Advertising Law

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Q&A with Manatt Partner Tom Morrison on the Rise of False Marking Lawsuits

This year has been marked by a dramatic rise in the filing of so-called false marking lawsuits, or lawsuits seeking the recovery of massive damages due to the defendant having "marked" its product as being covered by a patent when it was never patented, or more commonly, the patent has expired.

This week, our newsletter editors asked Manatt partner Tom Morrison – a nationally renowned trial and appellate attorney, author and lecturer in the fields of trademarks and false advertising – about this avalanche of false marking cases, as well as strategies for avoiding or mitigating the associated risks.

Editors: What is the legal basis for these lawsuits?
Morrison: Under 35 U.S.C.§292(a), a party who has falsely "marked" its product with the word "patent," or a word or number implying that the product is patented, has committed an offense punishable by a fine of $500. Under 35 U.S.C. §292(b), "any person" may bring a *qui tam* action to recover the fine, in which case the plaintiff and the United States split the recovery.

Editors: Why isn't standing in these cases limited to competitors who are arguably injured by the false marking?
Morrison: First of all, the literal language of §292(b) states that the lawsuit may be brought by "any person." Moreover, in a decision handed down on August 31st, the Federal Circuit held that competitive injury is not required and that a plaintiff's standing is derived from the "sovereign injury to the United States" in the form of an abuse of the patent laws. *Stauffer v. Brooks Brothers Inc.,* 2010 WL 3397419 (Fed.

Cir. 2010).

Editors: Why has there been such an explosion of false marking lawsuits?
Morrison: Prior to this year, it was thought that the potential recovery was limited to $500 per violation. But on December 28, 2009, the Federal Circuit ruled that the $500 penalty should be imposed on a per article basis, i.e., on each sale of the falsely marked article. *Forest Group Inc. v. Bon Tool Co.,* 590 F.3d 1295 (Fed. Cir. 2009). For widely sold products, or products whose patent expired some time ago, millions of mismarked products can be involved. In a recent case involving plastic lids for hot and cold beverages, the complaint alleged that 21.7 billion lids had been sold with the false markings, for which the plaintiff sought an award of $5.4 trillion. *Pequignot v. Solo Cup Co.,* 608 F.2d 1356 (Fed. Cir. 2010).

Editors: Who is bringing these cases and what types of products have been targeted?
Morrison: As predicted by the defendant in the *Bon Tool* case, the Federal Circuit's decision has spawned a cottage industry of lawyers and other individuals who "troll" Patent Office records looking for cases to file. One such plaintiff, Promote Innovation LLC, was formed by a Texas attorney who has filed 44 such cases in the Eastern District of Texas, a notoriously friendly forum for high damages patent suits. Studies by various law firms have shown that 200 such lawsuits were filed in the first six months following the Federal Circuit's *Bon Tool* decision and another 175 were filed in the third quarter. Any company selling a product to consumers is a target. Recent defendants have involved drug companies, toy companies, technology companies, electronics companies and makers of a wide range of consumer products, from razors to water filter systems to disposable diapers and baby bibs.

Editors: What can a company do to protect itself against such lawsuits?
Morrison: The most effective solution is, of course, an immediate audit of every product you sell in order to determine whether the product is marked with a patent claim and, if so, whether the patent is still valid. If it is not, you should institute a program to delete the patent marking as quickly as is economically feasible and practical. Generally speaking, producers of patented products should keep a running log of all patented products they sell together with their respective patent number, and the expiration date of each patent.

Editors: Is there any defense available to a defendant in a false marking case?
Morrison: Yes. Fortunately, the statute only applies to a party who has falsely marked a product "for the purpose of deceiving the public." In its decision in the *Solo Cup* case, the Federal Circuit held that, although the presence of a false marking and the defendant's knowledge of its falsity create a "presumption" of intent to deceive, that presumption can be overcome by evidence that the defendant did not intend to deceive the public. In that case, the Federal Circuit affirmed the District Court's award of summary judgment to the defendant, who had sought the advice of outside counsel and, based on that advice, put in place a program of gradual corrective action for the molds that were used to

make the plastic lids.

