

PRESS RELEASES ABOUT PENDING LITIGATION:  
GOOD P.R. OR UNFAIR COMPETITION?

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

This Article summarizes the various claims for relief that may arise from improper public comments about pending litigation, with particular attention paid to how such remarks may constitute unfair competition under the Lanham Act. The Article also offers suggestions on how to word press releases in order to minimize exposure to such claims.

A. *Necessity Of Corporate Comments About Litigation*

“No comment.”

That used to be the only response companies had to questions about their pending litigation. However, times have changed.<sup>2</sup> With

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<sup>2</sup> Some companies still subscribe to the theory that “no comment” is the only proper response to inquiries regarding pending litigation. Moreover, “no comment” remains the preferred, sometimes required, response to news involving potentially criminal conduct, and in civil trials where public comments may taint the jury. See MODEL RULES OF PROF’L CONDUCT R. 3.6 (“Trial Publicity”) (restricting

the emergence of the internet, real-time newscasts and instant stock quotes, you can rest assured that if your company refuses to give a timely public comment about its recent litigation developments, someone else will. That “someone else” may be the opposing party, their trial counsel, market analysts, news media or anyone with a computer and a “blog.”<sup>3</sup> And none of these people will tell your company’s side of the story as well as you. Whenever possible, your company should control its own headlines.<sup>4</sup>

Corporate statements about recent litigation developments can be useful regardless of whether the news is positive or negative. If your company has good news to report (for example, a favorable jury verdict; or you filed a lawsuit against a competitor), you want to tout it. Promoting positive litigation news can boost customer/investor confidence, increase your company’s image, and, as marketing people would say, promote “top of mind” awareness of your company. If your company has bad news to report, you want to downplay it to the extent possible to avoid overreaction by the market and your customers.

Furthermore, if your company is publicly traded, you have additional disclosure requirements under federal securities law, which

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attorneys’ public comments about trials where they would “have a substantial likelihood of materially prejudicing an adjudicative proceeding in the matter”); Lynn Weisberg, *On A Constitutional Collision Course: Attorney No-Comment Rules And The Right Of Access To Information*, 83 J. CRIM. L. & CRIMINOLOGY 644 (1992) (explaining rules that restrict the ability of attorneys to publicly comment about an ongoing criminal trial in order to protect a criminal defendant’s right to a fair trial).

<sup>3</sup> A “blog” is an on-line journal that is frequently updated and intended for the general public. Blogs reflect the opinions and views of their authors, and typically provide commentary on recent news and social topics.

<sup>4</sup> “If your company fails to define itself, others will, and the definition is likely to be one you don’t like. The same holds true in the litigation arena. Your opponents would like nothing better than to define the lawsuit they bring and establish your guilt in the court of public opinion.” William S. Ohlemeyer, *Litigation Communication: “No Comment” Is Usually The Wrong Comment*, BEYOND LITIG., Summer 2002, at 35.

include the duty to disclose certain information about ongoing litigation.<sup>5</sup>

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

## B. *Bases for Liability*

An increasing amount of collateral litigation is occurring over what a company can and cannot say about its litigation. Improper statements regarding your company's litigation can expose your company to liability under federal securities law<sup>6</sup>, privacy law<sup>7</sup> (e.g., defamation) and unfair competition law, among other areas.<sup>8</sup> Of these

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<sup>5</sup> SEC Regulation S-K Item 103 requires a company to disclose material pending legal proceedings against it or its subsidiaries. 17 C.F.R. § 229.103.

<sup>6</sup> A corporate statement concerning pending litigation violates the federal securities laws if it is deliberately misleading or confusing, or if important implications are not fully explained. See Linda C. Quinn et al., *Disclosing Bad News: An Overview For Securities Counsel*, 1149 PLI/CORP. 329, 337 (Nov. 1999) (summarizing disclosure requirements for litigation under federal securities law). Once a company makes a public statement regarding pending litigation, whether voluntary or compulsory, it has a duty under Section 10(b) of the Securities Exchange Act of 1934, as amended, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder (17 C.F.R. § 240.10b-5) to disclose sufficient information so that the statement is not false, misleading or so incomplete as to be misleading. *Id.*

<sup>7</sup> "One who falsely, and without a privilege to do so, publishes of a corporation for profit matter which tends to prejudice it in the conduct of its trade or business or to deter third persons from dealing with it, is liable [for defamation] to the corporation under the conditions stated in [Restatement] § 558." RESTATEMENT (FIRST) OF TORTS § 561 (1938).

