IP & Technology Litigation Alert

Prior Litigation Between Competitors Relevant to Establish Liability and Fashion Remedies in False Advertising Suit

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Summary

The U.S. Court of Appeals for the Fourth Circuit recently issued a unanimous decision upholding a $13.5 million jury verdict and permanent injunction in a federal false advertising suit involving comparative advertisements targeting a direct competitor. *PBM Products, LLC v. Mead Johnson & Co.*, ---F.3d----, No. 10-1421, 2011 WL 1491066 (4th Cir. Apr. 20, 2011). The opinion is noteworthy for a variety of reasons, in particular, for upholding the trial court's decision to allow evidence of two prior litigations between the named parties, both producers of baby formula. The Fourth Circuit agreed that the earlier suits, which were settled early and not tried on the merits, were relevant to determine the defendant's intent in making the misleading advertisements. The Court of Appeals confirmed that defendant's intent - as shown by prior false advertising litigation - may reduce the plaintiff's burden of proof in establishing consumer confusion and deception. Serial litigants are similarly at a disadvantage in the remedies phase where evidence of intent can support issuing an injunction. Here, the court affirmed the permanent injunction, despite the fact that defendants had discontinued the direct mailer advertisement before trial and promised not to reissue it. The Court showed little tolerance for companies deliberately engaged in aggressive advertising campaigns directly aimed at competitors, particularly when "the misleading information pertains to issues of public health."

Facts & Background

For the third time in a seven-year period, PBM Product, LLC ("PBM"), a maker of store brand baby formula, sued Mead Johnson & Company, LLC ("Mead Johnson"), the maker of Enfamil brand baby formula, for false advertising in violation of the Lanham Act Section 1125(a). The general complaint in all three cases was that Mead Johnson ran comparative advertising campaigns implying that its competitor's store brand, "generic" baby formula was nutritionally inferior to Mead Johnson's name brand product. During the first litigation, PBM obtained a temporary restraining order then entered into a settlement with the defendant. The second litigation also involved provisional relief in the form of an injunction and then settled early without ruling on the ultimate merits. The third litigation, which is the subject of this opinion, ended with a jury verdict against Mead Johnson and a permanent injunction prohibiting its future use of certain advertising claims.[1]

On appeal, the Fourth Circuit considered a number of issues, including whether the district court erred by admitting evidence of prior litigation between the parties and whether the district court abused its discretion in granting PBM a permanent injunction. The court also reviewed and confirmed the district court's decision to dismiss the defendant's false advertising counterclaims based on a laches defense, specifically defendant's purported prejudicial delay in waiting three years to assert its claims.

Admissibility of Evidence of Prior Litigation

At trial, PBM was permitted to introduce evidence of the prior Lanham Act litigations. To address arguments of undue prejudice, the trial court excluded the amounts of settlement. On appeal, defendant Mead Johnson contended that the district court erred in that the proffered evidence was

1 In the third litigation, Mead Johnson brought counterclaims for breach of contract, defamation, false advertising, and civil contempt. The defamation counterclaim was dismissed on summary judgment and the district court granted judgment as a matter of law on the remaining Lanham Act counterclaims. The Fourth Circuit affirmed.

irrelevant under Federal Rule of Evidence 301 and was more prejudicial than probative under Federal Rule of Evidence 403. Mead Johnson claimed that the evidence was designed to "paint [them] as a serial lawbreaker" so that PBM could "inflame the jury" and pitch them as "a lawless out-of town corporation [that] sought to 'crush' the small hometown [party]." The Fourth Circuit, like the lower court, rejected these arguments and found that evidence of prior litigation is relevant because it speaks to Mead Johnson's intent in making its misleading claims.

In false advertising cases, absent literal falsehoods, a Plaintiff can recover for statements that are impliedly misleading only if it can present evidence of actual consumer confusion. The Fourth Circuit had previously indicated that "a defendant's history of false advertising could, in the proper case, operate to relieve the plaintiff of presenting extrinsic evidence of consumer confusion created by an impliedly false advertisement." *Scotts Co. v. United Industries Corp.*, 315 F.3d 264, 282 n.5 (4th Cir. 2002). Despite the fact that there was no definitive finding of wrongdoing in either of the previous two cases, the Fourth Circuit, nevertheless, permitted evidence of similar legal claims and restraining orders to establish that Mead Johnson's ad campaign was intentionally misleading. The Fourth Circuit found that any danger of undue prejudice was limited by the trial court's exclusion of evidence of the specific terms of settlement in those cases.

Use of Evidence of Prior Litigation in Fashioning Injunctive Relief

The Fourth Circuit did not limit the use of prior litigation evidence to proving Mead Johnson's intent during the liability phase of the trial. In considering the appropriateness of the district court's permanent injunction, the Fourth Circuit noted the fact that Mead Johnson had twice been restrained from disseminating misleading advertisements in the previous cases. This fact weighed in favor of the permanent injunction, noting "PBM cannot fairly compete with Mead Johnson unless and until Mead Johnson stops infecting the marketplace with misleading advertising."

Takeaways

The Fourth Circuit's decision clearly opens the door to prior litigation evidence. Even when the parties have settled their previous disputes and no final judgments on the merits have been rendered, previous restraining orders and perhaps even the fact of prior litigation involving similar practices, may provide potent evidence in future disputes. The underlying message of the opinion is that the court has little tolerance in today's business climate for targeted, negative comparative advertising campaigns involving false or misleading messages. These issues do not affect simply the direct competitors. The Court of Appeals underscored that there is a strong public interest in preventing false and misleading advertising - an interest that is heightened when involving products affecting public health.

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