orders based on alleged importation into the United States, the sale for importation, and the sale within the United States after importation of certain cigarettes and packaging thereof by Allstate Cigarette Distributors, Inc. ("Allstate"), Dood Enterprises, Inc. ("Dood"), Prestige Storage & Distribution, Inc. ("Prestige") and R.E. Tobacco Sales, Inc. ("R.E. Tobacco"). The Commission issued its Notice of Investigation on September 17, 1999, instituting this Section 337 investigation concerning Brown & Williamson's claims as to whether, with respect to U.S. Trademark Registration Nos. 118,372, 311,961, 335,113, 366,744, 404,302, 508,538, 747,482, 747,490, 2,055,297, 2,174,493, and 2,218,589, there is a violation of subsection (a)(1)(C) of Section 337 by reason of infringement of these registered trademarks, whether there is a violation of subsection (a)(1)(A) of Section 337 by reason of trademark dilution, false representation of source, or false advertising, and whether there exists an industry in the United States as required by subsection (a)(2) of Section 337. The Commission named Brown & Williamson as the Complainant and Allstate, Dood, Prestige and R.E. Tobacco as Respondents.

By Order No. 3, issued October 8, 1999, a target date of September 25, 2000, for completion of this investigation was established. At a Preliminary Conference held on November 2, 1999, during which all of the above named parties and the Commission Investigative Staff ("Staff") were represented, a procedural schedule was set.

On November 1, 1999, PTI, Inc. doing business as Ampac Trading, ("PTI") filed a motion to intervene in this investigation. In Order No. 15, an initial determination, I granted PTI's motion to intervene and named it as an Intervener. By notice issued December 15, 1999, the Commission determined not to review that initial determination.

During the course of the investigation, each of the Respondents moved to terminate the investigation as to it. I granted all such motions by separate Initial Determinations, the last of which issued after the evidentiary hearing had concluded. Order No. 30 contained my initial determination to terminate the investigation as to Respondent Allstate, based on its motion and agreement to be bound by an appropriate consent order. On February 22, 2000, the Commission determined to review and affirmed the termination of the investigation as to Allstate based on the proposed consent order. Order Nos. 60 and 61, issued March 1, 2000, constituted my initial determinations granting Respondent R.E. Tobacco's and Respondent Prestige's separate motions to terminate the investigation as to each of them based on a consent order. On March 24, 2000, the Commission issued a notice of its decision not to review the initial determinations terminating the investigation as to these Respondents. On March 28, 2000, I similarly granted, in an initial determination designated Order No. 68, a motion by Dood to terminate the investigation as to it on the basis of a consent order. The Commission, on April 27, 2000, issued its determination not to review the initial determination terminating the investigation as to Dood.

By Order No. 59, dated March 1, 2000, I issued a partial summary determination based on my conclusion, in light of certain undisputed facts, that Brown & Williamson met its burden

of proof with regard to the existence of a domestic industry under Section 337. The Commission, on March 24, 2000, issued its notice not to review this initial determination.

The hearing in this matter commenced on March 20, 2000, and concluded on March 24, 2000. PTI, Brown & Williamson and the Staff were represented at the hearing. On the last day of the hearing, PTI filed a motion for dismissal of Brown & Williamson's complaint pursuant to Federal Rule of Civil Procedure ("FRCP") 41(a), alleging that Brown & Williamson failed to set forth facts showing entitlement to relief for trademark infringement. The response deadline to this motion was extended, with Brown & Williamson and the Staff being advised at the hearing that they could respond to this motion in their post-hearing briefs. Tr. at 862.

Subsequent to the hearing, initial and reply briefs, proposed initial and reply Findings of Fact and Conclusions of Law, comments to the initial Findings and Conclusions, and statements regarding key factual issues were filed by the parties. As instructed at the hearing, Brown & Williamson and the Staff responded to PTI's motion for dismissal in their initial post-hearing briefs.

The parties' post-hearing submissions have been fully considered in reaching this decision and any omission of a discussion of an issue raised by the parties or of a portion of the record does not indicate that it has not been considered. Rather, such issues and/or portions of the record were found to be irrelevant, immaterial and/or without merit. Additionally, any objections which may not have been ruled on to date and which may remain outstanding are hereby denied.

General Background

The accused products in this investigation are KOOL and LUCKY STRIKE brand cigarettes manufactured by Brown & Williamson with packages bearing the trademarks at issue, but designated and labeled "For Use Outside U.S.". Brown & Williamson maintains that the Respondents' and Intervener's importation and/or United States sales of these "for export only" cigarettes constitutes unfair competition, because they bear the same trademarks as some Brown & Williamson cigarettes sold for domestic use, yet the accused products are materially different from the KOOL and LUCKY STRIKE brand cigarettes Brown & Williamson manufactures and sells for domestic use. According to Brown & Williamson, the material differences include distinctions in the composition of the domestic and "for export only" cigarettes, differences in their packaging and labeling, and differences in the promotions or services offered in connection with the domestic and "for export only" versions of KOOL and LUCKY STRIKE.

I. Jurisdiction

A. Domestic Industry

To proceed under Section 337, Brown & Williamson must prove that the requisite industry in the United States exists or is in the process of being established. 19 U.S.C. § 1337(a)(2). In Order No. 59, an initial determination issued on March 1, 2000, I granted in part Brown & Williamson's motion for summary determination, finding the necessary domestic industry as follows:

> Based on the aforementioned undisputed facts, I conclude that Brown & Williamson has met its burden of showing the requisite domestic industry under Section 337. Brown & Williamson has shown a significant investment in plant and equipment, and significant employment of labor and capital in connection with its KOOL and LUCKY STRIKE cigarettes. Brown & Williamson has also demonstrated a substantial investment in the exploitation of its asserted trademarks. Accordingly, for purposes of this investigation, I find satisfaction of Section 337's domestic industry requirement.

The Commission determined not to review this initial determination on March 24, 2000, such that the domestic industry finding became the final determination of the Commission at that time. See 19 C.F.R. § 210.42(h)(3).

B. Importation and Sale

Section 337 requires an "importation" or a "sale for importation" as a condition of the Commission's exercise of subject matter jurisdiction. See Enercon GmbH v. Int'l Trade Comm'n, 151 F.3d 1376, 1380 (Fed. Cir. 1998), cert. denied, 526 U.S. 1130 (1999). Although in its initial post-hearing brief, PTI states that it "... admits only that it has sold Kool and Lucky Strike cigarettes in the United States with export language on the package", in connection with its motion to intervene in this investigation, PTI explicitly also admitted to importing these products. PTI Initial Post-Hearing Brief at 8; cf CX-22 ("[PTI] imports 'for export only' brands of both KOOL and LUCKY STRIKE cigarettes manufactured by Complainant as 'repatriated' or reentered products into the United States"). Based on PTI's representation in its pleading and the supporting declaration of its corporate designee, Mr. Lee, I conclude that PTI has imported and sold the accused products in this investigation,

specifically KOOL and LUCKY STRIKE cigarettes designated and labeled by Brown & Williamson "for export only".

C. Personal Jurisdiction

Having moved to intervene in this investigation, PTI makes no objection to the Commission's exercise of personal jurisdiction over it.

II. Trademark Infringement

Infringement of a registered trademark can constitute a violation of Section 337(a)(1)(C). 19 U.S.C. § 1337(a)(1)(C). The Lanham Act provides, in pertinent part, that trademark infringement occurs when a person makes unauthorized use in commerce of a registered trademark in connection with selling, offering to sell, distributing or advertising any goods, where such use is "likely to cause confusion, or to cause mistake, or to deceive." 15 U.S.C. § 1114(1). In the context of gray market cases, the Commission has stated that:

> ... [T]rademark infringement (and thus a violation of section 337) is established by proof that there are 'material differences' between the accused imported products and the products authorized for sale in the United States. The existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product, resulting in damage to the markholder's goodwill. [footnote omitted]

Certain Agricultural Tractors Under 50 Power Take-off Horsepower, Inv. No. 337-TA-380, Comm'n Op. at 4-5 (1997) (hereinafter "Tractors"), aff'd, Gamut Trading Co. v. U.S. Int'l Trade Comm'n, 200 F.3d 775 (Fed. Cir. 1999) (hereinafter "Gamut").

Brown & Williamson and the Staff argue that the recent Federal Circuit decision in Gamut, addressing gray market tractors and affirming the aforementioned Commission

determination, should guide the legal analysis in this investigation. I agree with this assessment. In that Commission investigation, the accused products were used tractors, bearing the KUBOTA trademark, that had been manufactured in Japan by the complainant for sale exclusively in Japan through the complainant's dealer network. Id. at 2, n.1. The complainant in that investigation also manufactured in Japan other tractors bearing the KUBOTA mark for sale exclusively in the United States market, through an authorized U.S. dealer network. Id. The domestic respondents in Gamut imported and/or sold in the United States after importation used KUBOTA tractors originally sold in Japan, and the complainant successfully obtained relief therefrom based on findings that the accused imports were materially different from the domestic tractors, such that their sale under the same trademark likely generated consumer confusion. The Federal Circuit, in Gamut, cited with favor other gray market goods cases where courts found infringement "even when the holders of the domestic and foreign trademarks are related companies", noting as follows:

> These decisions implement the reasoning that the consuming public, associating a trademark with goods having certain characteristics, would be likely to be confused or deceived by goods bearing the same mark but having materially different characteristics; this confusion or deception would also erode the goodwill achieved by the United States trademark holder's business. Thus the basic question in gray market cases concerning goods of foreign origin is not whether the mark was validly affixed, but whether there are differences between the foreign and domestic product and if so whether the differences are material.

Gaumut, 200 F.3d at 779.

Although for purposes of the applicable standard for trademark infringement, PTI attempts to distinguish Gamut and other gray market goods cases from the facts in this

investigation, I do not find PTI's arguments convincing. While PTI points to the alleged "genuineness" of the "for export only" KOOL and LUCKY STRIKE cigarettes, because of their manufacture by Brown & Williamson and the alleged "common control" by Brown & Williamson over the domestic and "for export only" KOOL and LUCKY STRIKE cigarettes as factors precluding application of the "material difference" test from gray market cases, I note that in Gamut, the same company manufactured both the accused products and the domestic products sold under the same trademark. See Lever Bros. Co. v. United States, 877 F.2d 101, 111 (D.C. Cir. 1989); See also Lever Bros. Co. v. United States, 981 F.2d 1330, 1338 (D.C. Cir. 1993) (finding that in a gray market situation, "[t]he fact of affiliation between the producers [of domestic and export versions of products bearing the same trademark] in no way reduces the probability of that confusion"). Also, findings in some case law of non-infringement in situations involving the importation of "genuine" goods refer to circumstances where the imports are identical to the domestic product, and Brown & Williamson convincingly argues that where the imports are different, they should not be considered "genuine" for purposes of this analysis. See Lever Bros. Co. v. United States 981 F.2d 1330, 1338 (D.C. Cir. 1993) ("Trademarks applied to physically different foreign goods are not genuine from the viewpoint of the American consumer"); see also Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104, 107 (4th Cir. 1991) (holding that "a product is not truly 'genuine' unless it is manufactured and distributed under quality controls established by the manufacturer"); See also John Paul Mitchell Sys. v. Pete-N-Larry's Inc., 862 F. Supp. 1020, 1023 (W.D.N.Y. 1994) (noting the general principle that the Lanham Act would not provide protection where the accused products "are genuine - that is, identical and from the

same origin", but stating that "[t]his of course does not hold true when the products are not the same – i.e. not genuine").

PTI also relies on the manufacture in the United States of the "for export only" accused cigarettes, and the alleged initial sale within the United States of the "for export only" accused products, as significant distinctions. Although in Gamut, the accused products were manufactured and initially sold outside the United States, I reject PTI's position that these distinctions preclude application of the "material differences" standard in this investigation. First, as to the domestic manufacture of the accused cigarettes, Brown & Williamson asserts that the definition of gray market goods in Gamut suggests that U.S.-manufactured goods designated for export could be considered gray market goods upon their importation back into the United States, and Brown & Williamson and the Staff cite R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores Inc., 52 U.S.P.Q.2d 1052 (N.D. Ill. 1999) as specifically addressing and discounting the significance of PTI's asserted distinction in this regard. That court noted:

> This Court does not believe it matters that the cases discussed above ... involve products that were actually manufactured abroad for non-United States markets, as opposed to products that were manufactured in the United States for non-United States markets.... That [the plaintiff] manufactures both foreign and domestic versions of cigarettes in the United States should not preclude it from taking advantage of the same protections as companies that produce the foreign version of their product in a foreign country. This Court cannot see a logical or legal justification for that distinction, and will not credit such a position.

Id. at 1054.

The Staff notes that successful "material difference" trademark infringement cases have arisen out of such a wide variety of circumstances that the domestic manufacture of the "for export only" cigarettes should not be deemed a preclusive factor.

As to the alleged initial sale in the United States, Brown & Williamson first argues that the first sale defense to trademark infringement does not apply where a defendant sold the accused products in violation of the trademark owner's restrictions on the retail distribution of its products. Citing R.J. Reynolds, 52 U.S.P.Q.2d at 1054-55, Brown & Williamson further argues that where the accused products are materially different, and therefore not "genuine", the First Sale doctrine does not apply. The Staff also makes the two preceding arguments. Finally, Brown & Williamson asserts that PTI has failed to even prove its allegation that the initial sale of the "for export only" KOOL and LUCKY STRIKE cigarettes occurs in the United States. According to Brown & Williamson, the only relevant evidence indicates merely that the risk of liability passes at the port of export, but no evidence establishes where the actual sale takes place. The Staff responds that the actual location of the initial sale, whether in the United States or a foreign country, is "irrelevant" to the infringement inquiry. For the reasons set forth in the section of this initial determination on PTI's First Sale defense, I decline to accept PTI's position on this issue.

Both Brown & Williamson and the Staff assert that the domestic KOOLs materially differ from the "for export only" KOOLs, and that the domestic LUCKY STRIKEs materially differ from the "for export only" LUCKY STRIKEs. PTI acknowledges some differences between the domestic and "for export only" versions of KOOL and LUCKY STRIKE, but insists that they are not material to consumers.

Brown & Williamson and the Staff cite a variety of differences in the domestic versus "for export only" versions of the accused products. They point to evidence of different product composition, including the tobacco blend and flavors, the ingredients, and the moisture and menthol levels in the respective versions. They allege differences in packaging and labeling for the respective domestic and "for export only" versions of KOOL and LUCKY STRIKE cigarettes, such as packaging design differences and the export versions' statements "Made in U.S.A." and "TAX EXEMPT. FOR USE OUTSIDE U.S.". Also, Brown & Williamson and the Staff rely on distinctions in the promotional activity associated with the respective versions, the difference in quality control and the disparity in price as contributing to the material difference between the domestic and export versions of the accused products.

A. LUCKY STRIKE

First addressing the product composition, the record includes some background on Brown & Williamson's production of cigarettes that is useful in understanding the parties' contentions relating to composition. Brown & Williamson manufactures many brands of cigarettes, including KOOLs and LUCKY STRIKEs, at its production facility in Macon, Georgia. McMurtrie, Tr. at 342-43. In its production generally, Brown & Williamson employs three types of tobacco leaf: burley, flue cured and oriental, each of which has distinct characteristics and flavors. McMurtrie, Tr. at 347-48; CX-328C. Brown & Williamson also adds reconstituted tobacco and expanded tobacco to the leaf tobacco once it has been cut and dried. Brown & Williamson's Director of Product Development, Andrew McMurtrie, explained as follows: "Reconstituted tobacco is essentially made up -- we actually produce that ourselves. It's made up of essentially manufacturing waste or stem materials that are either too

fine or too coarse to be used in cigarettes in their native state. So we take those waste tobaccos and reconstitute them into a sheet and slit them up into strands and use them in the cigarette. We produce a number of different types of reconstituted tobacco that have different physical as well as smoking characteristics." McMurtrie, Tr. at 348-49. He added that "[e]xpanded tobacco, as the name implies, is leaf tobacco that has been puffed up or expanded in the same way that if you were to take rice and puff it up to make Rice Krispies, and it's done primarily to -- for cost advantage. It allows us to use less tobacco in our cigarettes to give us a firm cigarette using less tobacco. But in addition to a cost advantage, it's also used to regulate how fast a cigarette burns. It can be used to regulate the number of puffs that a cigarette gives the smoker, and therefore, also regulates the strength of the cigarette." Id. at 351. Mr. McMurtrie further testified that, in combination with the tobacco, Brown & Williamson also uses casings, such as sugar, cocoa or licorice, and flavorings, such as menthol, chocolate, vanilla, peppermint or nut, with the tobacco to produce particular tastes for the smoker. Id. at 351-52.

