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PERSPECTIVE

The Dangers Attorneys Face

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Litigators have nightmares, acid reflux, and perpetual bouts of insecurity because despite their best efforts, sometimes the courts just get it wrong. Sadly, that is what happened to Manatt in the just published malicious prosecution case of *Franklin Mint Co. v Manatt, Phelps & Phillips*, 2010 DJDAR 6539. In a divided opinion, the 2nd District Court of Appeal reversed Judge Warren Ettinger's directed verdict that Manatt had objective probable cause to sue Franklin Mint and went further to affirmatively find that Manatt had no probable cause to sue, remanding for trial on malice and damages.

Franklin Mint, a direct mail marketer, sold products relating to Princess Diana. Immediately after Princess Diana's tragic death, a Franklin executive wrote to the trustees of The Diana, Princess of Wales Memorial Fund, a charitable trust established to receive contributions in her memory and the ultimate owner of her name and likeness, and proposed that the Fund accept proceeds from the sale of a collectible porcelain tribute plate. The Fund did not agree or give permission, so Franklin Mint went forward anyway. The initial advertisements stated: "All proceeds will go to Diana, Princess of Wales' Charities" and "100 [percent] of your purchase price will be donated to Diana, Princess of Wales' favorite charities." Later, Franklin Mint changed its ads to exclude the promise that "all proceeds" would go to charity — and of course, Franklin Mint neither gave "all proceeds" to Diana Princess of Wales charities nor the Fund. It did give $1.5 million to a children's hospital — which was millions less than what it received in selling this tribute plate. After it was sued in the underlying case, Franklin Mint interpleaded an additional $2.5 million to be distributed to charity on resolution of the lawsuit — a fact that would appear to contradict its advertisement that all proceeds go to charity and suggests that but for the lawsuit, it may not have happened. Nonetheless, the appellate court found this interpleader helped Franklin Mint's case.

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Associated Press

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The Fund hired Manatt to sue Franklin Mint (big surprise). Manatt filed a federal complaint containing five theories — three Lanham Act claims for false designation of origin, trademark dilution and false advertising, and two state claims for infringement of publicity rights and unfair competition. The district court dismissed the state publicity claim because Great Britain's law (which allows no such claim) applied; however, significantly, District Judge Richard Paez denied Franklin's motion to dismiss the Lanham Act claims, thereby acknowledging their legal viability. That court did note that for liability, since the name Diana, Princess of Wales is a personal name, the "mark" (i.e., her name) must have acquired secondary meaning such that it be synonymous in the public mind with charitable activities. Based on that argument, the district court (Judge Florence Cooper presiding) ultimately granted summary judgment on trademark dilution and false designation of origin because a "finding of secondary meaning in this case would mean that the words 'Diana, Princess of Wales' would no longer primarily identify the individual, Princess Diana, but instead identify... charitable activities." The district court also decided that because Franklin Mint deposited $2.5 million with the court to be given to charity, the advertisement promising that all proceeds would go to charity was true and granted summary judgment on false advertising. The district court awarded fees to Franklin — but only for the trademark dilution and false advertising and the publicity claim under Section 3344.

Franklin Mint then sued Manatt and litigator Mark Lee for malicious prosecution, but interestingly for only two of the five causes of action — trademark dilution and false advertising. After close of evidence at trial, Judge Ettinger ruled that it was "overwhelmingly clear that Mr. Lee had probable cause to bring his action...and...had he failed to file a cause of action, one would have had a serious question of whether or not he committed malpractice." But Franklin Mint — not to be deterred — appealed, and Justice Thomas Willhite, joined by Justice Stephen Suzukawa (but strongly dissented to by Justice Richard Mosk) found "that no reasonable attorney would have thought" Manatt's theories "tenable" and thus there was no probable cause for these claims.

Wow! The appellate court's decision was quite a leap — since an experienced trial judge who heard the evidence thought the theories were tenable and so did Justice Mosk. That means that of the four California bench officers reviewing the probable cause issue, two experienced bench officers concluded that "Manatt had tenable claims and thus probable cause." But if so, how can it be said that "no reasonable attorney" would have thought these theories tenable? Moreover, the federal judge had denied a Rule 12(b)(6) motion to dismiss these claims. In addition, Franklin Mint had the burden to prove that Manatt lacked probable cause, and there is ordinarily a high standard for reversal.

The opinion dismisses Manatt's various arguments that the claims were "tenable." For example, there are numerous cases where celebrities have sued successfully under the Lanham Act over use of their name, such as Elvis Presley, Glenn Miller, Johnny Carson, etc. But the opinion distinguished these cases because the names became recognizable "in connection with their provision of services. Princess Diana did not." Perhaps, but it would appear at the very least that - in light of the many celebrity cases — Manatt is entitled to push the limits of the law. Per the dissent: "That is how the law evolves — good lawyers, usually in weak cases, reasoning from established principles to advocate an extension, modification, or reversal of existing law."

After all, Franklin Mint used the name without permission and arguably implied an endorsement and diluted its value. The name is clearly famous and would meet most requirements for dilution other than the somewhat elastic secondary meaning test. There was no dispute that while alive, Princess Diana promoted charities through personal appearances and exercised significant control over the use of her name.

With complex law and unusual facts (which would at least raise a question in any intellectual property lawyer's mind about liability), how could Manatt by asserting Lanham Act theories in this challenging arena be viewed as so unreasonable? The court responds that despite Manatt's contention that the issues were "complex" and there was no directly controlling authority, the relevant trademark principles were "clear and well-established" and their applicability "straightforward and uncomplicated." To demonstrate this dubious assertion, the opinion goes to great pains to discuss numerous cases and arguments — but shouldn't such a narrative be unnecessary if the relevant law is so uncomplicated? New law is often created by special or unique facts. Again echoing the dissent: "An attorney who asserts claims on behalf of a client should not be exposed to a malicious prosecution claim just because those claims do not fall within the four corners of established case precedent or the specific words of a statute, even though the claims are supported by defensible analogical reasoning from existing authority and evidence that arguably permits an inference of the ultimate facts to be proved." Amen.

More curious and not as well explained is why the appellate court found the false advertising claim not "tenable." Why is Franklin Mint's claim that "all proceeds" would go to charity not false if it did not give the money to charity until after the lawsuit was filed? How does interpleading the money after litigation constitute giving it to charity? And one advertisement states money would go to "Diana, Princess of Wales' Charities." In fact, the charity chosen was simply one selected by Franklin Mint's owners; most was distributed after it won the lawsuit. None was given to the Fund, which was the official charity for Princess Diana. How is a false advertising claim not "tenable" under such circumstances?

Malicious prosecution is "a disfavored tort" and for good reason — it has a potential for chilling the zeal that is fundamental to our adversary system. Intellectual property is a constantly evolving field, and a claim is not untenable merely because no existing authority clearly establishes its legal viability. As the dissent points out: "Indeed a claim is not necessarily untenable even if the existing authority is directly adverse, provided there is a tenable basis to argue for an extension, modification or reversal of existing law."

This opinion is likely to chill the practice of law — and that cannot be a good thing. It is also likely to encourage "litigation spawning litigation" — more malicious prosecution actions — also not a good thing. With Manatt's loss in the district court, fees were already awarded to Franklin, so why pile on? The case appears to be about more than just recovering the cost of litigation, which had to be anticipated by Franklin Mint when it went forward without permission — there is profound anger at Manatt. One wonders whether the court took into account the potential repercussions of its opinion. Here, the well-reasoned dissent comments: "I hope there is not a diminishing appreciation by the judiciary for the increasing hazards and pitfalls faced by those in private legal practice." This lawyer hopes so too.