<sup>8</sup> Improper comments regarding litigation can also be actionable as intentional interference with contractual relations, deceptive trade practice and trade disparagement. See Ronald B. Cooley, *Notifications of Infringement and Their Consequences*, 77 J. PAT. & TRADEMARK OFF. SOC'Y 246, 256-257 (Mar. 1995). However, some states, including New York and California, immunize speakers from

areas, unfair competition claims are the most common, and, thus, this Article focuses on that part of the law.<sup>9</sup>

When a party asserts a claim for unfair competition based on questionable comments about pending litigation, courts apply the legal framework used for “false advertising” claims. False advertising constitutes unfair competition under Section 43(a) of the Lanham Act.<sup>10</sup>

To show false advertising under Section 43(a), the following elements are required:

- (1) the defendant<sup>11</sup> 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 material in that it is likely to influence purchasing decisions;
- (4) the defendant caused the statement to enter interstate commerce; and

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state tort liability when making certain statements about litigation. *See* 4 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 27:109.1 (4th ed. 2006).

<sup>9</sup> Unfair competition claims can arise under state or federal law. Although state claims are beyond the scope of the Article, the elements for an unfair competition claim under state law are often identical to those under federal law, except for the latter’s requirement of an effect on interstate commerce.

<sup>10</sup> Section 43(a) of the Lanham Act, codified as 15 U.S.C. § 1125(a).

<sup>11</sup> “Defendant” is used throughout this Article as shorthand for the party accused of unfair competition. However, Lanham Act claims are often brought as counterclaims against the *plaintiff*, who is alleged to have acted improperly in issuing press releases about the lawsuit.

(5) the statement results in actual or probable injury.<sup>12</sup>

Each of the foregoing elements must be proven by a preponderance of the evidence to prevail on a claim of unfair competition based on improper comments regarding litigation. We review each element in turn:

1. False or misleading statements of fact

It should come as no surprise that you cannot lie about the details of your 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.<sup>13</sup>

A statement that is literally true can be misleading if it tends to convey false information.<sup>14</sup> The intended audience of the statement is highly relevant to whether a literally true statement is misleading.<sup>15</sup>

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<sup>12</sup> Zenith Electronics Corp. v. Exzec, Inc., 182 F.3d 1340, 1348 (Fed. Cir. 1999).

<sup>13</sup> The following cases provide examples of statements that were found to be misleading under Section 43(a) of the Lanham Act: Upjohn Co. v. Riahom Corp., 641 F. Supp. 1209, 1222 & n.15 (D. Del. 1986) (finding the slogan “Europe’s Answer to Minoxidil” misleading because it suggested that the promoted product was different from Minoxidil, when, in fact, Minoxidil was one of its key ingredients); In re Uranium Antitrust Litigation, 473 F. Supp. 393, 408 (N.D. Ill. 1979) (concluding that statements that exaggerate the scope of patents were misleading under Section 43(a) where they gave a false impression that the patentee was the exclusive source of product).

<sup>14</sup> Johnson & Johnson-Merck Consumer Pharmaceuticals Co. v. Procter & Gamble Co., 285 F. Supp. 2d 389, 392 (S.D.N.Y. 2003), *aff’d*, 90 Fed. Appx. 8 (2d Cir. 2003); American Home Products Corp. v. Johnson & Johnson, 577 F.2d 160, 165 (2d Cir. 1978).

<sup>15</sup> The general public’s reaction to the statement is the starting point of the analysis. But if the statement is directed to a specific audience (*e.g.*, your competitors’ customers), the reaction of *that* group will be determinative. See American Brands, Inc. v. R. J. Reynolds Tobacco Co., 413 F. Supp. 1352, 1357 (S.D.N.Y. 1976). Note also that public reaction to the statement at issue is not

Thus, whether a statement is misleading or not may change depending on the sophistication of the target audience.

Finally, only statements of “fact” are actionable. Subjective opinions are not.<sup>16</sup> This is of critical importance. When in doubt, couch litigation commentary as an opinion or belief.<sup>17</sup> By doing so, you shield your company from liability under the Lanham Act, unless the opinion was clearly baseless and made in bad faith.<sup>18</sup>

## 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.<sup>19</sup> The degree of deception, or likely deception, necessary to satisfy this element is dependent upon the nature of the statement made. If the statement is literally false, then

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relevant where its truthfulness or falsity is *clear* on its face, or where the statement is plainly a statement of opinion. See 4 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 27:53 (4th ed. 2006) (citing cases).