In formulating particular cigarettes, Brown & Williamson creates a tobacco blend, employing a combination of the three types of leaf tobaccos, and, where applicable, includes some amount of reconstituted tobacco and/or expanded tobacco. McMurtrie, Tr. at 347-51. Brown & Williamson introduced evidence revealing the tobacco blends for its domestic LUCKY STRIKEs and "for export only" LUCKY STRIKEs. CX-328C. This evidence reflects different percentage breakdowns of the various types of tobaccos in "for export only" LUCKY STRIKEs than in their domestic counterparts. [

]

[

]

According to Mr. McMurtrie of Brown & Williamson, the moisture level corresponds to the degree of smoothness or harshness of the cigarette, with higher moisture levels corresponding to smoothness and lower moisture levels corresponding to harshness, [

]

---

[1] [

]

[

] Although PTI contends that fluctuation in actually hitting the target moisture levels and the variation allowed by Brown & Williamson's control limits in manufacturing the cigarettes renders the actual moisture levels in domestic and export cigarettes quite close in some instances, the evidence reflects that generally the targeted differential between them does, in fact, exist. See CX-365C; McMurtrie, Tr. at 406. Furthermore, while PTI contends that the cellophane wrap applied to "for export only" cartons, but not to domestic cartons, preserves moisture longer in the export versions, the Staff correctly notes that this wrap must be removed by importers in order to apply state tax stamps, eliminating at that point any otherwise beneficial effect of the cellophane. See Lee, CX-530C at 63-73.

PTI produced in this investigation a sample of the LUCKY STRIKEs it sells. McMurtrie, Tr. at 484. [

] This counters PTI's assertion that Brown & Williamson failed to show that the product sold by PTI differs from the domestic LUCKY STRIKEs. See PTI Initial Post-Hearing Brief at 25.

PTI puts forward a barrage of criticism of Mr. McMurtrie's testimony and the evidence presented through him. PTI claims that despite the presentation of "technical numbers and

formulas", Brown & Williamson failed to establish the significance of any of the asserted differences to consumers. PTI Initial Post-hearing Brief at 14. [

] PTI also argues that Mr. McMurtrie "admit[ted] that he [was] aware of no studies by [Brown & Williamson] that compared domestic and export Kool and Lucky Strike cigarettes." PTI Initial Post-Hearing Brief at 15. [

]

Brown & Williamson also presented evidence of one American LUCKY STRIKE smoker's dissatisfaction with his inadvertent purchase of imported "for export only" LUCKY STRIKE cigarettes. Gary Burne, a 20-year smoker of LUCKY STRIKE cigarettes, called Brown & Williamson's toll-free number approximately a year prior to the hearing to complain about some LUCKY STRIKE cigarettes labeled "Tax Exempt. For Use Outside the U.S." that he bought and smoked. Burne, Tr. at 609-11. He described the export cigarettes as follows: "It was a harsher tobacco. The flavor was not the same at all." Id. at 611. Mr. Burne also stated that he believed smoking these particular cigarettes caused throat irritation. Id. at

611-12. While PTI maintains that Brown & Williamson presented no evidence as to the formulation, intended market, or date of manufacture of these cigarettes, or who supplied the cigarettes, Mr. Burne testified that the packaging of the cigarettes he bought was like that of CPX-26, "for export only" LUCKY STRIKEs, rather than CPX-68, domestic LUCKY STRIKEs. Id. at 613, 615-16. PTI attempts to assert that the cigarettes smoked by Mr. Burne were likely counterfeits, but in support, PTI merely cites testimony by a Brown & Williamson fact witness, Mr. Kessler, who stated that based on his "database research" and "internet research", he believes that a market for counterfeit cigarettes exists. Kessler, Tr. at 774. Mr. Kessler himself testified that he lacked independent knowledge of the cigarette business, such that I do not find PTI's reliance on his statements convincing evidence that the cigarettes purchased by Mr. Burne either were or likely were counterfeit. Id. at 783.

Certain differences also exist in the packaging and labeling of the domestic LUCKY STRIKEs and that of the "for export only" versions. For example, domestic cigarette packs and cartons show a toll-free telephone number for the company, while generally the export versions do not.[2] See e.g. CPX-63; CPX-64; CPX-77; CPX-78. Brown & Williamson presented evidence of use of the telephone number by consumers, and offered testimony from Mr. Burne, who used the "1-800" number found on domestic packs to complain about "for export only" LUCKY STRIKEs he inadvertently bought. See CX-164C;

---

[2] Brown & Williamson uses the telephone number to answer consumer inquiries, [

]

CX-184C;[3] CX-276C; Burne, Tr. at 609-10. The domestic LUCKY STRIKEs Filter Kings and Lights also include on the packs an e-mail address for customer service, while the export versions of record do not. See e.g. CPX-40; CPX-63-66; CPX-78; CPX-80.

In contrast to domestic LUCKY STRIKEs, the "for export only" cigarette packs are all labeled "TAX EXEMPT. FOR USE OUTSIDE U.S." Stowe, Tr. at 87-89, 140-41; see, e.g., CPX-78; CPX-80; CPX-82. Brown & Williamson presented evidence that United States consumers have expressed confusion and concern about the meaning of such statements on the labels. See Stowe, Tr. at 93-98; CX-164C; CX-184C. Anecdotally, Mr. Burne also testified that such labeling caused him to question why such cigarettes were being sold in the United States. Burne, Tr. at 616-17.

Furthermore, all of the "for export only" LUCKY STRIKE cartons in evidence lack any "Surgeon General" warning pre-printed on the cartons, consistent with Brown & Williamson's contention that generally the export versions lack such preprinted warnings. See McMurtrie, Tr. at 407-10, 412; CPX-25; CPX-30; CPX-38; CPX-43; CPX-77; CPX-79; CPX-81. Apparently, importers of "for export only" LUCKY STRIKEs typically apply a sticker stating the warning on such cartons, in order to bring them into compliance with United States law. See e.g. Elortegui, CX-77C at 80-84; Nemani, CX-117C at 137-39; CPX-30; McMurtrie, Tr. at 407-12; Heitkamp, Tr. at 585-86. Brown & Williamson contends that these stickers are placed, in a "disparaging" manner, over other print or designs on the cigarette

---

[3] I note that although PTI complains of CX-164C and CX-184C on hearsay grounds, the logs themselves qualify for the business records exception to the hearsay rule, and the complaints logged therein are not offered for the truth of the matters asserted by the complaining consumers.

cartons, and that the stickers "are not consistent with the design of the rest of the carton". Brown & Williamson Initial Post-Hearing Brief at 31-32; see CPX-25; CPX-30; CPX-43. The Staff agrees that the sticker warnings are a contrast to the more elegant printed domestic versions and tend to cover other portions of the carton. Staff Post-Hearing Reply Brief at 20; See, e.g., CPX-25, CPX-30. In addition, the "for export only" LUCKY STRIKE cigarette cartons are also labeled "Made In U.S.A.", a designation Brown & Williamson does not place on the domestic versions. McMurtrie, Tr. at 407-12.

The evidence also reflects differences in Brown & Williamson's quality control measures with respect to its domestic LUCKY STRIKE cigarettes versus the "for export only" LUCKY STRIKEs. Brown & Williamson presented testimony regarding a sharp differentiation between its ability to control the post-manufacture maintenance of quality for its domestic cigarettes and its ability with regard to the "for export only" cigarettes. [

]

[

] Also for the purpose of maximizing the freshness of the cigarettes, Brown & Williamson limits the volume of cigarettes its domestic distributor-customers may purchase at any one time. Stowe, Tr. at 56-58. Brown & Williamson has also put into place a trade incentive program for its *domestic* distributor-customers - the WHAM program, or Wholesale Alliance Millennium, which requires certain quality controls and offers rewards for others. Stowe, Tr. at 57; CX-478C. At the retail level, Brown & Williamson established the RAM program, or Retail Alliance Millennium, promoting quality controls for *domestic* retailers, such as limiting out-of-stocks, ensuring sufficient product distribution and providing accurate sales and inventory data. See Stowe, Tr. at 68, 71-72; CX-480C at BW24698, BW24706.

[

] Even PTI could not identify the source(s) of the "for export only" cigarettes beyond its immediate supplier. See Lee, CX-566C at 201-03. Brown & Williamson

and the Staff note that PTI offered no evidence of comparable quality control measures, but they assert that even regardless, Brown & Williamson's lack of control is the critical factor. They cite the First Circuit's Societe Des Produits Nestle S.A. v. Casa Helvetia Inc., 982 F.2d 633, 643 (1st Cir. 1992), in which that court cited with favor a line of cases where "[r]egardless of the offending goods' actual quality, courts have issued Lanham Trademark Act injunctions solely because of the trademark owner's inability to control the quality of the goods bearing its name." See also El Greco Leather Products Co. v. Shoe World, Inc., 806 F.2d 392, 395 (2nd Cir. 1986) (holding that it "is the control of quality that a trademark holder is entitled to maintain"). Also, Brown & Williamson "for export only" cigarettes are not subject to the replacement credit policy for damaged or defective products. See Stowe, Tr. at 73; Pittman, Tr. at 706-08; Koch, Tr. at 509. The Staff characterizes the overall distinction as follows:

> [Brown & Williamson's] export products are not subject to [Brown & Williamson's] quality control requirements at all times prior to their importation and sale. In contrast, the domestic products are either under [Brown & Williamson's] control or are in locations with which [Brown & Williamson] has some contractual relationship and over which [Brown & Williamson] has some supervision.

Staff Initial Post-Hearing Brief at 33 (footnote omitted).

Further differences exist between the domestic and "for export only" LUCKY STRIKEs with regard to the marketing and promotional activities associated with each. For domestic LUCKY STRIKE cigarettes, Brown & Williamson conducts regular advertising and promotion, including nightclub programs and direct mail initiatives. Stowe, Tr. at 77. Also, in connection with the aforementioned WHAM and RAM programs, Brown & Williamson

provides display units advertising special domestic LUCKY STRIKE promotional offers such as "buy one, get one free". Id. at 65-66, 71-72. These programs remain unavailable to wholesalers or retailers who deal in "for export only" LUCKY STRIKEs. Id. at 75-76.

The domestic and "for export only" LUCKY STRIKE cigarettes typically sell in the United States for widely divergent prices, with the imported "for export only" cigarettes usually priced lower than the domestic cigarettes. [

] Apparently at least part of the reason for the reduced price stems from the exemption of "for export only" cigarettes from the payment otherwise due for domestic cigarettes in connection with the tobacco Master Settlement Agreement. See Heitkamp, Tr. at 583. The testimony of retail store owner Mr. Fondren indicates that a retailer can distinguish whether the retailer will be supplied with domestic or "for export only" versions of cigarettes based on the price. Fondren, Tr. at 649-50.

In light of all the foregoing, I conclude that the "for export only" LUCKY STRIKE cigarettes imported by PTI materially differ from the domestic LUCKY STRIKE versions manufactured by Brown & Williamson for sale and use in the United States. PTI offers no evidence in support of its contentions that the established differences are imperceptible or immaterial to consumers. In Gamut, the court adopted "... a low threshold of materiality, requiring no more than showing that consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product, for

such differences would suffice to erode the goodwill of the domestic source." Gamut, 200 F.3d at 779. In discussing the low threshold for materiality, the court in Nestle noted that "... when dealing with the importation of gray goods, a reviewing court must necessarily be concerned with subtle differences, for it is by subtle differences that consumers are most easily confused." 982 F.2d at 641. The Gamut court cited with favor precedent where courts found material differences based on quality, composition, packaging, labeling, quality control and marketing. See, e.g., Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co. 112 F.3d 1296 (5th Cir. 1997) (deeming gray market designer figurines materially different in light of different painted patterns and colors as well as some different subject matter); Lever Bros. Co. v. United States, 981 F.2d 1330 (D.C. Cir. 1993) (finding differences in soap product formulation, characteristics and packaging material); Societe des Produits Nestle v. Casa Helvetia, Inc., 982 F.2d 633 (1st Cir. 1992) (finding gray market chocolates materially different for distinctions including different quality control measures, ingredient contents, smaller variety of shapes, packaging and price differences); Original Appalachian Artworks, Inc. v. Granada Elec., Inc., 816 F.2d 68 (2nd Cir. 1987) (finding material difference arising out of Spanish language "adoption papers" accompanying gray market Cabbage Patch Kids dolls); Ferrero U.S.A., Inc. v. Ozak Trading, Inc., 753 F. Supp. 1240, 1247 (D.N.J. 1991), aff'd, 935 F.2d 1281 (3rd Cir. 1991) (holding that gray market TIC TAC mints were materially different because they contained 2 calories rather than the 1½ advertised for the domestic mints, and because the gray market products did not conform to the same content and labeling specifications); PepsiCo v. Nostalgia Products Corp., 18 U.S.P.Q.2d 1404, 1407 (N.D. Ill. 1990) (agreed stipulation entered by the court that gray market Pepsi Cola materially differs

from domestic product because of Spanish-language labeling, lack of ingredient list and lack of U.S. trademark registration notice, improper labeling added by importers and lack of quality control). In granting a preliminary injunction barring the importation and sale in the United States of "for export only" Marlboro cigarettes, the court in Philip Morris Inc. v. Allen Distrib., Inc., 48 F. Supp. 2d 844 (S.D. Ind. 1999) found a likely showing of material differences based on the "for export only" cigarettes not being subject to the plaintiff's quality control program for domestic Marlboros, and on the offer of a promotional program for domestic Marlboros not available in connection with "for export only" Marlboros. Id. at 853. In that case, the "for export only" *cigarettes themselves* were identical to the domestic Marlboros. Id. at 848. Considering the many distinctions between the "for export only" and domestic LUCKY STRIKE cigarettes in their totality, as set forth above, the difference between these products and the materiality of the difference to consumers seems at least as significant as that found in Gamut and in the other case law cited favorably therein.

B. KOOL

[

]

[

]

The record reflects a clear contrast between "for export only" and domestic KOOL cigarettes. As to the product formulation of domestic KOOL cigarettes versus that of "for export only" KOOLs [

]

---

[4] [

] Also, the KOOL samples produced by PTI reflected an export formulation. See CX-299C. Furthermore, PTI itself argues against its having ever imported KOOL cigarettes labeled in any language other than English. PTI Initial Post-Hearing Brief at 97.

[

]

[

]

[

]

The moisture content also varies between the "for export only"[

] and domestic KOOL cigarettes. [

]

[

] As with LUCKY STRIKE, I do not find persuasive PTI's argument that in actual practice, the moisture level of domestic and export KOOLs is generally quite close. In fact, the business records provided by Brown & Williamson indicate its manufacturing generally coming close to the respective, different target moisture levels. See CX-365C at BW26857-86.

During discovery in this investigation, PTI produced a sample of the imported KOOL 100 cigarettes it sells. See CPX-27. [

] PTI criticizes the comparison in CX-299C of PTI's samples to domestic cigarettes pulled from Brown & Williamson's production lines, as opposed to domestic cigarettes pulled from a retail setting. While PTI implies that CX-299C should therefore be discounted entirely, I note that the only basis for PTI's criticism stems from [

] Furthermore, regardless of the propriety of the comparison to domestic cigarettes from the production line, the analysis provided of PTI's

samples certainly can be used and compared to domestic and export target levels for the various qualities of the cigarettes.

I note here that Brown & Williamson also points to alleged variation in the menthol flavor content of domestic versus "for export only" KOOLs as a difference. [

]

Additional differences similar to those noted in connection with LUCKY STRIKEs can be found in connection with KOOLs. For example, quality control differs between domestic and "for export only" KOOLs, with the same quality control distinctions set forth above in connection with LUCKY STRIKE cigarettes applying equally here. See supra (evidence and testimony about quality control differences applying generally to domestic cigarettes and generally to export cigarettes). In addition, a distinction exists with regard to the promotional and marketing activity associated with the domestic versus the "for export only" KOOL cigarettes, in much the same way as with LUCKY STRIKE. See Stowe, Tr. at 59-67, 69-76. Finally, the same type of disparity in price between domestic and imported "for export only" LUCKY STRIKEs can be found with KOOLs. See CX-173C at BW01717; cf CX-57C at PS

D0324; see also CX-21; CX-119C; CX-533C; CX-540C; Nemani, CX-117C at 59; Lee, CX-566C at 331-34; Elortegui, CX-77C at 114-17.

Packaging differences can also be found between domestic and "for export only" KOOL cigarettes, and in the case of the "general" "for export only" KOOLs, they are even more marked than the differences noted above in connection with LUCKY STRIKEs. [

] See, e.g., Stowe, Tr. at 252-53; CPX-27; CPX-27A. Because of this distinction in "for export only" KOOL cigarette packaging, these different categories of "for export only" KOOLs are separately addressed.