Editors: Is anything happening on the legislative front?
Morrison: Yes. Several bills have been introduced in Congress to remedy this problem. One of them would amend §292(b) to limit standing to plaintiffs who have suffered a "competitive injury." Another would change the $500 penalty to a "per product" fee, not a per sale fee. And a bill introduced on September 29th would do both. If passed, the bills would likely apply to any case pending at the time of the bill's enactment. But we urge clients to take corrective measures now, rather than awaiting the uncertainty of legislative action.

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Energy Efficiency Critic Sues Over LEED Certification System

A self-proclaimed "energy efficiency maven" filed a class action against the U.S. Green Building Council (USGBC), which governs LEED certification, in which he alleges that the Council engaged in false advertising and fraud, and committed antitrust and RICO violations.

Henry Gifford, a mechanical systems designer and the owner of Gifford Fuel Saving, contends that the USGBC falsely claimed that its LEED rating system saves buildings energy, and that consumers have spent unnecessary sums to have their buildings certified with the meaningless LEED credentials.

Gifford's suit claims that the USGBC's product line – including its certification system, courses and workshops for professional accreditation, annual conference and exposition – "is supplanting building codes in many jurisdictions, undermining marketplace competition and obscuring other building standards that *are* proven – unlike LEED – to reduce energy use and carbon emissions."

The suit seeks to include "millions" of plaintiffs in various subclasses, which include taxpayers whose tax dollars were spent for LEED certification of publicly commissioned buildings, persons who paid for LEED certification, and persons who designed energy-efficient buildings whose livelihoods were injured by the USGBC's "monopolization."

A 2008 study commissioned by the USGBC analyzed data from 121 newly constructed LEED-certified buildings across the country and formed the basis for the USGBC's claim that new buildings certified under its system are 25-30% more energy-efficient than non-LEED-certified buildings. The complaint alleges that this claim omits material information because the study comprised just a fraction of LEED-certified buildings.

The complaint also takes issue with the USGBC's method of comparing energy use and calculating energy efficiency, arguing that it falsely inflates its own results in promotional materials. "When compared using objective scientific criteria, e.g., before- and-after comparisons, life-

cycle analysis, or energy use data (rather than projections and models), LEED buildings perform worse than conventionally built buildings."

Gifford's suit seeks $100 million in compensatory damages, punitive awards, and an injunction halting the USGBC from making claims that LEED-certified buildings perform better than non-LEED-certified buildings.

To read the complaint in *Gifford v. U.S. Green Building Council*, click here.

Why it matters: Gifford is a well-known public critic of the USGBC and the LEED certification system. His suit, which made a splash in the world of green building, faces some legal obstacles, including the definition of class members and the legal causes of action he has pursued. Gifford's suit also illustrates – along with the recently released revisions to the Federal Trade Commission's Green Guides – the increasing focus on and economic importance of environmentally friendly marketing claims.

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From Warning Letter to Class Action for Listerine Mouthwash

Just weeks after the Food and Drug Administration (FDA) sent Johnson & Johnson a warning letter to stop making claims that its Listerine Total Care Anticavity Mouthwash is effective in removing plaque above the gum line or promoting healthy gums, a consumer filed a class action lawsuit alleging deceptive advertising.

Florida citizen Nikki Pelkey filed suit on October 5 on behalf of all Florida residents who have used Listerine Total Care.

The suit claims that Johnson & Johnson engaged in an extensive, comprehensive nationwide campaign to market the mouthwash, which included the use of television, newspapers, magazines, direct mail, the Internet, point-of-sale displays and product labeling.

"[T]he message from defendant is loud and clear – use Total Care and it will fight plaque and gingivitis, thereby avoiding gum disease. Each person who has purchased Total Care has been exposed to defendant's misleading advertising message multiple times," the complaint alleges.