<sup>16</sup> See 4 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 27:109.1 (4th ed. 2006) (reviewing recent decisions that find, in the context of defamation, statements that condemn an opponent’s legal claims as “baseless,” “absurd,” “ridiculous” or “meritless” are mere opinion and, thus, not actionable).

<sup>17</sup> For example, instead of saying, “The defendant’s product will be pulled from the market after we win this case,” you should say, “Our company firmly believes that we will prevail in this case and that the Court will bar Company Y from selling its current product in the United States during the lifetime of our asserted patents.” While the former statement may or may not be actionable (depending on whether the target audience would be misled into believing it to be true), the latter statement, which merely states an opinion, is not, unless made in bad faith.

<sup>18</sup> For example, the opinion, “We firmly believe that our patents are valid and infringed by X Corp’s product line,” is actionable under the Lanham Act, even though it is phrased as an opinion, if at the time the statement was made the party knew that its patents were invalid or not infringed. Statements of opinion that are known to be untrue *when made* are actionable as false statements of fact.

<sup>19</sup> See 4 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 32:193 (4th ed. 2006).

a tendency to deceive is presumed, at least for purposes of issuing a preliminary injunction.<sup>20</sup> If the statement is not literally false, courts look to whether the statement is likely to deceive the target audience.<sup>21</sup> Survey evidence provides the most reliable measure of whether or not there is a likelihood of deception.<sup>22</sup>

### 3. Materiality of Deception

The materiality requirement is based on the premise that not all deceptions affect customer decisions.<sup>23</sup> To be actionable, the deception must have a tendency to influence action, such as purchasing or investing decisions. For example, material deception occurs where 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. Conversely, false statements that have no impact on the decisionmaking of customers or investors are not material, and, thus, not actionable.

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<sup>20</sup> S.C. Johnson & Son v. Carter Wallace, Inc., 614 F. Supp. 1278, 1315, 1319 (S.D.N.Y. 1985).

<sup>21</sup> Ragold, Inc. v. Ferrero, U.S.A., Inc., 506 F. Supp. 117, 128 (N.D. Ill. 1980) (stating that where the challenged representations are capable of divergent readings, at least some of which are grammatically true, reference to public reaction is essential to assess the meaning of the representations). Courts disagree as to what percentage of the audience must be deceived to satisfy this element, but most courts find the element of deception is satisfied if at least 20% of the surveyed target audience was deceived by the statement. See 4 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 32:193 (4th ed. 2006) (collecting cases).

<sup>22</sup> American Brands, Inc. v. R.J. Reynolds Tobacco Co., 413 F. Supp. 1352 (S.D.N.Y. 1976). If there is proof that the defendant intentionally set out to deceive or mislead customers, some courts find a rebuttable presumption of deception. See, e.g., Johnson & Johnson \* Merck Consumer Pharmaceuticals Co. v. Smithkline Beecham Corp., 960 F.2d 294, 298-99 (2d Cir. 1992); William H. Morris Co. v. Group W, 66 F.3d 255, 258-59 (9th Cir. 1995).

<sup>23</sup> Allen Organ Co. v. Galanti Organ Builders, Inc., 798 F. Supp. 1162, 1170 (E.D. Pa. 1992), *aff'd*, 995 F.2d 215 (3d Cir. 1993).

#### 4. Interstate Commerce Requirement

The interstate commerce requirement is satisfied if the statement at issue is circulated or mailed in interstate commerce.<sup>24</sup> This is true even if the goods or services described by the statement are themselves not sold in interstate commerce.<sup>25</sup>

#### 5. Actual or Probable Injury

This element is satisfied by showing that the statement at issue will likely cause plaintiff to lose sales, or damage the company's reputation or stock value.<sup>26</sup> However, to recover money damages, the plaintiff must show that the defendant's improper comments caused plaintiff to suffer an *actual* economic loss.<sup>27</sup>

#### 6. Relief

If successful in its claim of unfair competition, a plaintiff may obtain an injunction, corrective advertising and monetary recovery.<sup>28</sup>

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

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<sup>24</sup> Highmark, Inc. v. UPMC Health Plan, Inc., 276 F.3d 160, 165 (3d Cir. 2001).