First, as to the general "for export only" KOOL packaging, in addition to many of the same distinctions noted for LUCKY STRIKE, which also apply equally here, such as the "1-800" number, the "TAX EXEMPT. FOR USE OUTSIDE U.S." designation, the Surgeon General warning and the "Made in the U.S.A." designation, and the stickers added to provide the otherwise lacking Surgeon General warning, an even more significant distinction exists here. Domestic KOOL cigarette cartons and packs display a prominent waterfall design not found on the "general" "for export only" KOOLs, which have plain packaging with no pictorial design.[5] Prior to 1997, Brown & Williamson used plain packaging on KOOL

---

[5] Throughout its post-hearing briefing, PTI argues that the waterfall design should be disregarded because the Notice of Investigation does not recite Brown & Williamson's trademark registration for the waterfall design as one of the asserted registered marks. While I agree that a registered trademark for the waterfall design is not one of the registrations listed in the Notice of Investigation, this does not mean that the significant difference in the design of the packaging, which happens to involve the waterfall design, cannot be considered in connection with whether the accused products, which bear the *other* asserted trademarks recited in the Notice of Investigation, materially differ from their domestic counterparts.

cigarettes sold in the United States, [

] In connection with the change in packaging, Brown & Williamson undertook a marketing campaign to announce and promote the new look of the packaging, including pack inserts in KOOL cigarettes to notify consumers of the change and to invite their feedback, billboards and newspaper and magazine ads. Stowe, Tr. at 104-05; see also CX-378C; CX-402C. [

]

[ ] although the packs' packaging still shows the "Tax Exempt. For Use Outside U.S." legend and the cartons are wrapped in cellophane not used domestically, the cartons and packs do display the waterfall design, rather than the plain packaging, and they also include the toll-free number and the same version of the Surgeon General warning as appears on domestic KOOLs. See e.g., CPX-27; CPX-27A; CPX-28; CPX-28A; CPX-29; see also Stowe, Tr. at 252-53. Although I note that all the samples of KOOLs produced by PTI reflect this type of packaging, PTI's corporate designee admitted that PTI has imported and sold KOOLs of both the plain-

pack "general" style and the waterfall design style.[6] See CPX-27; CPX-27A; CPX-28; CPX-28A; CPX-29; Lee, CX-566C at 193.

Brown & Williamson presented anecdotal evidence of domestic consumer dissatisfaction with purchases of "for export only" KOOL cigarettes. Rickey Lynn Deal, a regular KOOL smoker, testified about his telephone complaint to Brown & Williamson in mid-1999 about "for export only" KOOL cigarettes he purchased in Texas. Deal, Tr. at 625-26. Mr. Deal stated that the cigarettes tasted "totally different" from his usual KOOLs, and tasted stale and bad, leaving a "terrible aftertaste". Deal, Tr. at 627-28. He believes he experienced an adverse physical reaction to the cigarettes, sore throat and loss of voice, that he had never experienced before in 32 years of smoking domestic KOOLs. Deal, Tr. at 629-31, 625. Mr. Deal also noticed at the time of purchase that the cigarette carton had the plain "old-style" design, rather than the waterfall design packaging. Deal, Tr. at 627. Upon noticing the "Tax Exempt. For Use Outside the U.S." label, Mr. Deal testified that he felt "ripped off", and believed Brown & Williamson to be responsible for what he concluded was an improper sale in the United States. Deal, Tr. at 632-33.

---

[6] I note that in subsequent testimony in CX-566C at page 199, Mr. Lee, the corporate designee, testified that he was not certain of the exact date, but thought that PTI last sold the plain-pack style KOOLs in "1998", a time when he stated that the "waterfall design wasn't out yet". Because the waterfall design packaging was implemented on all domestic KOOLs in 1997 (Stowe, Tr. at 98, 102; Complaint at ¶ 18), and because PTI only formed in late 1997 (see Lee, CX-530C at 14), I conclude that this testimony is not a persuasive indication that PTI has *not* imported and sold "for export only" plain-pack KOOLs. This conclusion is bolstered by Mr. Lee's admission in this same deposition that with respect to particular KOOL invoices about which he was questioned, he lacked certainty about whether the product in question was plain-pack or waterfall design. Lee, CX-566C at 225, 232, 237.

Brown & Williamson also presented testimony from the small grocery store owner who sold Mr. Deal the "for export only" KOOLs, Mr. Earl Fondren. Mr. Fondren testified that once his supplier began providing him only with "for export only "KOOL cigarettes, he received customer complaints about the taste and about inconsistency in the flavor. Fondren, Tr. at 641. Mr. Fondren eventually changed suppliers in order to avoid "for export only" cigarettes because Mr. Fondren's customers did not like them, blamed Mr. Fondren, and he felt it was hurting his business. Fondren, Tr. at 643.

For the same reasons, and based on the same authority set forth in connection with LUCKY STRIKEs, above, I conclude that the "for export only" KOOL cigarettes materially differ from the domestic KOOL cigarettes. My finding here applies to both "general" "for export only" KOOLs with the plain-pack style packaging and to those "for export only" KOOLs with the waterfall design packaging, [

] I note that the latter category of KOOLs exhibit all the same differences as the "general" "for export only" KOOLs except those distinctions in the packaging noted above. Considering the significant differences still remaining, including the formulation and content of the cigarettes themselves, the record supports a ruling that even this type of "for export only" KOOL materially differs from the domestic version, regardless of some increased similarity to the domestic packaging.

C. First Sale Defense

PTI makes the argument that the First Sale doctrine bars Brown & Williamson's trademark infringement claims, and acknowledges that the defense applies to prohibit infringement claims in situations of resale of unaltered, genuine goods. See PTI Initial Post-

Hearing Brief at 66. Both Brown & Williamson and the Staff contend that the First Sale defense does not apply to PTI's sales because the goods are not "genuine" as that term is defined for purposes of the First Sale defense. In support of the application of this defense in this investigation, PTI relies primarily on the affirmation in an unpublished opinion issued on April 11, 2000, by the U.S. Court of Appeals for the Ninth Circuit of the district court decision in Philip Morris Inc. v. Cigarettes for Less, 69 F. Supp. 2d 1181 (N.D. Cal. 1999). See 2000 WL 369542 (9th Cir. 2000). In that case, granting a limited preliminary injunction requiring disclaimer labels to address what the court deemed the only potential source of consumer confusion, the district court noted that the First Sale defense precludes an infringement claim in a gray market case where the domestic and foreign trademark holders are under common control. Id.

PTI's position, however, overlooks the status of precedent from the U.S. Court of Appeals for the Federal Circuit as controlling authority in this proceeding. The Cigarettes for Less court's holding was based on *its* controlling precedent from the Ninth Circuit, NEC Elec. v. CAL Circuit Abco, 810 F.2d 1506, 1509-11 (9th Cir. 1987), cert. denied, 484 U.S. 851 (1987); See 69 F. Supp. 2d at 1185-87. However, in Gamut Trading Co. v. U.S. Int'l Trade Comm'n, 200 F.3d 775, 778 (Fed. Cir. 1999), the Federal Circuit specifically considered NEC, and distinguished it based on the lack of material differences between the domestic and import products at issue in that case. Then, considering NEC along with other case law, the Gamut court ultimately adopted the approach of courts that, in situations where material differences between the products exist, "... have excluded the gray goods, *even when the holders of the domestic and foreign trademarks are related companies*, on the grounds of both

safeguarding the goodwill of the domestic enterprise, and protecting consumers ...."(emphasis added). Obviously, therefore, although the First Sale defense is not explicitly addressed in Gamut, the quoted language clarifies the Federal Circuit's rejection of the approach to the First Sale defense taken in Cigarettes for Less, where the district court stated, "where there is common control ..., then the existence of material differences does not give rise to trademark infringement." 69 F. Supp.2d at 1187. I note also that as to PTI's reliance on Quality King Distrib., Inc. v. L'Anza Research Int'l, Inc., 523 U.S. 135 (1998), it applies the statutory first sale doctrine under the Copyright Act, and so is not controlling here.

As Brown & Williamson and the Staff note, other courts characterize the inapplicability of the First Sale defense to gray market goods cases as stemming from lack of genuineness of gray market goods that materially differ from their domestic counterparts. For example, in Nestle, 982 F.2d at 638, the court noted that:

> [A]n unauthorized importation may well turn an otherwise 'genuine' product into a 'counterfeit' one. In other words, the unauthorized importation and sale of materially different merchandise violates Lanham Act Section 32 because a difference in products bearing the same name confuses consumers and impinges on the local trademark holder's goodwill.

See also John Paul Mitchell Sys. v. Pete-N-Larry's Inc., 862 F. Supp. 1020, 1023 (W.D.N.Y. 1994) (defining genuine products as "identical" and noting that the First Sale defense would not apply "when the products are not the same - i.e. not genuine"); R.J. Reynolds, 52 U.S.P.Q.2d at 1055 (rejecting the First Sale defense where products differ); Dial Corp. v. Manghnani Investment Corp., 659 F. Supp. 1230, 1237 (D. Conn. 1987) ("'Genuine goods'

are foreign manufactured goods which *are identical* to those distributed domestically under an American trademark") (emphasis added).

Given my earlier findings that the accused "for export only" KOOL and LUCKY STRIKE cigarettes materially differ from their domestic counterparts, for the foregoing reasons, I decline to apply the First Sale defense to the facts in this investigation. Accordingly, I need not reach Brown & Williamson's argument that no evidence of record adequately supports PTI's assertion that the first sale of the "for export only" cigarettes occurs in the United States.

III. Trademark Dilution

Trademark dilution under the Lanham Act protects the owners of famous marks against others' use in commerce of the trademark, after it has become famous, in such a way as to dilute the distinctive quality of the famous trademark. 15 U.S.C. § 1125(c). The statute defines dilution as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of competition between the owner of the famous mark and other parties, or likelihood of confusion, mistake, or deception." 15 U.S.C. § 1127. Based on the uncontested status of the factual and legal assertion, I previously held, in connection with a motion for summary determination by Brown & Williamson, that "... the distinctive KOOL and LUCKY STRIKE trademarks have become famous." Order No. 59 at 13. This ruling encompassed the then-registered trademarks at issue, which did not include Brown & Williamson's KOOL waterfall design, for which Registration No. 2,284,813 issued on October 12, 1999. I further conclude that PTI began its use of these marks, through importation and sale of the accused products, after the asserted trademarks achieved their

fame. The Staff asserts that "... the use of the marks by PTI and the respondents began after the marks achieved their famous status". See Staff Initial Post-Hearing Brief at 49. According to PTI's corporate designee, PTI only came into existence in October 1997. Lee, CX-530C at 14. Even if PTI began use of the marks immediately at that time, the record reflects that the marks would then already have achieved their fame. See Order No. 59 (establishing certain facts as undisputed, including the introduction of LUCKY STRIKE cigarettes into the United States market in 1916, the introduction of KOOL cigarettes into the United States market in 1933, and the extensive marketing and sales of these products under these trademarks for many years).

Turning then to the second portion of the inquiry under the dilution statute, the parties agree that dilution may occur by "blurring" or by "tarnishment". Blurring typically refers to use of the famous mark for other, typically non-competitive, goods or services so as to endanger the ability of the mark to uniquely identify the good or service for which it became famous. Panavision Int'l, L.P. v. Toeppen, 141 F.3d 1316, 1326 n.7 (9th Cir. 1998). Tarnishment refers to use that associates the trademark with goods or services of poor quality or of such a nature as to degrade the trademark by association. See Hormel Foods Corp. v. Jim Henson Prod., Inc., 73 F.3d 497, 507 (2d Cir. 1996) (" The sine qua non of tarnishment is a finding that plaintiff's mark will suffer negative associations through defendant's use"); Deere & Co. v. MTD Prod., Inc., 41 F.3d 39, 44 (2d Cir. 1994); L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26 (1st Cir. 1987), cert. denied, 483 U.S. 1013 (1987).

Brown & Williamson seems to essentially focus on arguments that its trademarks are tarnished[7] in light of the differences in taste and quality of the accused "for export only" cigarettes from the domestic cigarettes bearing the same trademarks, and cites as support complaints by some consumers calling Brown & Williamson's "1-800" number. See CX-164C; CX-184C. Brown & Williamson also cites the testimony of Mr. Burne and Mr. Deal that the "for export only" cigarettes yielded a bad taste and irritated their throats. Burne, Tr. at 611; Deal, Tr. at 628-29. Brown & Williamson further points to its lack of the same type of post-manufacture quality control over the "for export only" cigarettes as it maintains over its domestic cigarettes, as noted above.

The Staff argues against a dilution finding, and maintains that Brown & Williamson does not meet the standard for a dilution claim. The Staff notes its view that no blurring can occur where Brown & Williamson manufactures all the products at issue, and that the present situation "... does not fit the traditional 'tarnishment' scenario ...." Staff Initial Post-Hearing Brief at 50. The Staff then expresses its understanding that Brown & Williamson does not truly intend to allege tarnishment of its marks so as to suggest the sub-standard quality of its own export products.

---

[7] While Brown & Williamson cites and applies a multi-factor dilution analysis from the U.S. Court of Appeals for the Second Circuit's decision in Nabisco, Inc. v. P.F. Brands, Inc., 191 F.3d 208, 217-23 (2d Cir. 1999), I decline to adopt this as the precise governing test for dilution under the circumstances in this investigation for a variety of reasons, including first that the Nabisco court itself acknowledged that the factors considered in any case must depend on its particular facts, and second that the Nabisco test is not especially suitable for a gray market goods scenario.

PTI contends that Brown & Williamson fails to make a dilution claim because its marks cannot be "blurred" by their use on cigarettes manufactured by Brown & Williamson, and because Brown & Williamson demonstrates no actual injury to the marks, with PTI noting particularly that sales of KOOL have increased since 1998. See IX-42C.

As set forth in connection with my infringement analysis, Brown & Williamson demonstrated that its "for export only" KOOL and LUCKY STRIKE cigarettes materially differ from their domestic counterparts, and I conclude that the sale in the United States of these materially different products under the KOOL and LUCKY STRIKE trademarks at issue causes dilution of these marks. See e.g. Nabisco, 191 F.3d at 219 ("Consumer confusion would undoubtedly dilute the distinctive selling power of a trademark"); Pepsico, Inc. v. Reyes, 70 F. Supp.2d 1057, 1060 (C.D. Ca. 1999) (noting, in the context of stipulated findings, that the sale of materially different gray market product "injures and tarnishes the goodwill and reputation" associated with the domestic product). The record reflects that domestic consumers have lodged complaints about the nature and quality of the "for export only" KOOLs and LUCKY STRIKEs. See CX-164C; Burne, Tr. at 611-12; Deal, Tr. at 627-31; Fondren, Tr. at 641-43. Also, Brown & Williamson introduced evidence of the tailoring of domestic KOOL and LUCKY STRIKE cigarettes to the preferences of *domestic* consumers, such as setting the target moisture level at the optimum taste and enjoyment level, and limiting the number and type of ingredients in accordance with the preferences of domestic consumers, while these aspects of the "for export only" versions are not so tailored. See supra. Brown & Williamson introduced evidence of its modification of the packaging for domestic KOOLs in accordance with what marketing research suggested would appeal to domestic consumers,

while the packaging of most "for export only" KOOLs remains in the original style. See supra. Accordingly, the sale of "for export only" KOOL and LUCKY STRIKE cigarettes that do not reflect this tailoring to the domestic market can mar the goodwill associated with these trademarks in the United States, as indicated by the consumer complaints along these lines.

While the Staff contends that Brown & Williamson fails to assert the "sub-standard" quality of its own "for export only" products, I construe Brown & Williamson's argument as a contention that the quality of the "for export only products" is not what Brown & Williamson wishes to offer the domestic market under these trademarks, although the quality of these products at the time of their manufacture may be suited to the export markets. Furthermore, as previously detailed in the section on infringement, Brown & Williamson's lack of post-manufacture quality control over the "for export only" product, as contrasted to its fairly rigorous post-manufacture quality control over domestic KOOLs and LUCKY STRIKEs, increases the likelihood that the "for export only" product may be stale or damaged by the time it reaches the smoking consumer. See supra. Such quality problems in the domestic market can also injure the goodwill associated with the asserted trademarks. In view of the foregoing, I conclude that under either an actual dilution or likelihood of dilution standard, PTI's conduct violates the anti-dilution provisions of the Lanham Act.

IV. False Designation of Origin

Brown & Williamson's claim of false designation of origin is based on the prohibition in 15 U.S.C. § 1125(a)(1)(A) from using, in commerce in connection with goods, any false designation of origin which is likely to cause confusion, cause mistake or deceive as to the affiliation, connection or association of that person with another person or the origin,

sponsorship or approval of that person's goods by the other person. This falls under Section 337 as a form of unfair competition. See 19 U.S.C. § 1337(a)(1)(A). Brown & Williamson argues that the unauthorized sale of "for export only" KOOL and LUCKY STRIKE cigarettes "... creates the false impression that [Brown & Williamson] approves and sponsors the distribution of these cigarettes in the United States." Brown & Williamson Initial Post-Hearing Brief at 75.

The Staff concurs with Brown & Williamson's position, citing Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co. 112 F.3d 1296 (5th Cir. 1997) and Pepsico, Inc. v. Reyes, 70 F. Supp. 2d 1057 (C.D. Cal. 1999) for the proposition that this claim can be "... used in gray market cases as an alternative way to assert infringement of a registered trademark." Staff Initial Post-Hearing Brief at 55. The Staff points to Societe Des Produits Nestle S.A. v. Casa Helvetia Inc., 982 F.2d 633, 643 (1st Cir. 1992) as an indication that courts analyze claims under this statutory section by the same standard applied to claims under 15 U.S.C. § 1114(1). Accordingly, relying on its arguments in support of trademark infringement, the Staff contends that the proof of material differences establishes the false designation claim.

PTI also acknowledges, citing Nestle, that the same legal standard applies under either section of the Lanham Act. However, PTI argues, for the same reasons set forth in connection with the infringement allegation, that no material differences exist between the products, and that Brown & Williamson should not prevail on this claim.

