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FROM THE EDITOR IN CHIEF

Our lead article, "Prudential Standing: Who Is 'Any Person' Under the Lanham Act?", by Ronald D. Coleman, Esq., examines this important question.

A federal district court judge ordered (1) an invention promotion operation to pay $26 million in consumer redress, and (2) a permanent halt to the allegedly bogus claims the company used to recruit customers. Our next article, "Court Orders $26 Million in Redress in Invention Promotion Claims Case," discusses this case.

A pharmaceutical company sued its competitor, alleging that the company made false claims in advertising that its generic drug was the equivalent of the company's drug in violation of the Lanham Act. Our next article, "Comparative Drug Advertising at Issue in Recent Case," looks at this federal district court case.

FTC and the Department of Health and Human Services (HHS) are busy laying the framework for future action in the area of childhood obesity. Our next article, "FTC, HHS Release Report on Food Marketing and Childhood Obesity," discusses this report.

An interesting aspect of this recent Lanham Act action is that the parties' motions for summary judgment posed issues that lie at the intersection of the Food and Drug Administration's power to approve drugs and their labeling under the Food, Drug and Cosmetics Act and the right of a competitor to seek redress for false or deceptive advertising under Section 43(a) of the Lanham Act. Our next article, "Lanham Act Suit Involves OTC Drug Ads," examines this recent case.

Our "roundup" article summarizes actions from federal courts across the U.S., which affect–or could ultimately affect–various aspects of advertising compliance.

Our NAD article examines recent NAD cases in these three categories: (1) Comparative Advertising, (2) Parity Claims, and (3) "Clinically Proven" Claim.

FILING INSTRUCTIONS ARE ON LAST PAGE OF THIS BULLETIN

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PRUDENTIAL STANDING: WHO IS 'ANY PERSON' UNDER THE LANHAM ACT?

By

Ronald D. Coleman, Esq.*

JUDICIAL DOCTRINE OF "PRUDENTIAL STANDING"

Section 43(a) of the Lanham Act (15 U.S.C. Section 1125(a)) creates a federal cause of action for what has traditionally been called unfair competition: a false designation of origin or other misleading information used in connection with the sale of a good or service, or misleading advertising. This provision allows recovery of damages by "any person who believes he or she is or is likely to be damaged by such an act." Who, however, is "any person?" A number of years ago, the Third Circuit, in Conte Bros. Automotive v. Quaker State-Slick 50, 165 F.3d 221 (3rd Cir., December 30, 1998) considered that question under the long-standing judicial doctrine of "prudential standing." When the court was done, the only ones left standing were the triumphant defendants.

SEEMED TAILOR-MADE FOR FALSE ADVERTISING ACTION

The situation seemed tailor-made for a false advertising action, at least to the plaintiffs. The defendants had advertised their engine treatment, Slick 50, with excessive optimism regarding its benefits. So thought FTC, which in 1996 challenged the ad campaign. In 1998, FTC and the defendants settled, resulting in an end to the misleading advertisements and the provision by the defendant of $10 million in consumer rebates, discounts, and free products.

The defendant's problems were not immediately over, however. Following the announcement of the FTC action, it was sued in the District of New Jersey by the Conte Bros. plaintiffs, who claimed to represent a class of "persons" who believed themselves "likely to be damaged by such an act." The class was not, however, made up of consumers who had bought the engine treatment and were crestfallen over its disappointing performance. Nor was it comprised of the manufacturers of competing products, alleging that their sales had been artificially depressed by the false advertising of Slick 50. The putative class of plaintiffs consisted instead of retailers and wholesalers that sold products that competed with Slick 50 (though not necessarily exclusively). Now the district court was faced with a novel question: Does the Lanham's Act's language, permitting recovery by "any person," really mean that kind of person? Both the district and circuit courts ruled that it does not and, critically, that Congress never meant it to do so.

DOCTRINE OF "PRUDENTIAL STANDING"

Common Law or Judicial Gloss
On Plain Language of Statutes

This conclusion was reached on the basis of the doctrine of "prudential standing." Prudential standing is a common law or judicial gloss on the plain

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language of statutes that seem to grant standing, or the right to sue, to broad classes of people. The courts look at these judicial grants in the context of the policy the legislature was trying to effectuate when it passed a law, and the class of persons it sought to protect.