The suit cites a commercial claiming that the mouthwash provides "Six key signs of a healthy natural mouth: tartar-free teeth, no plaque build-up, healthy gums, no tooth decay, naturally white teeth, and fresh breath." It also references a micro Web site that advertised Total Care to "remove more plaque and then strengthen teeth for a cleaner, healthier, mouth," and a label that lists such claims as "Strengthens Teeth, Restores Minerals to Enamel, Fights Unsightly Plaque Above the Gum Line, Helps Prevent Cavities, Kills Bad Breath Germs, and Freshens Breath."

Those claims, in combination with the "Total Care" name, "suggests to a

reasonable consumer that the product is comprehensive in function, and will provide the stated benefits, including antigingivitis and antiplaque benefits," the suit contends.

The complaint further claims that Johnson & Johnson doesn't posses or rely upon a scientific or reasonable basis to substantiate its claims.

The suit relies heavily upon a September 27 letter from the FDA cautioning Johnson & Johnson to stop making claims that its mouth rinse products were effective at removing plaque above the gum line (Link to letter).

"These claims suggest the products are effective in preventing gum disease when no such benefit has been demonstrated," the letters said. "We are not aware of any support for the antiplaque/antigingivitis claims or other statements suggesting that the product is comprehensive in function, providing benefits beyond those related to prevention of cavities. Thus, the product's labeling claim that it will provide all of the benefits listed, is misleading and accordingly makes it misbranded."

To read the complaint in *Pelkey v. McNeil Consumer Healthcare*, click here.

Why it matters: Advertisers should be careful about making implied claims based on words or product packaging that could be objectionable to the FDA or form the basis of a consumer class action. And companies receiving warning letters from the FDA should prepare themselves for the possibility of a lawsuit to follow.

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A "Never Ending" Lawsuit

A TGI Friday's franchisee was sued over its promotion for "never ending shrimp" by Darden Restaurants, the owner of the Red Lobster and Olive Garden brands, claiming that the shrimp promotion infringes its "never ending pasta bowl" (at the Olive Garden) and "endless shrimp" (at Red Lobster) trademarks.

The Florida-based Darden began using the "never ending pasta bowl" in 1995 for an all-you-can-eat selection of pasta menu items and promotions, which became one of the most successful promotions offered at the Olive Garden, according to the complaint.

Describing itself as one of the largest advertisers in the United States, Darden said it typically runs a television ad campaign for seven weeks for the never ending pasta bowl, and has aired the ad nationally more than 36,000 times over 130 weeks. Red Lobster also periodically runs all-you-can-eat shrimp promotions using a similar "never ending" mark, which commenced close to the time the defendant's promotion began, the suit notes.

According to the complaint, San Diego-area TGI Friday's began running a "never ending shrimp" promotion in August, and Darden objected as soon as it learned of it.

Although TGI Friday's halted its television ad campaign after receiving a cease-and-desist letter from Darden, it continued its promotion inside the restaurants with signage, a menu insert, and through recommendations from servers to customers, the suit claims. The suit alleges trademark infringement and a violation of California's unfair competition law, and seeks injunctive relief to halt the TGI Friday's promotion.

Darden also seeks treble damages, including profits from the "never ending shrimp" promotion for the defendant's willful trademark infringement.

To read the complaint in *Darden Concepts Inc. v. Briad Restaurant Group*, click here.

Why it matters: Darden carefully protects its marks. The company filed suit in 2004 against a competitor when it ran a never ending meal promotion. The suit settled but the terms were undisclosed.

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NARB Recommends Michelin Modify Tire Ad

In a challenge brought by competitor Bridgestone, the National Advertising Review Board recommended that Michelin modify its print advertising for the HydroEdge tire.

Michelin appealed a ruling from the National Advertising Division that found a print ad with the headline claim "More miles. More fuel efficiency. More than what you pay for" implied that all Michelin tires provided more miles and fuel efficiency. The NARB agreed with the NAD.

"[C]onsumers could reasonably interpret the 'more miles' and 'more fuel efficiency' claims to be superiority claims made with respect to all Michelin tires and not just the specific tire discussed in the body copy," the NARB said.