In analyzing claims and finding violations under both these Lanham Act sections in a gray market context, the First Circuit held that under either section "... liability necessarily

turns on the existence vel non of material differences between the products of a sort likely to create consumer confusion." Nestle, 982 F.2d at 640 (citing Ferrero U.S.A., Inc. v. Ozak Trading, Inc., 753 F. Supp. 1240, 1246 n. 10 (D.N.J.), aff'd, 935 F.2d 1281 (3d Cir. 1991)). In Tractors, the Commission stated that the existence of material differences between an authorized domestic product and a gray market product creates a legal presumption of consumer confusion as to source. Tractors, Inv. No. 337-TA-380, Comm'n Op. at 4-5, aff'd, Gamut, 200 F.3d 775. Accordingly, in light of my findings regarding material differences and infringement, *supra*, I also find that PTI's conduct constitutes a false designation of source.

V. False Advertising

To prevail on its false advertising claim under 15 U.S.C. § 1125(a)(1)(B), a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A), Brown & Williamson must prove: (1) a false statement of fact concerning Brown & Williamson's products by PTI in an advertisement; (2) that the statement actually deceived or had the tendency to deceive a substantial segment of its audience; (3) the materiality of the deception to purchasing decisions; (4) the entry of the false advertisement into interstate commerce; and (5) injury or likely injury to Brown & Williamson as a result of the false statement. United Indus. Corp. v. Clorox Co., 140 F.3d 1175, 1180 (8th Cir. 1998); Southland Sod Farms v. Stover Seed Co., 108 F.3d 1134, 1139 (9th Cir. 1997). The false advertisement may either be one that is literally false on its face, or, alternatively, one that "implicitly convey[s] a false impression" or is misleading in context. Clorox, 140 F.3d at 1180; Southland, 108 F.3d at 1139; Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 855 (2d Cir. 1997). With claims based on the latter type of advertisement, "... proof that the advertising actually conveyed the implied message and thereby deceived a

significant portion of the recipients becomes critical." Clorox, 140 F.3d at 1182; see also Johnson & Johnson Merck Consumer Pharm. Co. v. Smithkline Beecham Corp., 960 F.2d 294, 297-98 (2d Cir. 1992) (noting that where the statement is not literally false, "... the success of a plaintiff's claim usually turns on the persuasiveness of a consumer survey" and "[i]t is not for the judge to determine, based solely upon his or her own intuitive reaction, whether the advertisement is deceptive").

As the evidentiary foundation of its false advertising claim against PTI, Brown & Williamson cites a brochure distributed to customers by NTI, "the sister company of PTI". See CX-216; Lee, CX-566C at 344-45. According to Brown & Williamson, the false misrepresentations contained therein are: (1) that export cigarettes "meet the manufacturer's standards for freshness and quality"; and (2) a suggestion that letters sent from cigarette manufacturers to customers were untruthful in conveying that domestic and export cigarettes are different.[8] According to the Staff, which also supports a false advertising finding against PTI, the same advertisement "... incorrectly suggest[s] that the imported versions of the cigarettes are the same as the domestic versions and also incorrectly impl[ies] that the cigarettes are subjected to some sort of quality control measures authorized by the manufacturers." Staff Initial Post-Hearing Brief at 56.[9]

---

[8] Brown & Williamson also cites an internet advertisement by former respondent Prestige, but this cannot support Brown & Williamson's claims against PTI.

[9] The record contains duplicate exhibits of the same advertisement - both CX-216 and CX-592C. Thus, while the Staff refers to CX-592C and Brown & Williamson refers to CX-216, these exhibits both represent the same brochure, bearing an address mailing label to "Buddy's Grocery" in North Wilkesboro, North Carolina.

PTI asserts that no evidence of record establishes that PTI does *any* advertising of "for export only" KOOL or LUCKY STRIKE cigarettes, much less false advertising. PTI points out that the only advertisement relied on by Brown & Williamson and the Staff comes from NTI, rather than PTI, makes no mention of KOOL or LUCKY STRIKE, and was directed to distributors rather than to the smoking consumer. Furthermore, according to PTI, Brown & Williamson fails to establish any false statement relating to KOOL or LUCKY STRIKE in the brochure.

I conclude that Brown & Williamson fails to carry its burden with respect to several aspects of its false advertising claim against PTI. As an initial matter, the brochure in question bears the name of NTI, rather than PTI, and other than referring to them as "sister companies", neither Brown & Williamson nor the Staff points to evidence in support of their apparent contention that PTI should be held liable for actions by NTI. Next, I note that the brochure never references KOOL or LUCKY STRIKE cigarettes, and although Brown & Williamson and the Staff seem to maintain that these brands are being implicitly referenced, the brochure itself refers to "cigarettes that have been manufactured in Richmond, Virginia and Salem, North Carolina". CX-216 at BW00750. Brown & Williamson introduced uncontroverted evidence that all KOOL and LUCKY STRIKE cigarettes are manufactured in Macon, Georgia, rather than at either of the locations mentioned in the brochure. See Order No. 59 (unreviewed initial determination); Stowe Decl. at ¶ 8, 9; McMurtrie, Tr. at 342.

As to the specific alleged misrepresentations, Brown & Williamson and the Staff do not point to literal falsehoods, but instead point to allegedly misleading implications. While Brown & Williamson and the Staff complain of the statement that "[t]he cigarettes purchased by NTI,

Inc. meet the manufacturer's standards for freshness and quality", they offer no evidence that this is literally untrue as to any "for export only" cigarettes purchased by NTI. Turning then to the arguments that the brochure suggests that the domestic and "for export only" KOOLs and LUCKY STRIKEs are the same, no party offers *any* evidence that any consumers were misled in this way by the brochure. As set forth above, when making a claim based on misleading implication or context, a party cannot rely on its own intuitive reaction to an advertisement, or on the intuitive reaction of the finder of fact, but must introduce evidence that the relevant recipients of the advertisement find it misleading. See Clorox, 140 F.3d at 1182; Johnson & Johnson Merck, 960 F.2d at 297-98.

Given the foregoing problems of proof, I conclude that Brown & Williamson cannot prevail on its false advertising claim.

VI. Effect or Tendency to Substantially Injure the Domestic Industry

In light of my findings regarding dilution and false designation of source, in order to prevail on Section 337 claims stemming from these findings, Brown & Williamson must further establish that PTI's conduct in this regard creates the effect or poses a threat of destroying or substantially injuring Brown & Williamson's domestic industry. See 19 U.S.C. § 1337(a)(1)(A). Brown & Williamson maintains that it meets its burden as to both dilution and false designation, while the Staff contends that an injury showing exists for false designation, but that no injury with a causal nexus to dilution is shown.

As to a threat or tendency to injure resulting from the false designation, both Brown & Williamson and the Staff contend that Brown & Williamson makes the requisite showing. Brown & Williamson maintains that because of factors such as loss of sales, profits or

customers, price undercutting, loss of potential sales, and a significant degree of market penetration by the accused products, an injury determination should be made. The Staff focuses particularly on price undercutting as the basis for its position that both present injury and the threat of future injury exist in this situation. In Bally/ Midway Mfg. Co. v. U.S. Int'l Trade Comm'n, 714 F.2d 1117, 1124 (Fed. Cir. 1983), the Federal Circuit held that "even a relatively small loss of sales" can establish injury, and further noted that the legislative history for Section 337 reflects that "conceivable losses of sales" can constitute the requisite tendency to substantially injure the domestic industry.

The imported "for export only" KOOL and LUCKY STRIKE cigarettes at issue certainly are the subject of price undercutting, as acknowledged by PTI. [

] As a result, PTI is able to offer the imported "for export only" cigarettes at a price considerably discounted from their domestic counterparts. Lee, CX-566C at 329-31; CX-21; CX-533C; CX-540C. Domestic grocery distributors and retailers also provided specific information about their experience with the price difference between domestic and imported "for export only" cigarettes. See Fondren, Tr. at 652; Koch, Tr. at 504-05; Pittman, Tr. at 703. Apparently, in grocery and cigarette distribution, even relatively small price differentials are deemed quite significant in their impact. See e.g. Koch, Tr. at 505; Fondren, Tr. at 644-45. PTI's corporate designee testified that each month in 1999, PTI sold approximately 100 cases (containing 50 cartons each) of imported KOOL and LUCKY STRIKE cigarettes. CX-530C at 158.

Brown & Williamson introduced evidence that its authorized domestic distributors have experienced and continue to experience substantial competition from, and resulting lost sales because of, the imported "for export only" KOOLs and LUCKY STRIKEs. [

]

In light of the standard articulated in Bally and in light of the application of the standard in previous investigations such as Certain Nut Jewelry and Parts Thereof, Inv. No. 337-TA-229, Initial Determination (unreviewed portion) at 32-38 (1986) and Certain Electric Power Tools, Inv. No. 337-TA-284, Initial Determination at 248-49 (1990), I conclude that Brown & Williamson makes the requisite showing on this issue. The evidence described above establishes lost sales and profits, lost potential sales, price undercutting by PTI, and a

relatively significant degree of market penetration by the accused products. [10] Also, I find a causal nexus between the false designation of source and the effect or threat of injury, because the record indicates that the sales of KOOL and LUCKY STRIKE generally lost to gray market KOOL and LUCKY STRIKE are *because of* the consumer confusion resulting from the false designation of source. Because the evidence suggests that the "for export only" KOOL and LUCKY STRIKE cigarettes were purchased in substitution for their domestic counterparts, "... the inference is inescapable that every sale of an infringing [accused product] resulted in a lost sale of [the domestic industry product] ...." See Bally, 714 F.2d at 1124. Accordingly, I agree with Brown & Williamson and the Staff that PTI's false designation of source has the effect of or tendency to substantially injure the domestic industry.

As to injury or threat of injury associated with dilution, Brown & Williamson points to little in the way of evidence of actual injury to the domestic industry as a direct result of trademark dilution. For the most part, Brown & Williamson, in its briefing, addresses injury generally, without linking specific injury allegations to specific claims. The injury described above in connection with false designation, such as that from lost domestic sales due to price undercutting for the materially different imported product, does not necessarily apply to the dilution claim. Nonetheless, I conclude that the nature of the trademark dilution and the relevant evidence of record support a finding that the dilution creates "conceivable losses of

---

[10] I note that PTI challenges Brown & Williamson's reliance in this proceeding on CX-608C, a document that the record indicates was used by Brown & Williamson as part of its normal business operations. See Tr. at 319-20, 322. I conclude, considering the circumstances herein, that the document is sufficiently reliable to be accorded some weight and considered along with the other evidence of record on this issue.

sales" with at least the tendency to substantially injure the domestic industry. See Bally, 714 F.2d at 1124. As detailed in the section on dilution, the domestic sale, under the asserted trademarks, of product not tailored for the domestic market, the lack of post-manufacture quality control by Brown & Williamson, and the complaints domestic consumers have already made about the imported "for export only" KOOLs and LUCKY STRIKEs certainly damage the goodwill associated with the asserted trademarks. See Tractors, Inv. No. 337-TA-380, Comm'n Op. at 5, aff'd, Gamut, 200 F.3d 775 (Fed. Cir. 1999) (Consumer source confusion where products materially differ damages trademark holder's goodwill). Such damaged goodwill presents a clear probability of losses of domestic sales of these brands, where confused consumers associate the marks with "for export only" products with which the consumers have negative associations. Under the Bally standard, these conceivable losses of sales satisfy the requirement of a tendency to injure the domestic industry.

VII. PTI's Affirmative Defenses

In addition to the First Sale defense, rejected above, PTI asserts several other affirmative defenses to Brown & Williamson's claims. Brown & Williamson and the Staff contend that each of these defenses lacks merit.

A. Intentional Inducement

Under its "intentional inducement" heading PTI maintains that because Brown & Williamson "... sells 'export' cigarettes all over the world, presumably at a profit", and allegedly does not restrict purchasers from legally diverting this product, this bars Brown & Williamson's claims against PTI. Notably, PTI offers no legal authority in support of this defense under such circumstances, and even the testimony cited by PTI for the proposition that

Brown & Williamson does not restrict diversion fails to support that proposition. Brown & Williamson points out testimony by PTI's corporate designee reflecting the absence of any "documents or records that would show that Brown & Williamson induced PTI to use Brown & Williamson trademarks", and admitting that a Brown & Williamson agent warned PTI against the use of such marks. See Lee, CX-566C at 27-73, 289-90. Given PTI's failure to provide sufficient factual or legal support for this defense, it is rejected.

B. Failure to Take Precautions

PTI uses the same factual assertions noted above, in connection with the intentional inducement defense, as the basis for its assertion that Brown & Williamson's alleged failure to take precautions bars its claims. [

] Apparently, PTI contends that Brown & Williamson's alleged failure to take other actions to prevent importation back into the United States should be considered fatal to its claims against PTI. Again, PTI offers no legal support for its position on this asserted defense. Also, as the Staff notes, Brown & Williamson *has* made other efforts to prevent the importation into the United States of "for export only" KOOLs and LUCKY STRIKEs, as evidenced by IX-41C (Brown & Williamson letter to direct buying customers warning against selling imported and re-imported products and providing information on how to identify such products), [

]

[ ] Given PTI's failure to offer any authority in support of this defense, and in light of the factual record as noted above, this defense is rejected.

C. Laches/Estoppel

PTI argues application of the equitable defenses of laches or estoppel as bars to Brown & Williamson's claims, as PTI asserts that "Complainant knew that PTI d/b/a Ampac Trading was a significant participant in the importation of "export" cigarettes long before it filed the complaint in the present investigation, yet it failed to include PTI as a respondent." See PTI Initial Post-Hearing Brief at 83. [

]

According to the Staff, the laches delay described is "hardly extraordinary", and PTI fails to demonstrate any actions it took during the alleged delay that prejudice PTI. The Staff, citing Certain Methods of Making Carbonated Candy Products, Inv. No. 337-TA-292, Initial Determination (unreviewed portion) at 117-18 (1989) and Certain Unitary Electromagnetic Flowmeters with Sealed Coils, Inv. No. 337-TA-230, Initial Determination (unreviewed portion) at 73 (1986), also maintains that the laches defense does not apply in Section 337 investigations where only injunctive relief is available. As to estoppel, the Staff notes that PTI fails to identify any specific actions by Brown & Williamson upon which PTI relied to its detriment, for purposes of estopping Brown & Williamson at this juncture. Brown & Williamson echos these arguments, [

] and

Brown & Williamson further maintains that the balancing of equities under the circumstances favors rejecting these defenses.

Even assuming the potential applicability of these defenses, PTI fails to satisfy its burden. "Laches requires proof of (1) lack of diligence by the party against whom the defense is asserted, and (2) prejudice to the party asserting the defense." Costello v. United States, 365 U.S. 265, 282 (1961). PTI has not demonstrated resulting prejudice from the relatively short delay [ ] and the point when PTI intervened in this investigation, and thus the defense is rejected. As to estoppel, I concur with Brown & Williamson's and the Staff's assessments that PTI offers no actions upon which to base an estoppel defense, and given the lack of factual and legal support, the defense must be rejected.

D. Unclean Hands

The unclean hands defense "... closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief ..." Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806, 814 (1945). Relying on the same facts set forth in the preceding section regarding [ ] PTI argues that the equitable unclean hands defense bars Brown & Williamson's claims. As further support, PTI cites IX-41C, showing Brown & Williamson's warning letters to direct buying customers and pamphlets to trade and marketing personnel about the domestic sale of "for export only" cigarettes, as PTI argues that the letters and pamphlets contain "numerous fabrications and lies." See PTI Initial Post-Hearing Brief at 87-89. However, PTI offers no persuasive evidence proving any false

statements by Brown & Williamson in these materials.[11] PTI also contends, without citing any evidentiary support, that it lost business because of Brown & Williamson's allegedly false statements in the letters and pamphlets. PTI provides no legal authority for its position that the unclean hands defense applies in this situation. Given the lack of legal and factual support, I reject this affirmative defense.

E. Unjust Enrichment

Again citing *no* evidence or legal support for the defense, PTI argues that because Brown & Williamson presumably earns a profit from the sale of "for export only" cigarettes, its claims against PTI should be barred. Given the lack of any legal or factual support, I reject this affirmative defense.

F. Consent

PTI, repeating the same evidence offered in connection with the previous defenses, here argues that Brown & Williamson's alleged delay in pursuing PTI, coupled with alleged, unspecified prejudice to PTI, allows for the inference of implied consent to PTI's use of the trademarks asserted. Again, PTI cites no legal authority for its position.

I do not believe that the evidence of record supports such an inference, particularly where PTI's corporate designee admitted that PTI was warned *against* using the marks by a

---

[11] The only evidence purportedly in support of the alleged falsehoods is testimony that, in fact, does not conflict with Brown & Williamson's assertion in the letter that the products "... are not *made to* conform to the various legal and regulatory requirements ...." See Heitkamp, Tr. at 592 (noting that the Federal Trade Commission approves of some labeling added to imported cigarettes by the importers or sellers).

Brown & Williamson agent. See Lee, CX-566C at 289-90. Also, given PTI's failure to offer any precedent for this defense under these circumstances, this affirmative defense is rejected.

G. Nominative Fair Use

PTI describes this defense as follows: "The use of another's trademark to identify, not the defendant's goods but the plaintiff's goods is not an infringement *so long as there is no likelihood of confusion.*" (emphasis added). See PTI Initial Post-Hearing Brief at 92. Given my finding that a likelihood of confusion results from PTI's actions, by PTI's own admission, this defense does not apply.

