HONORABLE ROBERT H. WHALEY

J. Michael Keyes, WSBA #29215
Theresa L. Keyes, WSBA # 24973
PRESTON GATES & ELLIS LLP
601 West Riverside Avenue, #1400
Spokane, WA 99201-0628
Telephone: (509) 624-2100
Facsimile: (509) 456-0146
jmkeyes@prestongates.com
theresak@prestongates.com

Attorneys for Defendants

UNITED STATES DISTRICT COURT

EASTERN DISTRICT OF WASHINGTON

PHILIP MORRIS USA INC.,

Plaintiff,

v.

KING MOUNTAIN TOBACCO COMPANY, INC.; MOUNTAIN TOBACCO; DELBERT L. WHEELER, SR., AND RICHARD "KIP" RAMSEY,

Defendants.

No. CV-06-3073-RHW

DEFENDANTS' SUPPLEMENTAL BRIEF IN OPPOSITION TO PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

Date: 11/14/06
Time: 2:00 p.m.
Place: Yakima, WA

I. INTRODUCTION

As a matter of law, a preliminary injunction is not an available remedy to Philip Morris because of the United States District Court for the District of Columbia's recent opinion, findings, conclusions and judgment entered against Philip Morris. *See U.S. v. Philip Morris USA, Inc., et al* (D.D.C., August 2006) ("*U.S. v. Philip*

Morris").[1]

In *U.S. v. Philip Morris,* the court entered judgment against Philip Morris for numerous violations of the Racketeer Influenced and Corrupt Organizations Act, which included conduct related to Philip Morris' trade dress and advertising. *Id.* The court found that Philip Morris used its "Marlboro" trade dress and advertising in a manner that was false and misleading to the public; enjoined it from further conduct regarding the same; and ordered corrective action including changing its packaging; i.e. trade dress. *See U.S. v. Philip Morris,* 2006 WL 2380632, at p. 1-2; WL2380650, at p. 140, 222-223. [2]

Philip Morris is seeking protection here for the very same trade dress—and in fact filed its Amended Complaint on this same trade dress even subsequent to the D.C. Court's opinion of August 17, 2006. A preliminary injunction and equitable relief is

---

[1] Due to its length, this trial court opinion was divided into 6 parts, each with its own Westlaw citation. Part 1 is 2006 WL 2380622, Part 2 is 2006 WL 2380632, Part 3 is 2006 WL 2380648, Part 4 is 2006 WL 2381449, Part 5 is 2006 WL 2380650, Part 6 is 2006 WL 2380681. The seven-year history of this complex case, which included Philip Morris as a defendant, involved the exchange of millions of documents, the entry of more than 1,000 Orders, and a trial which lasted approximately nine months with 84 witnesses testifying in open court. 2006 WL 2380632, at p.2.

[2] In *U.S. v. Philip Morris*, the court noted that Philip Morris' conduct of misrepresentations, false statements, and misleading the public covered such a protracted period of time that the court questioned whether the judicial system was equipped to handle the years of fraud perpetuated by Philip Morris. *See U.S. v. Philip Morris,* 2006 WL 2380632, at p. 251, n.3.

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

not available to a trademark plaintiff that uses its mark in a false, deceptive, or misleading way. *See Clinton E. Worden & Co. v. California Fig Syrup Co.*, 187 U.S. 516, 528 (1903); *Levi Strauss & Co.*, 121 F.3d 1309 at 1313 (9th Cir. 1997); *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 847 (9th Cir. 1987); *Brother Records, Inc. v. Jardine*, 318 F.3d 900, 909-910 (9th Cir. 2003); *Precision Instr. Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 814, 65 S.Ct. 993, 89 L.Ed. 1381 (1945); *Adler v. Fed. Republic of Nigeria*, 219 F.3d 869, 877 (9th Cir. 2000); *Japan Telecom, Inc. v. Japan Telecom America Inc.*, 287 F.3d 866, 870 – 71 (9th Cir. 2002).[3] For these reasons, the Court should not issue any preliminary injunction.

