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Litigation

Focus

Case in Point

By Thomas P. Krzeminski

Companies increasingly are issuing press releases about their pending litigation for good reason. Positive remarks about litigation can create favorable publicity for the company and boost shareholder confidence. However, if the company's statements are misleading or otherwise improper, they may be liable for monetary damages and other relief under federal unfair-competition law and state tort law. The line between appropriate and inappropriate remarks about pending litigation is not well-defined and can shift, depending on the type of litigation.

Necessary Comments

"No comment."

That used to be the only response companies made to questions about their pending litigation. However, times have changed. With the emergence of the Internet, real-time newscasts and instant stock quotes, you can rest assured that, if your client refuses to give a timely public comment about recent litigation developments, someone else will. That someone else may be the opposing party, its trial counsel, market analysts, news media or anyone with a computer. And none of these people will tell your company's side of the story as well as you or your client could. Whenever possible, you should control your own headlines.

Corporate statements about recent litigation developments can be useful, regardless of whether the news is positive. If your client has good news to report (for example, a favorable jury verdict or a new lawsuit against a competitor), you want to tout it. Promoting positive litigation news can boost customer/investor confidence, increase the company's image and, as marketing people say, promote "top of mind" awareness of the company. If your

company has bad news to report, you want to avoid overreaction by the market and its customers.

Furthermore, if the company is publicly traded, it must follow additional federal securities law disclosure requirements, which include the duty to disclose certain information about ongoing litigation.

The ability to comment publicly on pending litigation is, thus, important for maintaining a positive public opinion of the company. However, with this right comes the responsibility to report litigation news accurately and fairly.

Bases for Liability

Lawsuits are increasing over what a company can and cannot say about its litigation. Improper statements can expose the company to liability under federal securities law, privacy law (for example, defamation) and unfair-competition law, among other areas. Of these areas, unfair-competition claims are the most common.

When a party asserts an unfair-competition claim based on questionable comments about pending litigation, courts apply Section 43(a) of the Lanham Act, the legal framework for false-advertising claims.

To establish false advertising under Section 43(a), the plaintiff must show that (1) the defendant made a false or misleading statement of fact about the plaintiff's product, (2) there is actual deception or at least a tendency to deceive a substantial portion of the intended audience, (3) the deception is likely to influence purchasing decisions, (4) the defendant caused the statement to enter interstate commerce and (5) the statement results in actual or probable injury.

Each of these elements must be proved by a preponderance of the evidence:

1. False or Misleading Statements.

It should come as no surprise that a party cannot lie about the details of its lawsuit.

False statements of fact concerning lawsuit developments are actionable, assuming the other elements of a claim are satisfied. Less clear is what constitutes a "misleading" statement.

A statement that is true can be misleading if it tends to convey false information. The intended audience of the statement is highly relevant to whether a true statement is misleading. Thus, whether a statement is misleading may change, depending on the sophistication of the target audience. Consumer surveys are often necessary to show that a statement is misleading.

For example, in *United Industries v. Clorox*, 140 F.3d 1175 (8th Cir. 1998), at issue was whether the statement "Kills Roaches in 24 Hours" was a misleading advertisement for roach bait. The statement was found to be true, but Clorox argued that the statement, with accompanying graphics, might mislead consumers into believing that the product would control a roach infestation completely within 24 hours and the competitors' products would not. The court rejected that argument because it was unsupported by consumer surveys or expert opinion.

Finally, only statements of fact, not subjective opinions, are actionable. This is critical. When in doubt, couch litigation commentary as an opinion or belief. By doing so, you guard against liability, unless the opinion was clearly baseless and made in bad faith.

2. Deception, or a Tendency to

Deceive. The requirement that the statement deceive, or tend to deceive, the target audience is analogous to the "likelihood of confusion" test for trademark infringement. The degree of deception, or likely deception, necessary to satisfy this element depends on the nature of the statement made. If the statement is false, then a tendency to deceive is presumed, at least for purposes of issuing a preliminary

injunction. If the statement is not false, courts look to whether the statement is likely to deceive the target audience. Survey evidence provides the most reliable measure of a likelihood of deception.

3. Materiality of Deception. The deception must have a tendency to influence action, such as purchasing or investing decisions. For example, material deception occurs when a company makes misleading statements of fact that give customers the wrong impression that they will be sued for patent infringement if they buy the competitor's product.

4. Interstate Commerce Requirement. The interstate commerce requirement is satisfied if the statement is circulated or mailed in interstate commerce. This is true even if the goods or services described by the statement are not sold in interstate commerce.

5. Actual or Probable Injury. This element is satisfied by showing that the statement at issue likely will cause the plaintiff to lose sales or will damage the company's reputation or stock value. However, to recover money damages, the plaintiff must show that the defendant's improper comments caused the plaintiff to suffer an actual economic loss.

The best way for your client to limit its liability for public comments about litigation is to structure them as beliefs and opinions of the company. When statements of fact are conveyed, their accuracy should be beyond dispute.

Patent Lawsuits

A factually true but misleading statement in a press release or in letters to a company's competitors' customers can constitute unfair competition, assuming the other

elements for a claim are present. This is not always the case when the statement at issue involves allegations by a patent owner of patent infringement. When an unfair-competition claim is premised on a patent owner's improper allegations of infringement, the complaining party must show bad faith on the part of the patent owner, in addition to the other elements required by Section 43(a).

Why is bad faith a requirement for unfair-competition claims brought against patent owners alleging infringement? The answer is found in Section 287(a) of Title 35 of the United States Code, which limits the availability of damages and other remedies if a patent owner does not give proper notice of its patents to the public. That section provides that, if a patent owner makes, offers for sale or sells its patented product in the United States, it must give notice of its patent to the public before recovering any damages for infringement.

Courts recognize that the right to give notice of possible patent infringement under Section 287(a) can conflict with the Lanham Act's prohibition against false or misleading advertising. Courts resolve this conflict by requiring that bad faith be shown to prevail on a claim for unfair competition based on assertions of patent infringement.

Bad faith requires a false statement made with knowledge of its falsity. There is no bad faith when the information is objectively accurate.

Moreover, a patentee does not commit unfair competition when it makes statements later determined to be inaccurate, provided the statements were made in good faith. For example, in *Golan v. Pin-*

gel Enterprise Inc., 310 F.3d 1360 (Fed. Cir. 2002), the patentee contacted several of his competitor's customers to inform them that they were infringing his patent by purchasing his competitor's product. However, his patent had expired. The Federal Circuit stated that, although knowingly enforcing an expired patent is bad faith, the patentee's acts in *Golan* were not actionable, because his infringement allegations were based on a patent attorney's advice that the patent had not expired.

When a patent owner's comments fall outside of Section 287(a), the comments presumably are not privileged. However, there is little case law on this point. It remains to be seen whether proof of bad faith is required when, for example, the patent owner properly marked its patented product, the patent infringement lawsuit has started, thereby making additional notice unnecessary, the patent owner does not sell a commercial embodiment of the patent at issue or the party making suspect comments about the litigation is the accused infringer.

Corporate comments regarding newsworthy events, including a company's litigation, can be an invaluable marketing tool and a smart way to prevent negative rumors. However, companies must be careful in how they word their press releases. Statements of fact should be used only when their accuracy is beyond dispute, and corporate commentary regarding litigation should be identified clearly as opinion, by for example using introductory phrases such as "We firmly believe" and "It is our position." Failing to do so may expose the company needlessly to liability for unfair competition under the Lanham Act.

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