H. Acquiescence

Making an argument identical to that made in connection with its consent defense, PTI contends that Brown & Williamson acquiesced to its use of the asserted trademarks. PTI's corporate designee could not provide any information supporting this defense. See Lee, CX-566C at 294-96. For the same reasons set forth in connection with the consent defense and the laches/estoppel defense, I find no merit in this affirmative defense.

I. Distribution without Adequate Control and Monitoring

Making arguments identical to those set forth in connection with its "Failure to Take Precautions" affirmative defense, and citing no legal authority, PTI asserts that Brown & Williamson's distribution of the accused cigarettes allegedly without adequate control and monitoring bars Brown & Williamson's claims. Based on the same evidence and rationale set forth in connection with the "Precautions" defense, this affirmative defense is rejected.

VIII. PTI's Motion to Dismiss

On March 24, 2000, after the completion of Brown & Williamson's presentation of its case-in-chief, PTI filed a motion for dismissal of the Complaint "for failure to show a right to relief". Motion Docket No. 424-66. PTI bases this motion on FRCP 41(a). As noted previously, I ruled at the hearing that Brown & Williamson and the Staff could respond to this motion in their post-hearing briefing.

The arguments in PTI's motion track many of the arguments against infringement in PTI's post-hearing briefing, and all of the substantive contentions in the motion are also contained in PTI's post-hearing briefs. Both Brown & Williamson and the Staff object to the motion on procedural grounds and on the merits. Procedurally, they maintain that the Commission Rules of Practice and Procedure fail to provide for a motion to dismiss such as that filed by PTI, such that the motion lacks any procedural basis. Although the Federal Rules of Civil Procedure often serve as guidelines for the interpretation and application of parallel Commission Rules, the Commission Rules, not the Federal Rules govern this proceeding, and no counterpart to FRCP 41 exists in the Commission Rules. PTI cites no Commission precedent applying FRCP 41 in a Section 337 investigation. Brown & Williamson and the Staff also rely on the arguments in their post-hearing briefs in support of their position that the motion should not be granted.

Even aside from the procedural issue, the motion to dismiss lacks merit. As set forth above, in connection with my findings on infringement, I conclude that Brown & Williamson presented sufficient evidence of infringement and adequately stated a basis for relief. Accordingly, the motion to dismiss the Complaint is denied.

IX. PTI's Due Process Allegations

In its "Introduction" section of the post-hearing reply brief, PTI includes a sub-section entitled "The Court's Denial of Due Process to PTI". This sub-section contains misrepresentations and mischaracterizations of events and rulings in this investigation, necessitating the clarifications and corrections that follow. Although PTI's purpose in raising its due process claims at this level is not entirely clear, PTI at one point makes reference to the declaration of a mistrial. To the extent that PTI seeks such a declaration in connection with my initial determination, PTI's request is denied for the reasons that follow.

First, PTI alleges that a "double standard" applied in the enforcement of the procedural schedule and the Ground Rules in this investigation, favoring Brown & Williamson while disfavoring PTI. PTI suggests that it received sanctions or was denied consideration of untimely filings for violations of the procedural schedule and Ground Rules, but "... when [Brown & Williamson] missed scheduling dates, no sanctions were imposed, and the court disregarded their actions." PTI Reply Brief at 14.

No such "double standard" existed. PTI refers to several incidents it contends reflect unfairness to it, but mischaracterizes many of them. As background, throughout the investigation, despite repeated explanations, admonitions and warnings, PTI routinely disregarded proper service and filing procedures and deadlines. As early as November 12, 1999, during the *pendency* of PTI's motion to intervene, problems with PTI's service of documents caused me to issue Order No. 10, specifically directing PTI to applicable Commission Rules and Ground Rules concerning proper service of process. At that time, I noted that "[t]he expedited nature of investigations such as this one renders prompt, proper

service of documents essential." Order No. 10 at 2. On November 16, 1999, I issued a notice in this investigation specifically regarding filing and serving documents to remind the parties of the requirement to serve two copies of any filings on the Office of the Administrative Law Judges and to remind the parties that "... documents should be *received* by the Office of the Secretary *and* by my office by the deadline, not merely mailed by the deadline." November 16, 1999 Notice at 1 (emphasis in original).

PTI also repeatedly failed to observe deadlines, and experienced timeliness problems. In Order No. 23, I granted PTI an extension of time to file an *already-late* response to a motion to compel because, in light of the motion's confidential designation,[12] PTI's counsel had left the package containing the confidential motion unopened for 13 days, without inquiring as to its contents, and therefore claimed to be unaware of the pendency of the motion. In Order No. 38, I found PTI in violation of Order No. 27, which required PTI to answer certain interrogatories and respond to certain discovery requests by January 19th. Although these discovery requests had been outstanding since November, and the motion to compel had been filed on December 23rd, and although PTI's motion for an extension of the January 19th deadline was rejected in Order No. 29, PTI nonetheless disregarded the January 19th deadline.

PTI now cites as unfair the refusal in Order No. 38 to consider its late opposition to the motion for sanctions against it for violation of Order No. 27, maintaining that the opposition "... was faxed to the Court six hours and forty-five minutes after the court's filing deadline".

---

[12] PTI's counsel had not yet signed onto the protective order in this investigation.

PTI Reply Brief at 14. As PTI was and is aware, filing by facsimile is not permitted at the Commission, so the time of PTI's faxing is irrelevant. PTI filed that particular late pleading with the Office of the Secretary the day *after* its deadline of noon on February 1st. PTI also complains of alleged unfairness resulting from my refusal in that same order to consider a supplemental brief in support of a motion filed by PTI, where PTI neither requested nor received leave to file the supplemental brief. See Order No. 38 at 6, n.2. Commission Rule 210.15(c) specifically provides that in connection with motions, "[t]he moving party shall have no right to reply, except as permitted by the administrative law judge or the Commission." 19 C.F.R. § 210.15(c). The structure of the motion practice generally contemplates the moving party offering all its arguments in support of its motion in the original motion papers, so as to allow other parties to respond to all such arguments in their responses. Because the motion in question concerned PTI's request for an extension of dates in the procedural schedule, including the discovery cutoff and the hearing, I concluded that the interest in promptly resolving that issue to give notice to the parties of the applicable deadlines weighed against the attendant delay of allowing PTI to submit a reply or supplemental brief, which likely would have brought about a request from the responding parties to file their own supplements or sur-replies.

PTI next attempts to complain, citing Order No. 48, that it was accused of improper facsimile filing when it hired a process server to deliver filings. The referenced pleading of

PTI's *was* considered, so PTI's reliance on this point for a prejudice argument is meritless.[13] See Order No. 59 at 2, n.1.

Finally, PTI cites the circumstances surrounding its prehearing statement as the last example of purported unfairness. Once again, this filing *was* considered, and although PTI attempts to couch the timeliness of its submission as proper, PTI failed to deliver the requisite two copies on the Office of the Administrative Law Judges by the deadline, in violation of Ground Rule 5(b). Furthermore, it is puzzling that PTI raises its prehearing statement as an example of the alleged unfairness it suffered, when I accepted and considered a prehearing statement from PTI, despite not only its failure to timely serve the requisite copies on my office, but where the content of the statement also failed to comply with the requirements of the Ground Rules in six *other* respects, specifically detailed in Order No. 63.[14]

Turning to the "standard" PTI claims was applied to Brown & Williamson, PTI first maintains that it was unfairly compelled to respond to interrogatories served by Brown & Williamson that required responses due the day after the discovery cutoff. Order No. 55 granted Brown & Williamson's motion to compel answers to these interrogatories concerning some defenses disclosed *for the first time* by PTI shortly before the interrogatories were served, when PTI *belatedly* supplemented an earlier interrogatory seeking identification of these defenses. In that order, I held:

---

[13] The pleading in question was an opposition to Brown & Williamson's motion for partial summary determination, and PTI had received an extension of time in which to respond. See Order No. 41.

[14] Order No. 63 permitted PTI to file a corrected statement.

> Given the unique circumstances in this investigation, where PTI's dilatory conduct in discovery has repeatedly forced Brown & Williamson to seek my intervention, and where PTI delayed its still-incomplete answer to Interrogatory 12 for over two months, until shortly before the close of discovery, I am granting Brown & Williamson's motion to compel answers to its fourth set of interrogatories and responses to its fourth set of document requests. The discovery requests are reasonable in scope, and I find the timing of the requests reasonable given the situation. PTI is ordered to fully and completely respond to this discovery no later than February 29, 2000.

Order No. 55 at 2.

It is notable that PTI cites these interrogatories for its *own* alleged unfairness claim when, in fact, PTI did not comply with Order No. 55, ignoring the February 29th deadline and delivering the interrogatory answers to Brown & Williamson on March 13th, one week before the start of the hearing, only after Brown & Williamson moved for sanctions based on PTI's violation of Order No. 55.

As its other example of alleged favoritism of Brown & Williamson, PTI makes various complaints about Brown & Williamson's exhibits and exhibit lists for the hearing. Although PTI claims to have raised these complaints in response to a Brown & Williamson motion *in limine* seeking sanctions against PTI for misconduct, these complaints about Brown & Williamson were not relevant to that pending motion, which related to *PTI's* conduct. If PTI wished to request relief for these alleged grievances, it should have filed its own motion concerning Brown & Williamson's conduct. In light of PTI's failure to do so, I deem PTI's current claims of prejudice inappropriate and without merit. Additionally, I note that as a result of a request by PTI, in Order No. 64, I granted PTI a four-day extension of the deadline for serving its rebuttal trial exhibits, while no such extension was granted to the other parties.

PTI's second overarching claim of a due process violation stems from the relief granted to Brown & Williamson in Order No. 67, but PTI mischaracterizes the background, rationale and ruling of this order. The portion of the order relating to PTI's claim that it was not permitted to use information gleaned from a document review it made on March 7th is as follows:

> I find PTI in violation of Order No. 55, which is particularly troubling given the significance of the subject matter of the interrogatories PTI failed to answer (until one week before trial). Brown & Williamson's interrogatories relating to the basis of PTI's defenses obviously concern an issues of critical importance to the investigation, which Brown & Williamson must be prepared to address at the hearing. The discovery process and schedule is meant to allow parties the means to avoid surprises at trial, and a violation of an ordered discovery deadline, particularly where the factual bases for defenses are concerned, thwarts this purpose. I do not find PTI's "inadvertent error" explanation excusable or credible, particularly where, although PTI claims to have prepared (but not served) the interrogatory answers *by* the February 29th deadline, the answers furnished on March 13th incorporate by reference witness identifications in PTI's March 7th Prehearing Statement. Furthermore, PTI's violation of Order No. 55 comes on the heels of other violations of orders to compel in this investigation, representing a pattern of dilatory conduct.
>
> To address the resultant prejudice to Brown & Williamson, and weighing considerations of fairness to all parties, PTI will be precluded from presenting evidence or argument related to any defense as to which the underlying factual support was not sufficiently disclosed to Brown & Williamson, either in discovery responses, pleadings or PTI's deposition testimony by the February 29th deadline. This also addresses Brown & Williamson's complaint that at his deposition, PTI's corporate designee refused to answer numerous questions regarding PTI's defenses, because PTI will be penalized for any failure by its corporate designee to make a forthright disclosure of information relating to defenses at his deposition that were not otherwise timely disclosed. At the hearing, in support of its presentation of defenses and supporting evidence, PTI should be

> prepared to point to the particular discovery responses, pleadings or deposition testimony, by page and line, demonstrating sufficient disclosure of the underlying factual support for the defense.
>
> I do not find persuasive PTI's and the Staff's argument that PTI need not timely provide the basis for particular defenses where PTI purports to rely on documents obtained from Brown & Williamson. The fact that Brown & Williamson possesses its own documents does not signify its knowledge of *which* documents PTI finds relevant or *how* PTI will attempt to characterize and rely on those documents to support particular defenses. Accordingly, at the hearing, in support of its presentation of defenses and supporting evidence, PTI will *not* be permitted to point to Brown & Williamson's possession of its documents as the sufficient disclosure of the information relating to a defense. Furthermore, because, even regardless of providing the information in other forms, PTI shirked an obligation to answer the interrogatories, thereby disadvantaging Brown & Williamson in its trial preparation, PTI's post-hearing submissions schedule is amended so that its initial post-hearing brief and findings of fact and conclusions of law are due on Wednesday, April 5th, rather than Friday, April 7th.

Order No. 67 at 3-4.

Thus, contrary to PTI's representation in its reply brief, no sanction issued precluding PTI from calling witnesses or using documentary evidence found in a particular document review.[15] Rather, Brown & Williamson was granted relief from PTI presenting evidence or witnesses never disclosed to Brown & Williamson until a week or less before trial, *despite PTI's having been specifically ordered to disclose such information earlier.* PTI alleges that its late interrogatory responses either duplicated information it had already provided, or contained

---

[15] I note that while PTI has repeatedly cited its March 7th review of Brown & Williamson documents as an excuse for late designations, identifications and filings, the late date of that document review was wholly in the control of PTI, rather than as a result of any delay or wrongdoing by Brown & Williamson. See Order No. 56 at 5-6. See also Order No. 65 at 3-4; Order No. 67 at 2-3 and 7.

information previously in Brown & Williamson's possession because PTI derived it from Brown & Williamson's documents. As to the first category, my order permitted PTI to present any information where it could demonstrate that the factual background had been adequately disclosed in discovery prior to February 29th, so PTI should have no complaint as to any such information. For example, PTI introduced and I admitted over Brown & Williamson's objection a document PTI obtained from the March 7th document review in an instance where I found the factual background was disclosed in a timely manner. See IX-255C; Tr. at 844-55. As to the second category, as the quoted portion of Order No. 67 above makes clear, under the circumstances and given the large volume of documents produced by Brown & Williamson, I do not find PTI's argument as to the lack of prejudice to Brown & Williamson convincing.

Turning to PTI's allegation of a denial of due process because its initial post-hearing brief deadline was shortened by two days, I note as an initial matter that no Commission Rules govern the time allotted for initial post-hearing briefs or reply briefs. In Order No. 67, I required PTI to file its initial post-hearing brief on April 5th (twelve days after the conclusion of the hearing) instead of April 7th to help alleviate prejudice to Brown & Williamson as a result of PTI's opportunity to present defenses which were the subject of discovery obligations not met by PTI. The ruling, rather than reflecting bias, reflects an attempt to level the playing field in a case where PTI created repeated discovery obstacles for Brown & Williamson. See, e.g., Order No. 27 (requiring PTI to provide responses to Brown & Williamson discovery requests); Order No. 38 (finding PTI in violation of Order No. 27, which compelled discovery responses); Order No. 46 (compelling PTI to provide answers to written discovery requests propounded by Brown & Williamson); Order No. 54 (compelling PTI to facilitate an

inspection of its business facility by Brown & Williamson); Order No. 55 (ordering PTI to provide responses to certain written discovery from Brown & Williamson); Order No. 67 (finding PTI in violation of orders to compel - Orders No. 27, 38, 46 and 55).

As its third and final overarching claim of a due process violation, PTI cites Order No. 66's dismissal of PTI's motion to designate certain rebuttal exhibits as direct exhibits. The motion was dismissed as untimely because the parties had been ordered to serve all pre-trial motions *in limine* by March 9th, and PTI filed its motion on March 16th, the Thursday prior to the Monday commencement of the trial. As a threshold matter, I disagree with PTI's contention that its motion was not governed by the deadline, since PTI was seeking permission to introduce certain exhibits as direct exhibits rather as rebuttal exhibits. The deadline set for motions *in limine* is intended to give counsel a predictable pre-trial schedule that affords them the opportunity to spend the final days before the hearing preparing their cases rather than responding to motions. Accordingly, I believe the dismissal was appropriate.

Even apart from that, PTI's prejudice argument on this issue is puzzling, however, since of the exhibits for which it sought permission to offer as direct, rather than rebuttal exhibits, two were introduced into evidence (IX-255C, IX-261C), one was rejected on grounds unrelated to its status as a rebuttal versus direct exhibit (IX-128C), and PTI voluntarily withdrew the remainder. No party objected at any time during the hearing to PTI's introduction of a rebuttal exhibit based on its status as such, and for the admitted exhibits, no distinction is made in considering them based on their designation as rebuttal versus direct exhibits. Thus, PTI's theoretical prejudice claim lacks a foundation in fact.

Again citing a "double standard", PTI inaccurately represents that "... when [Brown & Williamson] sought to introduce evidence that was not even listed, identified, or turned over to PTI until the trial (The Kessler photographs and videotape), and that were obtained by [Brown & Williamson] on March 7th, the Court admitted the evidence over PTI's stringent objections!" PTI Reply Brief at 18-19. The exhibits reflect photos and a video of an inspection of PTI's premises that occurred on March 7th, pursuant to an order compelling PTI to cooperate in allowing the inspection. At the trial, PTI's counsel admitted that these exhibits *were identified on Brown & Williamson's rebuttal exhibit list*, served on March 9th (see Tr. at 728), and PTI's representation to the contrary in its brief is untrue. As physical exhibits, pursuant to Ground Rule 12(a), these exhibits, CPX-89C and CPX-90C, need not have been "turned over" to the other parties, but only need have been identified on the list and made available for inspection by the other parties on the date established for the submission and service of documentary exhibits. Brown & Williamson complied with this rule, and PTI's failure to avail itself of the opportunity to inspect these exhibits prior to the trial cannot successfully form the basis of a due process challenge.