Additionally, Philip Morris filed suit against Defendants claiming its trade dress is non-functional. Yet, in *U.S. v. Philip Morris*, the court entered findings based on admissions by Philip Morris that the color of its packaging is functional. 2006 WL 2381449, at p. 36, Findings 2412-2414. Now, as recently as October 27, 2006, Philip Morris essentially concedes the functional attributes of the color schemes and states that Defendants are not prohibited from using certain colors – despite the allegations in the Complaint. Philip Morris Reply Re: Preliminary Injunction at p. 7; *see also,* Complaint at ¶¶ 14-18, 22, 24, 32. For these reasons, this Court should enter no preliminary injunction that would take into account, as a basis for an injunction, the functional color schemes.

---

[3] Defendants bring to this Court's attention the case of *U.S. v. Philip Morris* at this time because the findings and conclusions in that case, as it relates to the issues in this case, triggers the legal standard set forth in the above-cited authority—a legal standard that must be considered, and which Defendants argue in fact prohibits the issuance of a preliminary injunction. Defendants further refer the Court to the Declaration of J. Michael Keyes related to the timing of this filing.

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

The D.C. District Court's findings and conclusions not only effected Philip Morris in the context of that matter, but have additional far reaching effect which now prohibits its ability to seek equitable relief, including a preliminary injunction, in this matter. Additionally, because the court further ordered Philip Morris to change its advertising and packaging effective January 2007, this is yet another reason no preliminary injunction should issue at this time.

II. RELEVANT BACKGROUND FACTS

In *U.S. v. Philip Morris,* the court was faced, in part, with the propriety of Philip Morris' advertising and packaging of its Marlboro Lights, Menthol Lights, Menthol Milds, Ultra-Lights, "low tar and nicotine" product advertising/packaging, and other descriptors such as "mild, "medium", and "natural" related to Marlboro products. *See U.S. v. Philip Morris*, 2006 WL 2380632, at p. 1. *Because* Philip Morris was found to have consistently and repeatedly lied and deceived the public regarding the truth about "low tar," and "light" cigarettes, and did so with "enormous skill and sophistication," the court has enjoined Phillip Morris from any further use of such descriptors. *Id.* at 1-2.; see also *U.S. v. Philip Morris*, 2006 WL2380650, at p. 140, 222-223.[4] The other named defendants in that suit are also

[4] "In particular, the Court is enjoining Defendants (Philip Morris) from further use of deceptive brand descriptors which implicitly or explicitly convey to the smoker and potential smoker that they are less hazardous to health than full flavor cigarettes, including the popular descriptors "low tar," "light," "ultra light," "mild," and "natural." *Id.* at 1.

"Accordingly, beginning January 1, 2007, Defendants are prohibited from using any descriptors indicating lower tar delivery-including, but not limited to, "low tar,"

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE (509) 624-2100
FACSIMILE: (509) 456-0146

prohibited *because of their deceptive practices*.

The use of these descriptors has been a part of Philip Morris' Marlboro advertising, packaging, and trade dress for years. In fact, these descriptors are contained in the Marlboro trade dress file wrappers and registrations which Philip Morris is relying upon in seeking relief from this Court. *See* Amended Complaint at p. 6 ¶ 18, Exhibit E; *see also* Keyes Declaration at ¶¶ 11-14 and attached Exhibits A-C. The court's ruling, however, has essentially invalidated and cancelled, at a minimum, a portion of Philip Morris' registration and/or common law claims of trade dress.[5]

On September 15, 2006, Philip Morris filed an Amended Complaint in this case suing Defendants for trade dress infringement related to Philip Morris' Marlboro products, and seeks trade dress protection for products including its "light" and "low

---

"light," "mild," "medium" and "ultra light"-which create the false impression that such cigarettes are less harmful to smokers." 2006 WL 2380650, at p. 222.

[5] Defendants will be answering Plaintiff's Amended Complaint asserting affirmative defenses, including but not limited to, unclean hands and estoppel, as well as counterclaims for invalidity and cancellation of the registrations. Section 2(a) of the Lanham Act prohibits, in part, registration of "deceptive" trademarks. 15 U.S.C. § 1052(a). Deceptive trademarks which are registered *may be canceled at any time*. 15 U.S.C. § 1064(3); *Scotch Whisky Ass'n v. Majestic Distilling Co., Inc.* 958 F.2d 594, *596, n.4 (C.A.4 (Md.),1992); *Am. Speech-Language-Hearing Ass'n v. Nat'l Hearing Aid Soc'y,* 224 U.S.P.Q. 798, 808-11 (T.T.A.B.1984) (registration canceled under § 2(a)).