Reasonable consumers could interpret the headline claim as asserting Michelin's overall superiority with respect to mileage and fuel efficiency. The copy in the body of the ad offered an example of one tire which demonstrates that superiority, in part because of the presentation of the advertisement, the panel said.

The "more prominent" headline claim was separated from the rest of the body copy by a colored bar, and the NARB found a "disconnect" between parts of the body copy and the headline claims. For example, the body copy referenced the HydroEdge tire's superior wet stopping capability, which was not referenced in the headline claims.

In addition, the footnotes at the bottom of the advertisement appeared in smaller and lighter print than the rest of the ad, which should be modified to be made more clear and conspicuous, the panel determined.

Michelin, in its advertiser's statement, said it disagreed with the panel's findings but would take the decision into account when developing future advertising.

To read the NARB's press release about the decision, click here.

Why it matters: The NARB decision reminds advertisers to consider the impact of an advertisement as a whole upon reasonable consumers. In the Michelin ad, the NARB expressed concern about the disconnect between the headline claim and the body of the ad, as well as the separate footnotes which should have been more clear and conspicuous.

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Overheating iPad Suit Relies on Outdoor Ads

A class of plaintiffs claiming that the iPad overheats and shuts down when used in the sun filed an amended complaint, this time relying upon Apple advertisements that misled them into thinking that the tablet worked outdoors.

The suit, which was originally filed in July, alleges fraud and deceptive advertising based on Apple's ad claims that reading on the iPad is "just like reading a book."

That claim is false, according to the complaint, because "books do not close when the reader is enjoying them in the sunlight or in other normal environmental conditions."

While the first complaint referenced a "consistent marketing campaign," the second complaint, filed October 12, got specific, relying upon Apple commercials on television and the company's Web site to support the plaintiffs' claims.

The television commercial depicts "use of the iPad in various places, including outdoor locations such as a sidewalk café, front steps of a building, and on a grassy lawn, among others," according to the complaint. The Web site also aired a commercial that depicted the iPad being used outdoors while attached to the dashboard of a car and the gas tank of a motorcycle, the complaint said.

Both ads stand in contrast to the experiences of the named plaintiffs, who all tried to use the iPad outdoors with limited success.

John Browning, a named plaintiff who purchased an iPad to use while attending his children's outdoor soccer games, alleges that the device shut down after less than 20 minutes outdoors in 70-degree weather.

In addition to false advertising, the suit – filed in a California federal court – also alleges fraud, misrepresentation, and breach of warranty.

To read the amended complaint in *Baltazar v. Apple, Inc.*, click here.

Why it matters: When creating a marketing campaign, advertisers should consider all facets of the presentation. The plaintiffs claim that they relied upon the images of an iPad being used in various outdoor

locations in the company's advertisements, and that the product "does not live up to the reasonable consumer's expectations created by Apple" in its advertising.

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CPSC Issues Guidelines on Children's Products

The Consumer Product Safety Commission published its final rule on what items are considered children's products under the 2008 Consumer Product Safety Improvement Act (CPSIA), which included heightened safety requirements for kids' products.

The CPSIA defined a "children's product" as "a consumer product designed or intended primarily for children 12 years of age or younger," with four factors that must be considered "as a whole" to determine whether a product is primarily intended for that age range. The factors include a statement by a manufacturer about the intended use of the product, including a label on the product if the statement is reasonable; whether the product is represented in its packaging, display, promotion, or advertising as appropriate for use by children 12 years of age or younger; whether the product is commonly recognized by consumers as being intended for use by a child 12 years of age or younger; and review of the Age Determination Guidelines issued by the CPSC in September 2002. The CPSC's final rule is intended to clarify those factors. For example, the CPSC said it will interpret the term "for use" by children to mean that "children will physically interact with such products based on the reasonably foreseeable use of such product."

When analyzing whether a product is intended for use by children ages 12 or younger, the CPSC said it will consider whether the product is sized for that audience as well as the express and implied marketing claims made about the product, and the product's physical location near other products intended for a specific age group. The agency also provided examples of products that it will consider to be children's products, including sports and recreation equipment, jewelry, CDs and DVDs, books and magazines that match the cognitive abilities and interests of children ages 12 or younger, and furnishings and fixtures.