Accordingly, I find no merit in any of PTI's complaints about the process afforded it in connection with this investigation, and decline to grant any relief requested by PTI on that basis.

Conclusion

For the foregoing reasons, I conclude that PTI's conduct constitutes trademark infringement, false designation of source, and trademark dilution in violation of Section 337, while I find that Brown & Williamson failed to carry its burden of proof on its claim of false

advertising. I deem the affirmative defenses asserted by PTI without merit, and I find no basis for PTI's allegations of violation of due process during the course of this investigation.

X. Remedy and Bonding

Pursuant to Commission Rule 210.42(a), 19 C.F.R. § 210.42(a), this recommended determination contains findings of fact and recommendations concerning the appropriate remedy and bond amount.

A. Exclusion Order

Section 337(d)(2) provides for the issuance of a general, rather than limited, exclusion order where necessary to prevent the circumvention of a limited exclusion order, or where there exists a pattern of violations with attendant difficulty in identifying the source of the infringing products. 19 U.S.C. §1337(d)(2). Both Brown & Williamson and the Staff argue that the record in this investigation presents the requisite circumstances for a general exclusion order.

Brown & Williamson maintains that absent the issuance of a general exclusion order, the institution of numerous, repeated investigations could become necessary to address Brown & Williamson's problems with infringing gray market KOOLs and LUCKY STRIKEs. Contending that a widespread pattern of infringement of the asserted marks exists, Brown &

Williamson notes the admissions of each of the former respondents[16] and of PTI to purchasing the unauthorized "for export only" KOOL and LUCKY STRIKE cigarettes from a wide variety of suppliers, and their identification of even more suppliers, indicating the large number of entities involved in this business. See Nemani, CX-117C at 41-42, 45, 93, 95-97, 99, 101-02, 107-08; Batalini, CX-52C at 33-37; M. Elortegui, CX-77C at 48-49, 55-56, 128-30; R. Elortegui, CX-95C at 17-20, 36-37, 40-41; Alexander, CX-47C at 40-41, 48, 53, 77, 92, 97; Lee, CX-530C at 48-49, 53; Lee, CX-566C at 226-27; Norona, CX-565C at 26. Brown & Williamson also points to the changeability of gray market importers' corporate entities and locations and their poor business documentation, as well as rapid growth in the gray market cigarette industry as indicators that a general exclusion order should issue. See Pittman, Tr. at 708, 710; Koch, Tr. at 512-13; [ ]

Citing factors previously considered by the Commission in Certain Battery-Powered Ride-On Toy Vehicles and Components Thereof, Inv. No. 337-TA-314 (1991), as indicating circumstances from which an inference can reasonably be drawn that others will enter the market for the infringing goods, Brown & Williamson maintains that the high profit margin from gray market cigarettes, the established demand for them, the established market and distribution networks for them, and the minimal cost and ease of entering this business also

---

[16] In Certain Rare Earth Magnets and Magnetic Materials and Articles Containing Same, Inv. No. 337-TA-413, Comm'n Op. on Remedy, the Public Interest and Bonding at 6 (1999), the Commission noted the propriety of an administrative law judge considering evidence regarding respondents who have been terminated from the investigation on the basis of Consent Orders. See also Certain Woodworking Machines, Inv. No. 337-TA-174, Comm'n Op. at 49 (1987). Accordingly, I consider evidence regarding Allstate, Dood, R.E. Tobacco and Prestige in formulating my recommendation for a general exclusion order.

support a general exclusion order. As to the administrability of such an order, Brown & Williamson argues that the physical differences between its domestic and export products allow for ease of administration and enforcement, and further contends that importations of "for export only" KOOLs and LUCKY STRIKEs are already illegal in most cases, pursuant to Public Law 105-33, Section 9302, 27 C.F.R. Parts 200 *et al.*

The Staff cites Section 337(d)(2) and Certain Airless Paint Spray Pumps and Components Thereof, Inv. No. 337-TA-90 Comm'n Op. at 17 (1981), for the proposition that a general exclusion order can issue given proof of a widespread pattern of unauthorized use and business conditions creating a reasonable inference that foreign manufacturers other than the respondents may attempt to enter the United States market. The Staff cites evidence that, in addition to the four former respondents in this investigation, numerous other entities are engaged in the sale of "for export only" cigarettes in the United States. See, e.g., Fondren, Tr. at 647-51; Pittman, Tr. at 704-05, 708-09; R. Elortegui, CX-95C at 54-55. The Staff also points to evidence of numerous suppliers. See, e.g., CX-271C at BW300121, 141-42. Finally, the Staff argues that little capital investment is required to enter the business of importing and selling "for export only" cigarettes, and the Staff contends that the business is on the rise.

In opposing the issuance of a general exclusion order, PTI merely reiterates the same substantive arguments it made against a violation finding, specifically that the accused products do not materially differ from their domestic counterparts, and that a remedy should be precluded in light of the affirmative defenses.

I recommend the issuance of a general exclusion order in this investigation, in light of both the potential for circumvention of a limited exclusion order and the evidence of a pattern

of infringing importation and sale of the accused products from a variety of sources, the identity of all of which would be difficult to ascertain. In Certain Rare Earth Magnets and Magnetic Materials and Articles Containing Same, Inv. No. 337-TA-413, Comm'n Op. on Remedy, the Public Interest and Bonding at 4-5 (1999), the Commission noted that the Spray Pumps standard cited by the Staff still applies. As noted by both Brown & Williamson and the Staff, in addition to the acknowledgments by the former respondents that they had imported and/or sold in the United States the accused products, the record includes the identification of a large number of other entities also involved in the same activity as well as the suggestion that the business continues to grow. See CX-8 at 3; CX-47C at 47; CX-52C at 77-80; CX-34C; Nemani, CX-117C at 43, 46, 93, 95-102, 107-08; Batalini, CX-52C at 33-37; M. Elortegui, CX-77C at 48-49, 55-56, 128-30; R. Elortegui, CX-95C at 17-20, 36-37, 40-41; [ ] Lee, CX-530C at 48-49, 53; Lee, CX-566C at 226-27; [ ] A limited exclusion order covering PTI's importations thus would not sufficiently address the problem. Even assuming these other entities could all be identified and subjected to a limited exclusion order as a result of other proceedings, the potential for circumvention through the creation of new corporate entities still would exist given the nature of the business, which requires little capital investment, a small number of relatively untrained employees, and minimal facilities. See Koch, Tr. at 511-12; [ ] Nemani, CX-117C at 26, 41; [ ] [ ] Numerous witnesses also testified to the ever-growing nature of the gray market cigarette business. See, e.g., Alexander, CX-47C at 40-41; Pittman, Tr. at 708-10. Based on finding the conditions contemplated by Section 337(d)(2), and considering relevant precedent from

other Section 337 investigations where the Commission considered the issuance of a general exclusion order, such as Rare Earth Magnets, Spray Pumps, Tractors and Certain Neodymium-Iron-Boron Magnets, Inv. No. 337-TA-372, Comm'n Op. on Remedy, the Public Interest and Bonding at 5 (1996), my recommended determination includes a general, rather than limited, exclusion order.

B. Cease and Desist Order

Brown & Williamson requests the issuance of a cease and desist order against PTI. A cease and desist order in a Section 337 investigation is appropriate where U.S. courts may exercise *in personam* jurisdiction over the party covered by the order and where the evidence suggests that the party has a "commercially significant" amount of the infringing product in the United States which might be used to undercut the effect of any exclusion order. See Certain Microsphere Adhesives, Process for Making Same, and Products Containing Same, Including Self-Stick Repositionable Notes, Inv. No. 337-TA-366, Comm'n Opinion at 22-23 (1996). As set forth above, PTI is subject to personal jurisdiction in the United States in light of its voluntary intervention in the present investigation. Therefore, the remaining issue is whether the size of PTI's inventory of KOOL and LUCKY STRIKE "for export only" cigarettes justifies the issuance of a cease and desist order.

Brown & Williamson argues that PTI maintains a "commercially significant inventory" of the infringing KOOL and LUCKY STRIKE cigarettes and that a cease and desist order is thus appropriate. Such order, according to Brown & Williamson, should prohibit the importation, sale, marketing, advertising, distribution, offering for sale, transfer or use of *any* existing inventories of re-imported "for export only" KOOL and LUCKY STRIKE cigarettes.

In support of its position, Brown & Williamson relies mainly on its request for a factual inference of substantial inventory based on PTI's failure to produce certain Customs documents relating to its importation of the accused products, and on the inspection of PTI's warehouse facilities and the deposition of Mr. Kessler relating thereto. During the inspection of PTI's facilities, boxes of KOOL cigarettes were observed but no boxes of LUCKY STRIKE cigarettes were found. See Kessler, Tr. at 743; CPX-90C. Mr. Kessler testified, however, that PTI restricted Brown & Williamson's inspection of its facilities to approximately one-third of the premises. See Kessler, Tr. at 739. Brown & Williamson argues that large stockpiles of re-imported cigarettes found in several Florida ports evidence the existence of a significant inventory of KOOL and LUCKY STRIKE "for export only" cigarettes and make the issuance of a cease and desist order appropriate.

Brown & Williamson also advocates a finding of a "commercially significant inventory" in light of PTI's apparent violation of Order No. 46, which required PTI to produce by February 16, 2000 all documents responsive to certain Brown & Williamson document requests, including Customs documents relating to imported KOOL and LUCKY STRIKEs. Brown & Williamson later filed a motion *in limine*, which became the subject of Order No. 67, relating to allegations of PTI's continued failure to comply with the mandate in Order No. 46 to fully respond to Brown & Williamson's document requests. Although in Order No. 67, I acknowledged the suspicious nature of PTI's failure to produce some categories of documents, I declined to impose sanctions at that time, in part because Brown & Williamson lacked direct evidence of the withholding of responsive documents. During the evidentiary hearing, however, PTI presented Mr. Jerry Anderson of Howard Hartry, Incorporated, PTI's Customs

broker, who testified that he processes and maintains Customs documentation on behalf of PTI. Anderson, Tr. at 820, 832-33. Brown & Williamson points to the existence of such records, which fall within the scope of Order No. 46, but which were not produced by PTI, as the basis for its request that an adverse factual inference be drawn that PTI maintains a substantial inventory of the infringing KOOL and LUCKY STRIKE cigarettes.

PTI argues that the issuance of a cease and desist order is improper since Brown & Williamson has failed to make a showing of a violation of Section 337. If, however, a cease and desist order is issued, PTI asserts that it should be narrowly tailored to include only those products which are found to infringe Brown & Williamson's trademarks, meaning only those products which materially differ from Brown & Williamson's domestic KOOL and LUCKY STRIKE cigarettes. Claiming that not all KOOL and LUCKY STRIKE "for export only" cigarettes materially differ from their domestic counterparts, PTI argues that a cease and desist order, if issued, should not include all KOOL and LUCKY STRIKE "for export only" cigarettes.

The Staff supports Brown & Williamson's position that a cease and desist order against PTI is warranted under the circumstances, relying principally on the deposition of Mr. Lee, PTI's corporate designee. In his deposition, Mr. Lee attests to the existence of a limited inventory of KOOL and LUCKY STRIKE "for export only" cigarettes at PTI's warehouse facilities. Lee, CX-530C at 101-102. In his deposition, Mr. Lee stated that PTI generally imports KOOL and LUCKY STRIKE "for export only" cigarettes to fill specific orders. Lee, CX-530C at 102. Mr. Lee acknowledged, however, that at times PTI imports KOOL and LUCKY STRIKE "for export only" cigarettes without having specific orders from clients. Lee,

CX-530C at 101. In the Staff's view, since PTI maintains a substantial inventory of cigarettes brands, which include the KOOL and LUCKY STRIKE "for export only" cigarettes, the Staff recommends the issuance of a cease and desist order if a Section 337 violation is found.

Upon review of the parties' submissions and the evidence presented, I recommend that a cease and desist order against PTI be deemed proper and extend to the importation, sale, marketing, advertising, distribution, offering for sale, transfer or use of any existing inventories of "for export only" KOOL and LUCKY STRIKE cigarettes. As an initial matter, I conclude that PTI failed to produce responsive Customs-related documents during the discovery process, in violation of Order No. 46, mandating that they be produced. Mr. Anderson testified that his company maintained Customs records on behalf of PTI, and that if PTI had imported "for export only" KOOLs and LUCKY STRIKEs within the preceding five years, his company would have the records reflecting such information. Anderson, Tr. at 832-34. Mr. Anderson also acknowledged that his company acts as an agent of PTI, and I therefore conclude that the records maintained by his company on PTI's behalf are under the custody and control of PTI for the purposes of responding to discovery requests. See Anderson, Tr. at 834. Mr. Anderson stated that his company was never asked by PTI to produce these documents and that he was not aware that the documents were the subject of document requests or orders in this investigation. Anderson, Tr. at 834.

PTI's violation in this regard prevented Brown & Williamson's access to specifically requested documents pertaining to PTI's inventory of imported KOOLs and LUCKY STRIKEs. Under these circumstances, I conclude that the violation should result in entry of a factual inference relating to the content of the withheld documents. Specifically, I infer that the

documents would have shown that PTI has imported a substantial amount of the infringing KOOL and LUCKY STRIKE cigarettes. See 19 C.F.R. § 210.33(b) (providing for non-monetary sanctions "for failure to comply with an order compelling discovery" including "rul[ing] that for purposes of the investigation the matter or matters concerning the order . . . issued be taken as established adversely to the party").

In light of this inference, as well as the testimony of PTI's Mr. Lee, cited by the Staff, and the inventory of KOOLs viewed during the inspection of PTI's facility,[17] I recommend issuance of a cease and desist order against PTI, covering the importation, sale, marketing, advertising, distribution, offering for sale, transfer or use of any existing inventories of re-imported "for export only" KOOL and LUCKY STRIKE cigarettes.

C. Bond

Finally, as to the appropriate bond to be set according to Section 337(j)(3) at an amount ". . . sufficient to protect the complainant from any injury" associated with the continued importation of any offending products during the Presidential review period, Brown & Williamson requests a bond in the amount of 100% of the entered value of the infringing products. To support its position, Brown & Williamson argues that the imposition of such bond would serve to protect its intellectual property rights associated with its KOOL and LUCKY STRIKE products and to secure its domestic market. Brown & Williamson further

---

[17] Although the inspection of PTI's facilities revealed only the "for export only" KOOL cigarettes on the part of the premises inspected, I note that Brown & Williamson's representatives met considerable difficulty gaining access to the facilities at the time of the inspection, and that they were only allowed to inspect a small portion of PTI's warehouse facilities. See Kessler, Tr. at 739.

asserts that the bond would deter the continued importation of repatriated KOOL and LUCKY STRIKE cigarettes by PTI and would protect the public interest.

PTI counters that Brown & Williamson has suffered no significant injury in the past as a result of its importation of repatriated KOOL and LUCKY STRIKE cigarettes and, resultantly, that Brown & Williamson risks little further injury during the Presidential review period. PTI bases its argument principally on its assertion that Brown & Williamson has failed to state a valid trademark infringement claim under the Lanham Act.

The Staff, arguing that precise comparison pricing between the products is difficult in light of the fact that Brown & Williamson sells its domestic products to wholesalers while PTI sells its repatriated cigarettes to both wholesalers and retailers, recommends a fixed rate bond amount of $7 per carton. [

] According to the Staff, a fixed rate of $7 per carton of repatriated cigarettes imported during the Presidential review period would serve to minimize the competitive advantage enjoyed by PTI while at the same time limiting the amount of harm caused to Brown & Williamson. The Staff, citing Certain Integrated Circuit Telecommunication Chips and Products Containing Same, Including Dialing Apparatus, Inv. No. 337-TA-337, Comm'n Op. at 41-43, also notes that there is precedent to support setting the bond at a specific monetary amount per imported product.

In its reply brief, Brown & Williamson concedes that the Staff's proposal of $7 per carton is "of a similar magnitude" to its own proposal of 100% of the entered value. Brown & Williamson Post-Hearing Reply Brief at 48. Brown & Williamson suggests, however, that a percentage of entered value is more appropriate to compensate for any potential price increases that might occur during the Presidential review period. PTI's reply brief merely reiterates its position that Brown & Williamson has suffered no significant injury as a result of its business.

In this case, both the nature of the relevant evidence and the fact that the accused products are apparently taxed at a flat rate based on volume rather than taxed based on entered value weigh in favor of a fixed amount per carton of cigarettes. See Lee, CX-530C at 161. The Staff's proposed bond of $7 per carton of repatriated cigarettes is a reasonable reflection of the evidence presented by the parties during the course of the proceeding. Furthermore, neither Brown & Williamson nor PTI offers any substantive criticism of the Staff's proposal or provides an alternative bond amount more firmly rooted in the evidence. Brown & Williamson's main concern regarding the potential for price increases is not sufficiently persuasive in light of the relative shortness of the Presidential review period, and Brown and Williamson essentially conceded the reasonableness of the Staff's proposal. Accordingly, I recommend setting the bond in the amount suggested by the Staff, $7 per carton of repatriated KOOL and LUCKY STRIKE cigarettes imported during the Presidential review period.