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

tar and nicotine" products. *See* Amended Complaint at ¶¶14-16, 18 (with attached trademark registrations), and 43. Philip Morris attached photographs of its packaging (many of which it will be precluded from using as of January 1, 2007) to serve as the basis of its claims of infringement against Defendants. *See* documents attached to PM's Amended Complaint: Ex. B, Doc. 6-3, p. 27-28; Ex. C, Doc. 6-4, p. 30; Ex. D, Doc. 7-2, p. 36-37; Ex. D, Doc. 7-3, p. 39-40; Ex. D, Doc. 7-4, p. 41-43; Ex. D, Doc. 7-5, p. 44-45; Ex. E, Doc. 8-1, p. 52-59.

These are the same products the D.C. Circuit court has found Philip Morris to have engaged in false, misleading, and deceptive practices. For these reasons, Philip Morris is precluded from seeking any equitable relief, including a preliminary injunction, because Philip Morris' unclean hands and deceptive practices are related to the subject matter for which it seeks relief in this case.

Additionally, because Philip Morris is enjoined from using those descriptors on any of its packaging come January, Philip Morris presumably will have different packaging for every Marlboro product except "full-flavor" and "menthol" (i.e. menthol milds and menthol lights will also change.) It is uncertain what the Marlboro packaging will be at that time to convey the information for the different Marlboro products. Based on this alone, this Court should not issue a preliminary injunction at this time.

III. LAW & ARGUMENT

The legal standard squarely before the court is whether PM is entitled to a preliminary injunction. It is not, because it has used the products and trade dress that it is now seeking to protect in a way that was and is false and misleading to consumers. *See U.S. v. Philip Morris,* 2006 WL 2380650, at p. 149.

The U.S. Supreme Court long ago admonished trademark plaintiffs that they

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE (509) 624-2100
FACSIMILE (509) 456-0146

will not be entitled to relief when they have deceived the public regarding their trademarked goods:

> when the owner of a trade-mark ***applies for an injunction*** to restrain the defendant from injuring his property by making false representations to the public, ***it is essential that the plaintiff should not in his trade-mark, or in his advertisements and business, be himself guilty of any false or misleading representation;*** that if the plaintiff makes any material false statement in connection with the property which he seeks to protect, ***he loses his right to claim the assistance of a court of equity***; that where any symbol or label claimed as a trade-mark is so constructed or worded as to make or contain a distinct assertion which is false, ***no property can be claimed on it, or, in other words, the right to the exclusive use of it cannot be maintained***.

Clinton E. Worden & Co., 187 U.S. at 528 (emphasis supplied).

Courts within the Ninth Circuit have continuously recognized this "unclean hands" defense as a bar to relief when that inequitable conduct "relates to the subject matter of the Plaintiff's trademark claims." *See, e.g. Levi Strauss & Co.,* 121 F.3d at 1313; *Fuddruckers, Inc.,* 826 F.2d at 847; *Brother Records, Inc.*, 318 F.3d at 909-10. The unclean hands doctrine "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 Instr. Mfg. Co.,* 324 U.S. at 814. The party seeking relief must have "acted fairly and without fraud or deceit as to the controversy in issue." *Adler,* 219 F.3d at 877. A trademark plaintiff's conduct is inequitable when the defendant establishes that plaintiff "used the trademark to deceive consumers." *Japan Telecom, Inc.*, 287 F.3d at 870 - 71.

Here, Philip Morris has already been found to have engaged in decades-long

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE (509) 624-2100
FACSIMILE (509) 456-0146

deceptive conduct regarding its "Marlboro" cigarettes related directly to the subject matter of this lawsuit. As found by the Honorable Galdys Kessler in *U.S. v. Philip Morris*, Philip Morris engaged in massive deception of the public and the government regarding its "Marlboro" (and other) products in several respects.[6] Based on these findings, Philip Morris is not entitled to the equitable relief of a preliminary injunction.

a. Phillip Morris packaged and advertised its purported "low tar and nicotine" in a false and misleading manner.