<sup>25</sup> Shatel Corp. v. Mao Ta Lumber & Yacht Corp., 697 F.2d 1352, 1356 (11th Cir. 1983).

<sup>26</sup> Beacon Mut. Ins. Co. v. OneBeacon Ins. Group, 376 F.3d 8, 10 (1st Cir. 2004).

<sup>27</sup> Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co., 145 F.3d 481, 493 (2d Cir. 1998).

<sup>28</sup> See 4 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 27:24 (4th ed. 2006).

The next section addresses a unique area of the law: comments about patent infringement lawsuits.

C. *The Special Case of Patent Lawsuits*

A factually true but misleading statement in a press release or in letters to your 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), to prevail.

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.<sup>29</sup> Section 287(a) 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 prior to recovering any damages for patent infringement.

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<sup>29</sup> The relevant portion of Section 287 provides:

Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, ***may give notice to the public that the same is patented*** [by marking the product or its package with the patent number]. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, ***except on proof that the infringer was notified of the infringement*** and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

35 U.S.C. 287(a) (emphasis added).

Courts recognize that the right to give notice of possible patent infringement under 35 U.S.C. § 287(a) can conflict with the Lanham’s Act prohibition against false or misleading advertising.<sup>30</sup> 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. By adding the bad faith requirement, consideration is given “both to the rights of patentees as protected by the patent laws under ordinary circumstances, and to the salutary purposes of the Lanham Act to promote fair competition in the marketplace.”<sup>31</sup>

Bad faith requires (1) a *false* statement (2) made with knowledge of its falsity. Bad faith is not supported when the information is objectively accurate.

The Federal Circuit has given examples of the types of statements that may be sufficient to show bad faith:

- if the patent owner knows that the patent is invalid, unenforceable, or not infringed, yet represents to the marketplace that a competitor is infringing the patent; or
- statements to the effect that a competitor is incapable of designing around the patent.<sup>32</sup>

Where a patent owner’s comments fall outside of the notice provision of § 287(a), the comments are presumably not privileged.

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<sup>30</sup> Zenith Electronics Corp. v. Exzec, Inc., 182 F.3d 1340, 1352-53 (Fed. Cir. 1999) (“Though the differences between the Lanham Act and the patent laws may not appear as sharp as those between the patent and antitrust laws, there is a tension.”)

<sup>31</sup> *Id.* at 1354.

<sup>32</sup> *Id.* (dictum). A patent owner’s statement that the accused infringer cannot design around its patent is “inherently suspect” because “with sufficient effort it is likely that most patents can be designed around” and also because “such a statement appears nearly impossible to confirm *a priori*.” *Id.*

However, there is a paucity of case law addressing this point. As such, it remains to be seen whether proof of bad faith is required where, for example:

- the patent owner properly marked its patented product;<sup>33</sup>
- the patent infringement lawsuit has already commenced, thereby making additional notice unnecessary;<sup>34</sup>
- the patent owner does not sell a commercial embodiment of the patent at issue;<sup>35</sup> or
- the party making suspect comments about the litigation is the accused infringer.<sup>36</sup>

#### D. *Conclusion*

Corporate comments regarding newsworthy events, including your company's litigation, can be an invaluable marketing tool and a smart way to stop negative rumors before they start. However, companies must be careful in how they word their press releases. Statements of fact should only be used when their accuracy is beyond dispute, and corporate commentary regarding litigation should be clearly identified as opinion, for example, by using introductory

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<sup>33</sup> The question presented by this hypothetical is as follows: if the patent owner marks its patented product in compliance with § 287(a), is additional notice via public comment merely gratuitous and, thus, not privileged?

<sup>34</sup> Under 35 U.S.C. § 287(a), “[f]iling of an action for infringement shall constitute such notice [of infringement].”

<sup>35</sup> By its very language, section 287(a) only applies to situations where the patent owner is selling commercial embodiments of what is patented. Thus, patent owners who do not offer for sale a product that practices the claimed invention are not required to give notice of infringement to potential infringers.

<sup>36</sup> Retaliatory comments from the accused infringer are not privileged under section 287(a), and, thus, bad faith need not be shown to state a claim for relief based on such statements.

phrases such as “We firmly believe . . . ” and “It is our position . . . .”  
Failing to do so may needlessly expose your company to liability for  
unfair competition under the Lanham Act.