INITIAL DETERMINATION, RECOMMENDED DETERMINATION, AND ORDER

Based on the foregoing opinion, the findings of fact, the conclusions of law, and the record as a whole, and having considered all pleadings and arguments as well as proposed findings of fact and conclusions of law, it is my Initial Determination ("ID") that a violation of Section 337 exists in the importation into the United States, sale for importation, or sale within the United States of certain cigarettes and packaging thereof. Additionally, it is my Recommended Determination ("RD") that a general exclusion order be issued, that a cease and desist order against PTI be issued, and that a bond of $7 per carton of repatriated KOOL and LUCKY STRIKE cigarettes imported during the Presidential review period be imposed.

I hereby certify to the Commission this ID and RD together with the record of the hearing in this investigation consisting of the following:

a. The transcript of the prehearing conference held on November 2, 1999, and the transcript of the hearing held from March 20, 2000 to March 24, 2000,

b. The exhibits accepted into evidence in this investigation as listed in the attached exhibit lists, and

c. All orders entered in this investigation as well as all pleadings, briefs and other documents and things filed with the Secretary.

In accordance with 19 C.F.R. § 210.39(c), all confidential material under 19 C.F.R. § 210.5 is to be given *in camera* treatment.

The Secretary shall serve a public version of this ID and RD upon all parties of record and the confidential version upon counsel who are signatories to the Protective Order (Order No. 1) issued in this investigation, and the Commission investigative attorney. To expedite

service of the public version, counsel are hereby ordered to serve on my office no later than July 7, 2000, a copy of the ID and RD with those sections considered by the party to be confidential bracketed in red.

Pursuant to 19 C.F.R. § 210.42(h), the ID shall become the determination of the Commission unless a party files a petition for review pursuant to § 210.43(a) or the Commission, pursuant to § 210.44, orders on its own motion a review of the ID or certain issues herein.

Debra Morriss
Administrative Law Judge

Issued: June 22, 2000

FINDINGS OF FACT

Background

1. All findings of fact set forth in the Initial Determination are incorporated herein by reference.

2. The Complainant, Brown & Williamson Tobacco Corporation ("Brown & Williamson") is incorporated under the laws of Delaware and is headquartered in Louisville, Kentucky. Complaint at 3.

3. Brown & Williamson filed a complaint against Allstate Cigarette Distributors, Inc. ("Allstate"), Prestige Storage & Distribution, Inc. ("Prestige"), R.E. Tobacco Sales, Inc. ("R.E. Tobacco") and Dood Enterprises, Inc. ("Dood") on August 17, 1999, and supplemented it on September 8, 1999. Complaint and Supplement to Complaint.

4. The Commission issued its Notice of Investigation on September 17, 1999, instituting this Section 337 investigation concerning Brown & Williamson's allegations of infringement with respect to U.S. Trademark Registration Nos. 118,372; 311,961; 335,113; 366,744; 404,302; 508,538; 747,482; 747,490; 2,055,297; 2,174,493; and 2,218,589, trademark dilution, false representation of source, and false advertising. Notice of Investigation.

5. The Commission named Allstate, Prestige, R.E. Tobacco, and Dood as Respondents. Notice of Investigation.

6. PTI, Inc. doing business as Ampac Trading, ("PTI") filed a motion to intervene in this investigation, which was granted in an Initial Determination issued on November 19, 1999, which the Commission determined not to review. Order No. 15; Notice of

Commission Determination dated December 15, 1999.

7. PTI uses Ampac Trading as its business name. Lee, CX-566C at 191.

8. By separate Initial Determinations issued on January 20, 2000, March 1, 2000, March 1, 2000, and March 28, 2000, the motions of Respondents Allstate, R.E. Tobacco, Prestige and Dood to be terminated from the investigation based upon consent orders were granted. The Commission determined to review and affirmed the determination as to Allstate and determined not to review the determinations as to R.E. Tobacco, Prestige and Dood. Order Nos. 30, 60, 61, 68 and Commission Notices dated February 22, 2000, March 24, 2000, and April 27, 2000.

9. The accused products in this investigation are KOOL and LUCKY STRIKE brand cigarettes manufactured by Brown & Williamson with packages bearing the trademarks listed above, but designated and labeled "TAX EXEMPT. FOR USE OUTSIDE U.S."

I. Jurisdiction

10. Brown & Williamson has satisfied Section 337's domestic industry requirement. Order No. 59; Commission Notice dated March 24, 2000.

11. PTI admitted that it has imported and sold in the United States the accused products. CX-22 and PTI Initial Post-Hearing Brief at 8.

II. Trademark Infringement

12. Brown & Williamson is the owner of the following U.S. Trademark Registrations, all of which are legally and validly registered on the Principal Register of the United States Patent and Trademark Office:

KOOL + DESIGN (Registration No. 508,538)

KOOL (Registration No. 747,482)
KOOL + DESIGN (Registration No. 747,490)
KOOL + DESIGN (Registration No. 2,218,589)
LUCKY STRIKE (Registration No. 118,372)
LUCKIES (Registration No. 335,113)
LUCKY STRIKE + DESIGN (Registration No. 366,744)
LUCKY STRIKE + DESIGN (Registration No. 404,302)
LUCKY STRIKE + DESIGN (Registration No. 2,174,493)
AN AMERICAN ORIGINAL (Registration No. 2,055,297)
INDIAN DESIGN (Registration No. 311,961)

Order No. 59 (unreviewed initial determination).

13. Trademark Application 75/452, 749 for the "waterfall design" on the KOOL packaging issued on October 12, 1999 as Registration Number 2,284,813. CX-207.

14. No party disputes that all of the domestic versions of the KOOL cigarette packs and cartons bear the trademarks: KOOL + DESIGN (Registration No. 508,538), KOOL (Registration No. 747,482), KOOL + DESIGN (Registration No. 747,490), and KOOL + DESIGN (Registration No. 2,218,589). See CX-198; CX-199; CX-200; CX-211.

15. No party disputes that all of the domestic versions of the LUCKY STRIKE cigarette packs and cartons bear the trademarks: LUCKY STRIKE (Registration No. 118,372), LUCKIES (Registration No. 335,113), LUCKY STRIKE + DESIGN (Registration No. 366,744), LUCKY STRIKE + DESIGN (Registration No. 404,302), LUCKY STRIKE + DESIGN (Registration No. 2,174,493), AN AMERICAN ORIGINAL (Registration No. 2,055,297), and INDIAN DESIGN (Registration No. 311,961). See CX-210; CX-202; CX-203; CX-204; CX-205; CX-206; CX-209.

16. Brown & Williamson has produced and sold billions of KOOL and LUCKY STRIKE

brand cigarettes and has spent many millions of dollars advertising and promoting these brands in the United States. Order No. 59 (unreviewed initial determination); McMurtrie Decl. at ¶ 3.

17. Andrew McMurtrie has been the Director of Product Development for Brown & Williamson since 1993. McMurtrie, Tr. at 341-42.

18. All LUCKY STRIKE and KOOL cigarettes sold by Brown & Williamson for the United States market and for export markets are produced at Brown & Williamson's production facility in Macon, Georgia. Order No. 59 (unreviewed initial determination); Stowe Decl. at ¶ 8, 9.

19. Robert Stowe is Area Vice-President of the Southeast Area for Brown & Williamson, and as such is primarily responsible for sales and distribution of product in that area. Stowe, Tr. at 44.

20. For the period January 1997 through October 1999, Brown & Williamson's United States sales of LUCKY STRIKE cigarettes exceeded [ ] and Brown & Williamson's United States sales of KOOL exceeded [ ] Order No. 59 (unreviewed initial determination); Stowe Decl. at ¶ 10.

21. Brown & Williamson conducts production-related activities directed to the KOOL and LUCKY STRIKE product lines, including manufacturing, research and development, quality assurance, marketing, sales support and finance and administrative functions, in the United States at the following locations as specified:

- Cigarette production in Macon, Georgia in buildings totaling

more than [ ] square feet, situated on [ ] acres of property;

- Leaf processing in Wilson, North Carolina in buildings totaling more than [ ] square feet, situated on [ ] acres of property;

- Leaf storage in Blacksburg, Virginia in buildings totaling more than [ ] square feet, situated on [ ] acres of property.

Order No. 59 (unreviewed initial determination); Stowe Decl. at ¶ 13.

22. Since 1997, Brown & Williamson has invested over [ ] in new plant and equipment for the domestic manufacture of cigarettes, including KOOL and LUCKY STRIKE products. When the existing plant and equipment is also included, as of November 1999, the net book value exceeds [ ] In addition, Brown & Williamson currently employs over [ ] employees in the United States, including approximately [ ] at the Macon, Georgia facility, involved in research and development, manufacturing, quality assurance, marketing, sales and support, and finance and general administration. As a percentage of sales revenue, over [ ] of these employees are allocable to the KOOL and LUCKY STRIKE brand products.

Order No. 59 (unreviewed initial determination); Stowe Decl. at ¶ 14.

23. Brown & Williamson has also made significant cigarette product research and development expenditures. Since January 1997, Brown & Williamson's research and development expenses have exceeded [ ] Of this, over [ ] could be allocated to KOOL and LUCKY STRIKE cigarettes on the basis of sales. Order No. 59 (unreviewed initial determination); Stowe Decl. at ¶ 15.

24. [ ]

[

]

25. [

]

26. Mr. McMurtrie testified as follows:

[

]

[

]

[

]

27. [

]

28. Reconstituted tobacco consists of manufacturing waste or tobacco stem materials too fine or too coarse to be used in cigarette-manufacturing in their native state. Brown &

Williamson molds them into a sheet, slits them in strands, then uses this "reconstituted tobacco" in some cigarettes. McMurtrie, Tr. at 348-49.

29. The reconstituted tobacco used in "for export only" Brown & Williamson cigarettes differs from that used in domestic cigarettes, [

]

30. [

]

31. Expanded tobacco consists of "puffed up" leaf tobacco, and allows for a firmer cigarette with less tobacco used. Expanded tobacco also factors into how fast a cigarette burns. McMurtrie, Tr. at 351.

32. [

]

33. [

]

34. Domestic LUCKY STRIKE cigarettes contain no more than 23 ingredients,[

[

]

35. [

]

36. [

]

37. Mr. McMurtrie testified as follows:

[

]

38. Mr. McMurtrie testified as follows:

[

]

[

]

[

]

39. Mr. McMurtrie testified as follows:

[

]

40. [

]

41. [

]

[ ]

42. [

]

43. [

]

44. [

]

45. Mr. McMurtrie testified as follows:

[

]

46. Mr. McMurtrie testified as follows:

[

]

[

]

47. Mr. McMurtrie testified as follows:

[

]

[

]

48. [

]

49. Importers of "for export only" cigarettes must remove the plastic cellophane wrap on the cigarette cartons in order to apply state tax stamps. See Lee, CX-530 at 63-73.

50. PTI produced samples of the "for export only" LUCKY STRIKEs it has sold. McMurtrie, Tr. at 484.

51. [

]

52. Brown & Williamson's analysis of PTI's samples of LUCKY STRIKE and KOOL were performed by analytical chemists who do the same type of analysis as a routine part of their jobs. McMurtrie, Tr. at 485.

53. [

]

54. [

]

55. [

]

56. PTI's sample LUCKY STRIKEs have the characteristics of "for export only" LUCKY STRIKEs, rather than those of the domestic version. CX-299C; McMurtrie, Tr. at 485-86.

57. Gary Burne, a LUCKY STRIKE consumer, gave convincing testimony regarding his negative experience smoking "for export only" LUCKY STRIKEs. See Burne, Tr. at 609-16.

58. Mr. Burne questioned why LUCKY STRIKE cigarettes labeled "TAX EXEMPT. FOR USE OUTSIDE U.S." were being sold in the United States. Burne, Tr. at 616-17.

59. Mr. Burne perceived the "for export only" LUCKY STRIKE cigarettes as having a different, harsher flavor than domestics, and he called Brown & Williamson's toll-free number to complain about the cigarettes. Burne, Tr. at 609-16.

60. Mr. Kessler testified as follows:

A After you questioned me about counterfeit cigarettes, I had an idea that I wanted to research that and see if there was such a thing as counterfeit cigarettes because I hadn't heard that before. And I conducted a tremendous amount of database research and Internet research and found that there's a tremendous amount of counterfeit cigarettes being made in Asia and European countries that are passing into England and other countries. . .

Kessler, Tr. at 774.

61. Mr. Kessler testified as follows:

Q In fact there's not much about the cigarette business you do know except for what's been provided by counsel for Brown & Williamson; isn't that true?
A That's correct, sir.

Kessler, Tr. at 783.

62. Mr. Stowe testified as follows:

Q . . . Now, Mr. Stowe, Physical Exhibit 78, can you identify what that is?
A Physical Exhibit 78 is a pack of Lucky Strike Lights in a king size box that was made by Brown & Williamson but intended for sale outside the United States.
Q How can you tell that, that it was intended for sale outside the United States?
A I would look at the pack, and to start, there is no 1-800 number on the package. It states on both the front and back panel "made in the USA." It carries a warning that states "U.S. Surgeon General's warning," which is different than the U.S. warning. And also, on the top corner of the box, it states "tax exempted for use outside U.S." So those would be the differences. So the absence of some of the things I would look for, as well as the tax-exempt statement, I don't see it as a pack authorized or intended for use in the U.S.

* * *

Q Is Physical Exhibit 78 a representative example of a style of Lucky Strike cigarettes that Brown and Williamson exports?

A Yes, it would appear to be, yes, sir.

Stowe, Tr. at 87-89.

63. Brown & Williamson sponsors a domestic toll-free number to receive consumer complaints and comments about its products. Stowe, Tr. at 93.

64. Brown & Williamson's Consumer Information Center, or CIC, receives or oversees the receipt of consumer calls to the toll-free number. Stowe, Tr. at 94.

65. [

]

66. [

]

67. All "for export only" Brown & Williamson cigarette packs are labeled "TAX EXEMPT. FOR USE OUTSIDE U.S." while domestic Brown & Williamson cigarette

packs bear no such legend. Stowe, Tr. at 87-89, 140-41.

68. Mr. Lee of PTI in deposition testified that all of the repatriated KOOL and LUCKY STRIKE cigarettes that PTI sells have the "TAX EXEMPT. FOR USE OUTSIDE U.S." statement on them. Lee, CX-566C at 251-52.

69. Consumers calling Brown & Williamson's toll-free number have expressed confusion and concern about the meaning of the legend "TAX EXEMPT. FOR USE OUTSIDE U.S." found on "for export only" cigarette packs. See CX-164C; CX-184C; Stowe, Tr. at 93-98.

70. The domestic LUCKY STRIKE Filter Kings and Lights also include on the packs an e-mail address for customer service, while the export versions of record do not. See e.g., CPX-40; CPX-63-66; CPX-78; CPX-80.

71. "For export only" Brown & Williamson cigarettes generally lack a pre-printed Surgeon General warning on the carton. McMurtrie, Tr. at 407-10, 412; see also CPX-30; CPX-38; CPX-43.

72. Edmond Nemani of Dood testified that his company places adhesive labels with Surgeon General warnings on "for export only" KOOL and LUCKY STRIKE cartons, as those lack pre-printed warnings on the cartons. CX-117C at 137-39.

73. Martha Elortegui of R.E. Tobacco testified that her company applies Surgeon General warning stickers to cartons of "for export only" cigarettes prior to selling them. Elortegui, CX-77C at 80-84.

74. CPX-25, a carton of "for export only" LUCKY STRIKEs produced by Dood, shows a clear sticker containing a Surgeon General warning applied to the side of the carton at a

diagonal, appearing crooked next to other pre-printed printing (in a different font) on that same side of the carton.

75. CPX-30 and CPX-43, cartons of "for export only" LUCKY STRIKEs produced by PTI, show white stickers (one per carton) containing a Surgeon General warning applied to the side of each carton, covering the red, circular LUCKY STRIKE graphic pre-printed on the carton.

76. CPX-24 and CPX-46, cartons of "for export only" KOOLs produced by Dood, show clear stickers (one per carton) containing a Surgeon General warning applied to the side of each carton at a diagonal, appearing crooked and covering over some pre-printed printing (in a different font and color) on the carton. On CPX-46, the sticker also partially covers the green KOOL graphic pre-printed on that side of the carton.

77. While "for export only" KOOL and LUCKY STRIKE are labeled "Made in the U.S.A.", Brown & Williamson does not place that designation on the packaging of the domestic versions. McMurtrie, Tr. at 407-12.

78. Cigarettes are subject to becoming stale, damaged or defective because of odors, fumes, smoke, moisture and humidity, and infect infestation, among other reasons. Dawson, Tr. at 532, 540; 547; 550-51; Pittman, Tr. at 714-15; Koch, Tr. at 508-09.

79. Ronald Dawson is the Director of Strategic Distribution and Supply Chain Programs and Systems for Brown & Williamson. Dawson, Tr. at 531.

80. Mr. Dawson testified as follows:

Q Now, why is quality control important for cigarette products?

A Tobacco is an agricultural product, and because it

is, it's susceptible to various environmental factors such as odors, fumes, smoke. It's also very critical in terms of moisture and humidity. It can also get stale after a period of time because it loses moisture. And it's also subject to infestation, insect infestation over a long period of time.

Dawson, Tr. at 532.

81. Mr. Dawson testified as follows:

[

]

Dawson, Tr. at 540.