The D.C. District Court found that PM knew that its "low tar and nicotine" cigarettes, i.e., "Marlboro Lights," "Marlboro Ultra Lights," "Marlboro Menthol Lights," "Marlboro Menthol Milds," provided no meaningful health benefit over the "full flavored Marlboro Reds." In fact, the evidence showed that PM was aware that its "Lights" posed potentially *greater* health risks to smokers than "Marlboro Reds." Nevertheless, Philip Morris continuously misled the public into believing that its "Lights" were a "safer" alternative to "full-flavor cigarettes." As found by the D.C. District Court:

- In a 1977 Philip Morris memorandum, an industry-funded scientist concluded that "low/tar nicotine cigarettes are not less harmful." 2006 WL 2380648, at p. 205, Finding 2146.

- Dr. William Farone—a scientist who worked at Philip Morris for 18 years

[6] Philip Morris' deceitful conduct regarding its "Marlboro" cigarettes is not limited to those instances set forth in this memorandum. The trial court also concluded that PM: (1) falsely denied the adverse health effects of smoking; (2) falsely denied that exposure to second hand smoke causes disease; and (3) suppressed documents, information, and research to shield itself from "smoking and health" litigation. *See* Conclusions of Law, 2006 WL 2380650, at pp. 142-156.

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

and who was "impressive and credible as both a fact and expert witness"—concluded that "Marlboro full-flavor and Marlboro Lights cigarettes are 'essentially identical.'" He found that the Philip Morris research data "was a strong warning that their product design change between a Marlboro Red and a Marlboro Light...resulted in a potentially *more dangerous* product." 2006 WL 2380648, at p. 206, Finding 2148.

- In 1982 a Philip Morris research facility found that "low tar" cigarettes registered higher in standard biological tests than full-flavored cigarettes, i.e., the "low tar" cigarettes were found to be a "complete carcinogen" as compared to the full flavored cigarette. 2006 WL 2380648, at p. 206, Finding 2152.

- Philip Morris's INBIFO facility ran tests that concluded that Marlboro Lights produced "significantly higher results" of "mutagenicity" ("tumors and/or cancer") than Marlboro Full-Flavored. 2006 WL 2380648, at p. 207, Finding 2153.

Nevertheless, as found by the court, Philip Morris continuously misled the public into believing that its "low tar/nicotine" "Lights" were a safer alternative to "Marlboro Reds" and other "full-flavor" cigarettes:

- Over the last 50 years Philip Morris has used a variety of *marketing techniques* to reassure smokers that certain brands and types of cigarettes would reduce their health risk from smoking by reducing their exposure to tar. Philip Morris' *advertisements* in the early 1950s made explicit claims of reduced harm . . . 2006 WL 2381449, at p. 34, Finding 2400 (emphasis added).

- Since "Marlboro Lights" were introduced, the *packaging* contained the descriptions "lowered tar and nicotine."[7] 2006 WL 2381449, at p. 34,

[7] The trademark prosecution histories for PM's registrations relied upon in prosecuting this case cases show that PM has, in fact, used the phrase "lowered tar & nicotine" as part of its "Marlboro Lights" trade dress since it began marketing those

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

Finding 2401.

- In addition to making explicit health claims, since the 1970s Philip Morris has used brand descriptors such as "light" and "ultra light" to communicate that certain brands of cigarettes are low in tar and nicotine. James Morgan, who was *Brand Manager* of Marlboro from 1969 to 1972, during the time when Philip Morris introduced Marlboro Lights, its first "light" cigarette, explained the intended meaning of the "lights" descriptor. Morgan stated that, from the very beginning, the "lights" descriptor was intended to communicate that the brand was low in tar-as opposed to a brand that was lighter in taste . . . . 2006 WL 2381449, at p. 34, Finding 2401 (emphasis added).

- Philip Morris uses "lighter color packaging" on its "Marlboro Lights" products to capitalize on the purported health benefits, *i.e.* "lower tar," that come with smoking "Marlboro Lights." 2006 WL 2381449, at pp. 34-37, Finding 2401-2421.