Sometimes a Legislative "Any"
Really Does Mean "Any"

Sometimes, explained the circuit, a legislative "any" really does mean "any." An example is the Endangered Species Act, which gives "any person" the right to institute a suit to enforce its provisions. The U.S. Supreme Court has ruled that because the environment is all pervasive and affects everyone, Congress could indeed have meant that literally any person who is aware of a violation of the Endangered Species Act may appoint himself a "private attorney general" and sue to ensure the law's enforcement.

Third Circuit: Not So
When It Comes to Lanham Act

Not so, ruled the Third Circuit, when it comes to the Lanham Act. There the term "any person" is, by the statute's own terms, limited to those persons directly affected by unfair competition. Historically, federal legislation concerning unfair competition has focused on the protection of trademark "good will," as opposed to a general policy of "doing good."

As a result, the courts have under traditional prudential standing analysis under the Lanham Act, ruled that not even consumers are considered to be directly injured under the Act for purposes of standing, and cannot sue for false advertising.

Plaintiffs Were Asserting
A Commercial Injury

But the plaintiffs in this case? They were, after all, asserting a commercial injury. For this reason, the court undertook to refine its prudential standing analysis. In the process it instituted an unprecedented test that had been suggested by two leading commentators. The new test borrows from the test used to determine prudential standing under the Clayton Act, an antitrust statute. The court held that it was appropriate to borrow Clayton Act doctrine to develop a refined prudential standing doctrine for the Lanham Act, as both statutes seek to remedy the anti-competitive effect of commercial "cheating."

NO DIFFICULTY FINDING PURPORTED CLASS LACKED STANDING

Settling on this analysis, the court had no difficulty finding that the purported class in Conte Bros. lacked standing. The plaintiffs had admitted that they were not in direct competition with the defendants. The commercial interest they did assert, while real, was not a competitive one that was directly implicated by the false advertising; it neither affected their ability to compete

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in their own market nor affected their own good will or reputation. In fact, the court pointed out that the plaintiffs could have made up for lost sales of other brands simply by selling more Slick 50. No public need for a "private attorney general" could be enunciated, inasmuch as competing manufacturers provided a better fit for that role. Besides, noted the court, if consumers–who arguably were directly affected in the pocketbook by the false advertising–could not sue, how could these middlemen?

THIRD CIRCUIT REITERATED SUPPORT FOR REASONING OF CONTE BROS.

Finally, noted the court, allowing standing here would grant carte blanche to the creation of a cottage industry of plaintiff's Lanham Act class actions following in the wake of every FTC enforcement action for unfair competition. The Third Circuit simply could not stand the thought of that much new litigation. It reiterated its support for the reasoning of Conte Bros. in a case involving the trademark for "Smirnoff" vodka in which a Russian vodka producer and its intended licensee sued an American vodka distiller for false designation of origin, false advertising, and trademark cancellation under Lanham Act and for alleged violations of the Delaware Uniform Deceptive Trade Practices Act. In denying prudential standing to the would-be plaintiff, which had some difficulty showing a justiciable U.S. injury, the court stated:

> "To summarize, the plaintiffs may have a minimal commercial interest, but they have at best only a very indirect injury. In addition, they are remote from the asserted injury, their damages claims are highly speculative, and there is a substantial risk of duplicative damages. The Conte Bros. factors counsel strongly against prudential standing. The plaintiffs argue that some of the Conte Bros. factors are suited for use only in considering claims for damages and therefore should not be taken into account or should be discounted in determining whether the plaintiffs have prudential standing with respect to their requests for non-monetary relief. Even if we do this, however, the remaining factors–most notably, the indirect nature of the plaintiffs' injury and their remoteness from the alleged violations of Section 43(a)–lead to the same result. We thus hold that the plaintiffs lack prudential standing to assert any of their Section 43(a) claims."

[Joint Stock Society v. UDV North America, Inc., 266 F.3d 164, 185 (3rd Cir. 2001). The decision was written by then-Circuit Judge Samuel Alito.]

PATENT POINTS

An interesting gloss on Conte Bros. is found in a somewhat more recent case decided in the Eastern District of New York. In Spotless Enters., Inc. v.