To read the CPSC's final rule, click here.

Why it matters: Retailers, manufacturers and advertisers should already be in compliance with the final rule, which took effect when it was published in the Federal Register on October 14. The final rule has broad reach and covers a wide range of products, one of the reasons why two of the CPSC's five commissioners voted against it. Commissioner Nancy Nord said the "final rule lacks useful guidance for the staff and even less clarity for the regulated community," and she criticized it for being overly broad.

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FTC Commissioner: Upcoming Privacy Report Will Not Recommend New Laws

Speaking at a recent privacy event, Federal Trade Commission member Julie Brill said that the agency's forthcoming report on behavioral advertising will not recommend the enactment of new laws.

Instead, the report will focus on a new self-regulatory framework, with a focus on how companies can provide better notice to consumers and better protection for consumers' privacy. "The Commission isn't calling for regulation right now," Brill said at a New York privacy conference, according to a report by Media Post. "We're talking about a new self-regulatory framework."

Brill suggested that the behavioral targeting industry should step up its privacy efforts by providing consistent and simplified notice about online tracking. Specifically, Brill said nutritional labels and the so-called "Schumer box" (the information box in credit card mailings about the cards' terms, backed by New York Senator Chuck Schumer) were examples of notice that the FTC would support.

Speaking about the industry's recent launch of a new behavioral advertising icon, Commissioner Brill said that the FTC plans to evaluate the self-regulatory initiative after the compliance efforts begin. At that point, the agency will assess the level of industry participation, whether or not consumers understand – and use – the opt-out mechanisms, and the level of enforcement. Brill also said she personally supported the development of a "do-not-track" registry similar to the federal Do Not Call list.

Why it matters: Commissioner Brill's comments should quiet concerns that the FTC will push for privacy legislation. She emphasized that the agency supports self-regulation, albeit with expanded notice to consumers.

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Chevron Gets Spoofed

Critics reacted to Chevron's new ad campaign promoting itself as an oil company that supports renewable energy with an online spoof.

The new Chevron advertising campaign uses large headlines with statements like, "Oil companies need to get real" and "Oil companies should support the communities they're a part of." The fake ads use a similar layout but make statements like "Oil companies should stop endangering life" and "Oil companies should clean up their messes."

Chevron launched the campaign with five full-page advertisements in major newspapers. The large headlines emphasizing responsibility on the part of the company are accompanied by smaller text discussing

how Chevron fulfills such responsibilities, as well as the comment, "We agree," made by various Chevron employees. The fake ads mirror the layout, with a primary image, main headline, the statement "We agree" made by environmental activists, and accompanying text like "We all know that carbon emissions are endangering our collective future. That's why we need strict emissions limits, and strong rules governing oil companies like our own. There's still hope." Crafted by the Yes Men, who have played similar pranks on entities like Dow Chemical and the U.S. Chamber of Commerce, the spoofs were aided with information and images by the organizations Amazon Watch and Rainforest Action Network.

Chevron said it plans to continue the campaign despite the prank and accompanying criticism, launching television ads in addition to the print ads. "This campaign is about having a real conversation about energy issues and about finding common ground where we can move forward, and it's disappointing that there are groups that are interested in attacking Chevron and not engaging in a rational conversation," said Morgan Crinklaw, a Chevron spokesman. The fake ads show "that there are groups out there that are not interested in moving forward responsibly together."

To see one of Chevron's ads, click here.

To see the fake ads, click here.

Why it matters: While Chevron tries to downplay the spoof and continue its campaign, the Yes Men have stepped up their own campaign by launching a contest to create more satirical ads, including television pieces. "Help us keep Chevron's campaign on the skids!" proclaims Yes Men's Web site, with instructions on how to send in video or print ad spoofs. The Yes Men have vowed to keep their ads in the spotlight by releasing consumer-created spoofs to the media, offering a "big prize" to the winner of the best ad, and encouraging those crafting submissions to post them on social media sites.

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