- "Philip Morris made a calculated decision to use the phrase 'lower tar and nicotine' even though its own *marketing research* indicated that consumers interpreted that phrase as meaning that the cigarettes not only contained comparatively less tar and nicotine, but also that they were a healthier option." 2006 WL 2381449, at p. 34, Finding 2402.

- Part of the image that Philip Morris was *marketing* was the concept of lowered tar and nicotine. 2006 WL 2381449, at p. 35, Finding 2403 (emphasis added).

- Philip Morris aims its low tar cigarette *marketing* at least in part at smokers of regular cigarettes who are concerned about the amount of tar they are inhaling and want to reduce it . . . Philip Morris was aware that consumers understood the "lights" brand descriptor from its *advertising* and *marketing* pieces to be equated with low tar. 2006 WL 2381449, at p. 35, Finding 2404 (emphasis added).

---

products in 1972. *See* Supplemental Declaration of J. Michael Keyes (Keyes' Supp. Decl."), Ex. A and B.

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE (509) 624-2100
FACSIMILE (509) 456-0146

- Philip Morris has known for years from its consumer research that some smokers "interpret brand descriptors as communicating a less hazardous cigarette than full-flavor brands." 2006 WL 2381449, at p. 36, Finding 2410.

- With respect to Marlboro Lights, Philip Morris designs the packaging to distinguish it from Marlboro Red and communicate to consumers that it provides "the best of both worlds" – low tar and good taste. 2006 WL 2381449, at p. 37, Finding 2416.
- James Morgan, former President and CEO of Philip Morris USA, confirmed that Marlboro Lights were positioned as "lower in tar and lighter in taste than Marlboro Red" and were *marketed* to people seeking a low tar and nicotine cigarette, including smokers of both high and low tar cigarettes. A 1974-1975 Philip Morris *magazine advertisement* for Marlboro Lights stated: "Marlboro Lights. The spirit of a Marlboro in a low tar cigarette" Philip Morris has used the phrase "lowered tar and nicotine" and "Lights" in association with Marlboro Lights for over 30 years." 2006 WL 2381449, at p. 37, Finding 2420.

- "Philip Morris has long known and intended that its *advertisements* and marketing for low tar cigarettes, featuring claims of lowered tar and nicotine and 'light' and 'ultra light' brand descriptors, contributed to and reinforced consumers' mistaken belief that low tar cigarettes are better for their health, and encouraged consumers to smoke them for this reason." 2006 WL 2381449, at p. 46, Finding 2460.

Additionally, Philip Morris also concealed information from the Federal Trade Commission regarding its "Lights" products.

- In 1996, the FTC requested that Philip Morris provide "any information the companies had concerning the issue of consumer perception of low tar, so-called 'light' cigarettes." Despite the decades of consumer and marketing research conducted or commissioned by Philip Morris concerning consumers' interpretation of these terms Philip Morris did not provide any such information to the FTC. 2006 WL 2381449, p. 49, Finding 2474.

In sum, as concluded by the D.C. Circuit Court, Philip Morris has known "for

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

decades that filtered and low tar cigarettes do not offer a meaningful reduction of risk, and that their *marketing* which emphasized reductions in tar and nicotine was *false and misleading*." 2006 WL 2380650 at p. 149; *see also,* 2006 WL 2380650 at p. 140. [8] Ninth Circuit case law precludes Philip Morris' requested relief after having engaged in such conduct related to the products and trade dress at issue.

b. Philip Morris filed this action against Defendant based on the same deceptive and misleading packaging and advertising that formed the basis of Its USPTO registrations and was enjoined by the D.C. District Court.

In September 2006, following the issuance of the D.C. Court's Order, Philip Morris filed its Amended Complaint alleging, among other things, that Defendants have infringed Philip Morris' rights in relation to its full-flavored and light cigarette products. *See* Amended Complaint at p.2, ¶ 2; p. 7-8, ¶¶ 22-24, 43. In support of its arguments, Philip Morris cites its federal registrations including Registration No. 938, 510, Registration No. 1,544,782, and Registration No. 1,038,989. *See* Amended Complaint, p. 6, ¶ 18; p. 13, ¶ 37. Philip Morris claims that these "registrations are incontestable." *See* Amended Complaint, p. 6, ¶ 18. It is mistaken.