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Carlisle Plastics Pty, Ltd., 56 F. Supp. 2d 274 (E.D.N.Y., 1999), the defendant brought a motion to dismiss the Lanham Act claim for false advertising–the "advertised" statement having been, interestingly enough, a claim of patent infringement that, after a full trial on infringement, turned out to be false. Because of the intertwined nature of patent and trademark claims in the case, the Eastern District queried whether the holding of Conte Bros. (which while not binding on that court is clearly an important case) would apply. The question arises because "Patent law, [unlike the Lanham Act], allows suit for infringement against anyone who uses or sells an infringing item." 56 F. Supp. 2d at 288 (emphasis added). The District Court, in what must be regarded as dictum, held that the rule of Conte Bros. nonetheless applies in a false advertising claim grounded in a patent dispute. Retailers, ruled the court, falsely accused of patent infringement do not have standing to sue under the Lanham Act. Id. at 289.

INTELLECTUAL PROPERTY BAR CAN BE GRATEFUL

For that, ultimately, the entire intellectual property bar can be grateful. After all, under the rule of Markman v. Westview Instruments, Inc., 52 F.3d 967 (Fed. Cir.), aff'd 517 U.S. 370 (1996), no one but a judge really ever knows if and when a patent has been infringed ("the interpretation and construction of patent claims, which define the scope of the patentee's rights under the patent, is a matter of law exclusively for the court" (id. at 970). That means that, prospectively, clients who believe their patent has been infringed may be well advised not to say much publicly at least before the Markman hearing in an infringement case. But a "false claim" of infringement may be no more than the infringement suit. There is enough to worry about once that has gone down–thankfully, Lanham Act liability has not been piled on top of all that.)

LAWYER'S REFERENCE SERVICE

Statute

Section 43(a) of the Lanham Act (15 U.S.C. Section 1125(a).

Decisions

Conte Bros. Automotive v. Quaker State-Slick 50, 165 F.3d 221 (3rd Cir., December 30, 1998).

Markman v. Westview Instruments, Inc., 52 F.3d 967 (Fed. Cir.), aff'd 517 U.S. 370 (1996).

Spotless Enters., Inc. v. Carlisle Plastics Pty, Ltd., 56 F. Supp. 2d 274 (E.D.N.Y., 1999).

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COURT ORDERS $26 MILLION IN REDRESS IN INVENTION PROMOTION CLAIMS CASE

ALLEGEDLY BOGUS CLAIMS USED TO RECRUIT CUSTOMERS

A federal district court judge has ordered an invention promotion operation to pay $26 million in consumer redress and has ordered a permanent halt to the allegedly bogus claims the company used to recruit customers. In addition, the court ordered that in future dealings with consumers, the company make specific, detailed disclosures about their track record in helping inventors market their ideas. "This affirmative disclosure statement is needed due to defendants' blatant, varied, and repeated misrepresentations . . . " Judge Gary L. Lancaster of the U.S. District Court for the Western District of Pennsylvania wrote in his decision.

INTERNET ADS AND CLASSIFIED ADS

In a complaint filed by FTC as part of "Project Mousetrap," FTC charged that the company used Internet ads and classified ads to lure inventors across the U.S. to sign up for their services. FTC charged that they made false claims about their selectivity in choosing products to promote, false claims about their track record in turning inventions into profitable products, and false claims about the relationship they had with manufacturers. They deceptively claimed that their income came from sharing royalties with inventors rather than from the $800 to $12,000 fees they charged inventors, according to FTC's complaint.

Jon Dudas, Under Secretary of Commerce for Intellectual Property commented,

> "Judge Lancaster's decision sends a strong signal to all those invention promotion and licensing firms that prey upon America's independent inventor community that fraudulent and unscrupulous practices will not be tolerated."

FTC: DEFENDANTS MADE FALSE AND MISLEADING STATEMENTS

FTC charged that defendants made false and misleading statements that:

- Consumers who bought their invention-promotion services stand a reasonably good chance of realizing financial gain.
- Their invention-promotion services helped many of their customers' invention ideas become profitable products.
- Their invention-promotion services helped specific inventions become profitable products .
- That they have a vast network of corporations with whom they have ongoing relationships and regularly negotiate successful licensing agreements.

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