82. David G. Pittman is the President and Owner of Pittman Brothers, a distributor of all major brands of cigarettes including LUCKY STRIKE and KOOL. Pittman, Tr. at 701.

83. Mr. Pittman testified as follows:

[

]

84. Kevin Koch is Vice President of Tax and Governmental Affairs for McLean Company, a grocery distributor. Koch, Tr. at 495.

85. Mr. Koch testified as follows:

[

]

86. Mr. Koch testified as follows:

[

]

87. Mr. Koch testified as follows:

[

]

88. Mr. Dawson testified as follows:

[ ]

[

]

89. Mr. Pittman testified as follows:

[

]

[

]

90. CX-478C represents presentation materials for Brown & Williamson's Wholesale Alliance Millennium program, and sets forth the requirements for participation that include implementation of numerous quality control measures.

91. CX-480C represents materials regarding Brown & Williamson's Retail Alliance Millennium program, and sets forth the requirements for participation that include implementation of numerous quality control measures.

92. Brown & Williamson makes efforts to maintain quality control over its domestic products, including KOOL and LUCKY STRIKE, even after their initial sale, but the post-initial-sale same quality control efforts do not apply to "for export only" products. See Stowe, Tr. at 56-76; CX-478C; CX-480C.

93. [

]

94. [

]

95. [

]

96. [

]

97. [

]

98. Mr. Stowe testified as follows:

Q Let me shift just a little bit. You've given some testimony concerning quality assurance efforts, and also, promotional efforts that Brown & Williamson makes in the United States. In addition to the promotional efforts that you've already testified about, does Brown & Williamson do

any other types of promotional endeavors for the sale of cigarettes in the United States?

A Well, outside of the programs we've talked about in terms of the Retail Alliance Millennium, there's the series of things, such as our normal advertising, promotions which would be involved, some of our bar programs, which are nightclub programs for adult consumers. We have sponsorship programs available, for example, like Team Kool Green Indy Racing Series. We have direct mail initiatives in place. So I would say there's a series of things beyond what we do in terms of a retail program that would provide additional marketing support that flies cover over our trademarks here in the United States.

Stowe, Tr. at 76-77.

99. Ms. Heitkamp testified as follows:

Q . . . (I)n your role as the attorney general of a state and in your role as a chairperson of the committee of the association of attorneys general, is the gray market -- are gray market cigarettes a problem for the states?

A The answer is yes.

Q And in what ways are they a problem for the states?

A In a number of ways. . .

And the fourth way I would tell you is because they are shipments of manufactured product within this country which is shipped outside this country. When it's shipped back in, it is not considered a domestic shipment under the master settlement agreement. And, therefore, presents a reduction in the amount of domestic shipment and results in a volume reduction under the master settlement agreement.

Heitkamp, Tr. at 582-83.

100. Mr. Fondren testified as follows:

Q Have you ever been contacted by a distributor about buying tax-exempt cigarettes?

A Yes, but they didn't tell me that's what they were doing.

Q How do you know that's what they were doing?

A Well, their initial contact was simply have we got

a deal for you. They were lower priced. We'd be happy to make a deal with you and save you money. But after having been stung once, it's kind of the buyer beware situation. I had learned my lesson.

So when I would respond to their ads through the mail, I would let them give me their little spiel, but my first question out of my mouth was are these the reimported tax-exempt for outside the U.S. sale cigarettes. Out of the three or four that I talked to, I would say one or two of them actually admitted that there was a difference and that they were selling the tax-exempt cigarettes, but there was no difference in the quality of the product, these are just as good, it's just a way to save you money. And then there were a couple of them that actually denied it, but in the process of denying it, they were stuttering and hem-hawing around the point to where they made me real nervous. With the price difference, it told me what I needed to know, and I didn't purchase from them.

Fondren, Tr. at 649-50.

101. [

]

102. Mr. Koch testified as follows:

[

]

103. [

]

104. [

]

105. [

]

106. [

]

107. [ ] while domestic KOOLs contain 20 or fewer ingredients. See CX-296; McMurtrie, Tr. at 379, 388.

108. [

]

109. CX-360C reflects a compilation of data by Brown & Williamson's Consumer Information Center.

110. CX-363C shows the results of moisture analyses performed on samples of cigarettes about which Brown & Williamson received consumer complaints of staleness or dryness.

111. [

]

[ ]

112. CX-365C shows both target and actual moisture levels for domestic and "for export only" KOOL and LUCKY STRIKE cigarettes manufactured by Brown & Williamson.

113. CX-328C shows the manufacturing specifications for KOOL domestic and "for export only" cigarettes, including the menthol content. The menthol content of domestic and "for export only" KOOLs varies. CX-328C.

114. CX-299C shows Brown & Williamson's analytical data on PTI's sample KOOLs produced in discovery.

115. [ ]

116. PTI's sample KOOLs have characteristics of "for export only" KOOLs rather than of domestic KOOLs. CX-299C.

117. PTI's Mr. Lee testified that PTI can buy a case of KOOL or LUCKY STRIKE cigarettes on the foreign market for $200 to $300 less than a case of domestic KOOLs or LUCKY STRIKEs. CX-566C at 331.

118. [

]

119. In CX-21, PTI's motion to intervene in this investigation, PTI refers to repatriated cigarettes as "the most significant price competition to the domestic manufacturer's distributors and a serious threat to tobacco industry price increases."

120. An invoice to Dood Enterprises from International Pioneers shows the sale of "for

export only" KOOL King Size fifty-carton cases for $290 per case. CX-119C at 2; CX-117C at 59.

121. CX-533C and CX-540C show invoices from PTI d/b/a Ampac Trading selling "for export only" KOOLs at prices significantly lower than domestics.

122. [

]

123. Mr. Stowe testified as follows:

[

]

[

]

[

]

124. Prior to the introduction of the redesigned KOOL waterfall packaging, Brown & Williamson informed its domestic customers of the change, and made efforts to remove the plain packaged KOOL products from the market to avoid confusion and to further its promotional efforts. Stowe, Tr. at 104-08; CX-378; CX-402; CX-403.

125. [

]

126. [

]

127. Mr. Deal testified that one of the reasons he thought the "for export only" cigarettes he purchased might be old or outdated was the "old style" plain packaging without the "new style" waterfall design. Deal, Tr. at 628, 632.

128. Dr. Henry Ostberg was qualified as an expert in consumer surveys and marketing research. Ostberg, Tr. at 264-67.

129. Dr. Ostberg's company prepared the report contained in CX-45C, reflecting data compiled through a consumer survey concerning KOOL cigarettes, also conducted by Dr. Ostberg's company. Ostberg, Tr. at 270.

130. Dr. Ostberg's survey was conducted in November and December 1999 in numerous markets throughout the United States. Ostberg, Tr. at 271.

131. Dr. Ostberg's survey involved showing regular KOOL smokers packs and cartons of plain-pack "for export only" KOOL cigarettes, and then asking a series of questions about them, including questions comparing what they had just seen to the KOOLs they normally purchase. Ostberg, Tr. at 282-87.

132. [

]

133. [

]

134. [

]

135. When Mr. Deal had a negative experience with "for export only" KOOLs, and wanted to call Brown & Williamson to complain, he could not find the toll-free number on the export product and had to look on "the new pack". Deal, Tr. at 633.

136. Mr. Fondren testified that he purchases KOOL cigarettes for his small grocery store from a grocery wholesaler. Fondren, Tr. at 640-41.

137. Mr. Fondren testified that customers complained about "for export only" KOOL cigarettes his grocery wholesaler supplied to him without informing him of any difference in the product. Fondren, Tr. at 643-44.

III. Trademark Dilution

138. The asserted trademarks achieved their fame prior to the onset of PTI's use of the marks. See Lee, CX-530C at 14; Order No. 59.

139. Brown & Williamson's lack of quality control over the "for export only" cigarettes renders it more likely that at the time of importation and sale in the United States, these "for export only" cigarettes would have quality problems. See Dawson, Tr. at 544; see also the findings of fact in connection with quality control in the infringement section, supra.

140. CX-164C shows consumer complaints about the taste and staleness of "for export only" KOOLs and LUCKY STRIKES.

141. CX-184C shows consumer complaints about the taste and staleness of "for export only" KOOLs and LUCKY STRIKES.

142. IX-42C shows the 1999 market share and share growth for some major domestic cigarette brands, and reflects share growth for domestic KOOL cigarettes.

IV. False Designation of Origin

See supra

V. False Advertising

143. CX-216 and CX-592C are duplicates of the same brochure from NTI, apparently mailed to a grocery store in North Carolina.

VI. Effect or Tendency to Substantially Injure the Domestic Industry

144. [

]

[ ]

145. [

]

146. CX-533C represents a collection of invoices for transactions involving the purchase or sale of "for export only" KOOLs or LUCKY STRIKEs by PTI or NTI.

147. In 1999, PTI sold approximately 100 50-carton cases of "for export only" KOOLs and LUCKY STRIKEs per month. Lee, CX-530C at 158.

VII. PTI's Affirmative Defenses

148. [

]

149. IX-41C shows a February 18, 1999 letter from Brown & Williamson to its direct buying customers notifying them that Brown & Williamson considers the United States sale of imported or re-imported Brown & Williamson cigarettes illegal, describing problems associated with such products and how to identify them, and notifying the customers that Brown & Williamson will not promote or support such sales and may take action against them.

150. [ ]

[

]

VIII. PTI's Motion to Dismiss

See supra.

IX. PTI's Due Process Allegations

See supra.

X. Remedy and Bonding

151. [

]

152. Mr. Alexander testified [

]

153. Mr. Alexander testified [

]

154. Mr. Alexander testified [

]

155. Mr. Alexander testified [

]

156. Mr. Alexander testified [

]

157. Mr. Alexander testified [

]

158. James Batalini of Prestige testified that Prestige has imported and sold the accused products. Batalini, CX-52C at 77-80.

159. CPX-42 represents a sample of "for export only" KOOLs in the plain pack style, produced in discovery by Prestige.

160. Mr. Batalini testified that Prestige purchased gray market cigarettes from companies named [ ] Batalini, CX-52C at 33-36.

161. Mr. Batalini testified to the [ ] number of Prestige employees. Batalini, CX-52C at 22-23.

162. Mr. Batalini testified that other than some trucks, the leased tax-stamping machine, and standard warehouse and sales equipment, nothing else is needed for a business importing and selling gray market cigarettes. Batalini, CX-52C at 76.

163. In its Supplemental Response to the Complaint, R.E. Tobacco admitted to importing the accused products. CX-34C.

164. R.E. Tobacco produced samples of the accused products sold by it. See CPX-39; CPX-40; CPX-41.

165. Ricardo Elortegui of R.E. Tobacco testified regarding his personal experience with a variety of gray market importation businesses, noting the formation of various corporate entities by related persons. R. Elortegui, CX-95C at 17-20.

166. Mr. Elortegui testified regarding gray market KOOL and LUCKY STRIKE suppliers named [ ] and he also noted that other suppliers could be found in [ ] R. Elortegui, CX-95C at 36-37.

167. In its Response to the Complaint, Dood admitted to selling the accused "for export only" KOOL and LUCKY STRIKE cigarettes. CX-8 at 3; see also CPX-23; CPX-25.

168. Mr. Nemani of Dood testified that no training is required to sell or market gray market cigarettes. Nemani, CX-117C at 41.

169. Mr. Nemani testified that Dood's suppliers of gray market cigarettes included International Trading Pioneers, International Cruise, Encore Trading, Pacific Coast Duty Free and Ampac Trading. Nemani, CX-117C at 95-97, 99, 101-02, 107-08.

170. Ms. Elortegui of R.E. Tobacco testified that R.E. Tobacco has purchased gray market cigarettes from suppliers including [ ] M. Elortegui, CX-77C at 48-49, 128-30.

171. Ms. Elortegui identified competitors of R.E. Tobacco in the gray market cigarette business as including [ ] M. Elortegui, CX-77C at 55-56.

172. Jose Norona of Allstate testified that the investment in that company was a "very small amount". Norona, CX-565C at 13-14.

173. Mr. Norona testified that International Cruise was a competitor of Allstate. Norona, CX-565C at 26.

174. Mr. Lee of PTI testified that PTI and NTI regularly deal with a supplier of gray market cigarettes named Vandalay, but also purchased from American Beverages & Commodities, DKB, and Pacific Coast Duty Free. Lee, CX-566C at 223, 226; Lee, CX-530C at 49.

175. Mr. Lee testified that NTI buys gray market cigarettes "from a variety of people" and that "a lot of people" call NTI about purchasing gray market cigarettes. Lee, CX-566C at 226.

176. Mr. Koch testified to the "low cost" nature of gray market cigarette operations. Koch, Tr. at 511.

177. Mr. Pittman characterized the gray market cigarette industry in the United States as very widespread. Pittman, Tr. at 708.

178. CPX-90C contains photographs taken during the inspection of PTI's facilities. Kessler, Tr. at 740-43.

179. CPX-90C at BW300829 shows a photograph of boxes of "for export only" KOOLs in the warehouse facility used by PTI. Kessler, Tr. at 743.

180. Mr. Jerry Anderson of Howard Hartry, Incorporated testified as follows:

[

]

Anderson, Tr. at 832.

181. Mr. Anderson testified as follows:

[

]

Anderson, Tr. at 834.

182. Customs documents retained by Howard Hartry, Incorporated on behalf of PTI are within PTI's custody or control. See Anderson, Tr. at 833-34.

183. CX-593C represents an NTI, Inc. price list and order form for Minnesota offering "for export only" KOOLs and LUCKY STRIKEs for $19.75 per carton. See Lee, CX-566C at 346-47.

184. CX-594C represents an NTI, Inc. price list and order form for Mississippi offering "for export only" KOOLs and LUCKY STRIKEs for $17.70 per carton. See Lee, CX-566C at 346-47.

185. CX-533C represents a collection of invoices of sales of "for export only" cigarettes, including KOOLs and LUCKY STRIKEs, to and from PTI, and shows one sale of "for export only" KOOLs by PTI for $391.50 per 10M case, equating to a price of $7.82 per carton.

186. [

]

187. CX-448C and CX-450C represent collections of Brown & Williamson invoices for its sale of "for export only" cigarettes, including KOOLs and LUCKY STRIKEs.

188. Mr. Koch testified as follows:

[

]

[

]

189. Mr. Pittman testified as follows:

[

]

CONCLUSIONS OF LAW

1. All conclusions of law set forth in the opinion are incorporated herein by reference.

2. The U. S. International Trade Commission has jurisdiction over this investigation and personal jurisdiction over the Respondents named in the Notice of Investigation as well as the Intervener.

3. Brown & Williamson demonstrated satisfaction of the domestic industry requirement of Section 337.

4. The evidence of record demonstrates that PTI's conduct constitutes infringement of the asserted trademarks in violation of Section 337(a)(1)(C).

5. The evidence of record demonstrates that PTI's conduct constitutes trademark dilution and false designation of source in violation of Section 337(a)(1)(A).

REMEDY AND BONDING RECOMMENDATIONS

1. Issuance of a general exclusion order.

2. Issuance of a cease and desist order against PTI.

3. A bond of $7 per carton of repatriated LUCKY STRIKE and KOOL cigarettes imported during the Presidential review period.

CERTIFICATE OF SERVICE

I, Donna R. Koehnke, hereby certify that the attached INITIAL DETERMINATION AND RECOMMENDED DETERMINATION was served upon Anne M. Goalwin, Esq., Commission Investigative Attorney, and the following parties via first class mail and air mail where necessary on August 3, 2000.

Donna R. Koehnke

Donna R. Koehnke, Secretary
U.S. International Trade Commission
500 E Street, S.W., Room 112A
Washington, D.C. 20436

FOR COMPLAINANT BROWN & WILLIAMSON TOBACCO CORP.:

Kevin M. O'Brien, Esq.
John W. Polk, Esq.
Janet K. Kim, Esq.
BAKER & MCKENZIE
815 Connecticut Ave., N.W.
Washington, D.C. 20006-4078

FOR INTERVENOR, PTI, INC.:

Matthew J. Fairshter, Esq.
Joel R. Bennett, Esq.
BENNETT & FAIRSHTER
225 S. Lake Avenue, Ninth Floor
Pasadena, California 91101

PUBLIC MAILING LIST

Donna Wirt
LEXIS - NEXIS
1150 18th Street, N.W.
Suite 600
Washington, D.C. 20036

Ronnita Green
West Group
Suite 1010
901 Fifteenth Street, N.W.
Washington, D.C. 20005

The following parties were notified regarding the issuance of an initial determination:

Charles S. Stark
Department of Justice
Room 3264, Main Justice
Pennsylvania Avenue & 10th Street, N.W.
Washington, D.C. 20530

Joanne Stump, Chief
Intellectual Property Rights Branch
U.S. Customs Service
Ronald Regan Building, 3rd Floor
1300 Penn. Avenue, N.W.
Washington, D.C. 20229

Richard Lambert, Esq.
Office of the General Counsel
National Institute of Health
9000 Rockville Pike
Bldg. 31, Room 2B50
Bethesda, MD 20892-2111

Randy Tritell, Esq.
Director for International
Antitrust
Federal Trade Commission
Room 380
Pennsylvania Avenue & 6th Street, N.W.
Washington, D.C. 20580