Philip Morris neglects to advise this Court as to the impact the D. C. District Court's decision will have on these registrations. Specifically, its Registration No.

---

[8] The D.C. District Court concluded that Defendants, including Philip Morris,:

> over the course of more than 50 years, [ ] *lied*, *misrepresented*, and *deceived* the American public . . . they suppressed research, they destroyed documents, they manipulated the use of nicotine so as to increase and perpetuate addiction, *they distorted the truth about low tar and light cigarettes* so as to discourage smokers from quitting, and they abused the legal system in order to achieve their goal--to make money with little, if any, regard for individual illness and suffering, soaring health costs, or the integrity of the legal system.

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

1038989 for Marlboro Lights has effectively been changed because the D.C. trial court found it to be false and misleading, and has issued an order requiring Philip Morris to change the way it packages and markets these products. *U.S. v. Philip Morris,* 2006 WL 2380650, at p. 140; 2006 WL 2380650, 222; *see also,* Keyes' Supp. Decl., Ex. A, pp. 10, 12, 15, 25, 29, 38.

Likewise, Philip Morris' Registration No. 1544782 (Marlboro Menthol Lights) is based on the same packaging the D.C. Court found to be misleading and deceptive. *See* Keyes Supp. Decl., Ex. B, pp. 54, 55, 56, 60, 73, 81. Finally, Philip Morris Registration Number 938510 also contains false and misleading statements. *See* Keyes Supp. Decl., Ex. C (1977 specimen for Marlboro containing warning "Caution: Cigarette Smoking May Be Hazardous To Your Health" despite Philip Morris' knowledge that smoking **is** hazardous to one's health) 2006 WL2380632 at p. 1; see also above-referenced findings and conclusions.

The D.C. District Court enjoined Philip Morris from "from further use of deceptive brand descriptors which implicitly or explicitly convey to the smoker and potential smoker that they are less hazardous to health than full flavor cigarettes, including the popular descriptors "low tar," "light," "ultra light," "mild," and "natural." *See* 2006 WL 238062, at p. 1. Philip Morris has been ordered to change its packaging. As a practical repercussion, Philip Morris is estopped from relying on such packaging to support an injunction against Defendants.

In addition to the order requiring a change in packaging and marketing, the D.C. Court concluded that "an injunction ordering Defendants to issue corrective statements is appropriate and necessary to prevent and restrain them from making fraudulent public statements on smoking and health matters in the future." *See* 2006 WL 2380650, at p. 223, n. 88. Mere months after this illuminating ruling, Philip

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

Morris comes to this Court asking it to grant injunctive relief protecting the same products and materials that the D.C. Court ordered it to change.

In short, it has already been judicially determined that Philip Morris has deceived the public related to issues that are the subject matter of this suit. For these reason, the Court should deny Philip Morris' motion for preliminary injunction.

c. Philip Morris is estopped from claiming trade dress protection in the predominant color of its packaging.

Philip Morris claims that "Defendants have attempted to capitalize on the goodwill associated with [PM's] trade dress" referencing the red, green, blue, or gold background. Amended Complaint p. 2, ¶ 2; p. 5, ¶¶ 14-17, p. 7, ¶ 22; p. 8, ¶ 24; p.12, ¶ 32. Philip Morris asserts that Defendants' use of these colors misleads consumers into thinking that Defendants' products are affiliated or connected with Philip Morris. Amended Complaint p.2, ¶ 3; p. 5, ¶¶ 14-17; p. 7, ¶ 22; p. 8, ¶ 24; p.12, ¶ 32. An integral part of its trade dress, according to Philip Morris, is the predominant color on the packaging. *See* Amended Complaint, p.12, ¶ 32 (alleging that "color scheme" is a part of its trade dress); *see also,* p. 15, ¶ 43. In its USPTO file wrapper, Philip Morris claims that the color is a part of its trade dress. *See* Keyes' Supp. Decl., Ex. A, Ex. B,

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

Ex. C.[9] In its Amended Complaint PM claims that "[t]he Marlboro trade dress . . . is non-functional." Amended Complaint p. 7, ¶ 20. Trade dress protection cannot be afforded to attributes that are functional.

Contradicting Philip Morris' claims in its complaint in this lawsuit are its previous admissions before the D.C. trial court that in fact the "colors" are functional. Some of those findings are set forth below:

- "Philip Morris tries to create marketing pieces that communicate certain brands are low in tar, not just with words like the "lights" brand descriptors, but also with the imagery they present to consumers, *such as the color* it selects for the cigarette pack and tipping paper. *When packaging decisions are made at Philip Morris,* it is recognized that the color influences peoples' perception of the strength and tar level of the product." 2006 WL 2381449, at p. 36, Finding 2412.
- "*Philip Morris knows* that consumers perceive a blue cigarette pack and white tipping paper as an indication that a cigarette is low in tar, and that generally speaking, the lighter the cigarette package color, the lower its tar content is perceived to be by the consumers. Philip Morris continues to this day to market and sell Marlboro Lights and Marlboro Ultra Lights with lighter color packaging and tipping." 2006 WL 2381449, at p. 36, Finding

[9] *See* Keyes' Suppl. Decl, Ex. C, p. 99, 100 (registration of Marlboro providing "The drawing is lined to indicate the colors red and gold and those colors are used and claimed as a feature of the mark."); Ex. A, p. 11-12 (associating the color "gold" with "Marlboro Lights"); p. 30 (Trademark for "MARLBORO LIGHTS GOLD Label"); Ex. B, p. 56 (claiming as a "feature of the mark" the green background and the "word 'menthol' in green'"); Ex. B, p. 58 (regarding the Marlboro Lights Menthol Label the "Applicant claims the colors white, green, black, gold and red as shown in the drawing. . ."); Ex. B, p. 66 (Marlboro Lights Menthol 1987 "Applicant claims the colors green, god and red as a feature of the mark. The drawing is lined for the color green and the remaining features are described as follows: the word MENTHOL is green and the crest is gold in color with the inner oval portion in red.")

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

2413.

- *Philip Morris Senior VP of Marketing, confirmed that,* in order to communicate low tar in cigarettes, Philip Morris USA has used a "lighter, more white background" and a "white filter as opposed to a cork colored filter." . . . *colors such as silver and light blue communicate* to consumers that a cigarette is an ultra light brand. 2006 WL 2381449, at p. 36, Finding 2414.

Now, in its reply brief Philip Morris has essentially conceded the functionality of the colors because it is now saying that Defendants can use the same colors. Reply of Philip Morris re Preliminary Injunction at p. 7. Based on this concession alone, Philip Morris is essentially invalidating a portion of its own trade dress registrations wherein it claims protection in the very colors that it now concedes Defendants can use. For these reasons as well, this Court cannot issue a preliminary injunction that takes into consideration the functional color schemes.

IV. CONCLUSION

For the foregoing reasons, this Court should deny Plaintiff's motion for preliminary injunction, as well as for all reasons previously submitted.

DATED this 2nd day of November, 2006.

PRESTON GATES & ELLIS LLP

By /s/ J. Michael Keyes
J. Michael Keyes, WSBA #29215
jmkeyes@prestongates.com
Theresa L. Keyes, WSBA # 24973
Attorneys for Defendants

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146

CERTIFICATE OF SERVICE

I hereby certify that on the 2nd day of November, 2006, I electronically filed the foregoing document with the Clerk of the Court using the CM/ECF System which will send notification of such filing to the following:

William M. Symmes, Email: wms@wkdtlaw.com

William D. Symmes, Email: wds@wkdtlaw.com

Leslie R. Weatherhead, Email: lrw@wkdtlaw.com

Witherspoon, Kelley, Davenport & Toole, P.S.
1100 U.S. Bank Building
422 West Riverside Avenue
Spokane, WA 99201-0300
Attorneys for Plaintiff

s/ J. Michael Keyes
J. Michael Keyes
Attorneys for Defendants
PRESTON GATES & ELLIS LLP
601 W. Riverside Ave., Ste 1400
Spokane, WA 99201-0628
Telephone: 509-624-2100
Facsimile: 509-456-0146
jmkeyes@prestongates.com

PRESTON GATES & ELLIS LLP
601 WEST RIVERSIDE AVENUE
SUITE 1400
SPOKANE, WA 99201-0628
TELEPHONE: (509) 624-2100
FACSIMILE: (509) 456-0146