

Mayer Brown Helps 3M Battle N95 Price-Gouging

By Jack Karp

Law360 (January 6, 2021, 10:50 AM EST) -- When companies started taking advantage of the coronavirus pandemic to sell 3M Co.-branded N95 respirator masks at as much as six times their actual cost, 3M turned to attorneys at Mayer Brown LLP. But without the ability to sue over price gouging, the team's lawyers found a creative way to stop the schemes: trademark law.

The price gouging not only denied health care and frontline workers access to much-needed N95 respirators at the start of the pandemic, 3M and its attorneys alleged, but also could cause lasting damage to 3M's brand by implying the multinational conglomerate had approved the exorbitant prices.

In May, a New York federal judge granted a preliminary injunction against Performance Supply LLC, one of the first targets in a series of suits 3M filed in an attempt to head off that price gouging. 3M had accused New Jersey-based Performance Supply in an April complaint of trying to sell millions of 3M-branded N95 masks, which carry a list price of just over \$1 apiece, to New York City officials for more than \$6 each.

Price gouging like Performance Supply's is illegal under New York state law, but 3M and its Mayer Brown team didn't sue the company over the marked-up prices. Instead they sued the company for violating 3M's trademarks.

"Manufacturers generally cannot rely on price gouging laws because the manufacturers are not paying the exorbitant downstream prices," Mayer Brown litigation partner Carmine Zarlenga, who was one of the attorneys leading the litigation and intellectual property team, told Law360. "So it can be a problem of standing."

To navigate past that potential roadblock, Zarlenga and his colleagues hit upon the idea of suing under New York state's trademark law and the federal Lanham Act.

"We had just won a big Lanham Act false advertising verdict on a disgorgement theory in a hard-fought case, so those principles were very fresh in my mind," Zarlenga said on the unique approach.

Performance Supply had tried to make itself appear as an authorized 3M distributor by using 3M's marks and slogan in the price quote it sent to New York City public health procurement officers, even telling those officials that "acceptance of the purchase order is at the full discretion of 3M," according to the complaint.

This implied, false connection to 3M brought the behavior "into the ambit of something where we have a civil right of action to go after them," said William Childs, senior litigation counsel for 3M.

So Mayer Brown's attorneys went after the company, alleging that those hiked-up prices, combined with the use of 3M's logos, violated federal and state trademark law.

Using the Lanham Act to go after Performance Supply had the added benefit of providing a disgorgement remedy, Zarlenga pointed out, allowing 3M to potentially recover revenues and profits from the price gouger, which not only was trying to sell the masks at a significant markup but didn't even have the masks it was trying to sell.

"It was also shocking that anyone would offer to sell millions of respirators that they did not have," Zarlenga said, "but that was the reality."

In her May order, U.S. District Judge Loretta A. Preska banned Performance Supply from using 3M's name to market its products or posing as 3M's authorized distributor or business partner.

"No amount of money could repair the damage to 3M's brand and reputation if it is associated with the crime of price-gouging at the expense of healthcare workers and other first responders in the midst of the COVID-19 crisis," the judge said in a finding of fact issued with her order.

As a result of the injunction, Performance Supply is no longer gouging prices, Zarlenga said.

"We had all the necessary ingredients: a very worthy cause, great support from the client, the substantive legal knowledge from within a global law firm, and advocacy skills," Zarlenga said. He added that the firm was able to pull together a multidisciplinary team across four offices and mobilize it quickly despite recent stay-at-home orders.

Performance Supply could not be reached for comment.

But Performance Supply was not the only price gouger 3M and its Mayer Brown team went after.

The same day they sued Performance Supply in New York, they also filed a complaint in California federal court against Utah-based Rx2Live LLC, which 3M claimed tried to sell millions of N95 masks to Fresno-based Community Medical Centers Inc. at four to five times their list price while making it seem like those prices were authorized by 3M.

Zarlenga worked on that suit as well, which also resulted in a preliminary injunction, he said.

Attorneys for Rx2Live did not respond to a request for comment.

Those injunctions were more than just a victory for 3M and for health care workers in desperate need of personal protective equipment. They also signaled a path forward for other firms looking to stop similar price gouging, according to Zarlenga.

"When you set a novel precedent, other courts often tend to follow it. And that is what happened here," he said.

The trademark law strategy has "been a great template for the approach since then," said Childs. In the months since the cases against Performance Supply and Rx2Live, more than 20 similar cases have been pursued by 3M and what Zarlenga called "a who's-who of other great law firms."

Lawyers at Norton Rose Fulbright used the tactic to get an Amazon.com Inc. vendor to agree to pay more than \$192,000 to resolve a trademark lawsuit accusing it of gouging prices on N95 masks.

In May, lawyers at McDermott Will & Emery LLP helped settle cases against a Florida company called Geftiko LLC and a Georgia company called 1 Ignite Capital LLC over similar behavior, and then settled another case against a third company, TAC2 Global LLC, in June.

And in October, attorneys at Faegre Drinker Biddle & Reath LLP won a consent judgment and permanent injunction against a former Marine accused of using nonexistent ties to 3M to trick companies into paying him billions of dollars for N95 respirators he didn't have.

Those firms customized their filings and strategy to fit the facts of their cases, Zarlenga made sure to point out, "which added value and was very effective." But as Childs put it, "Mayer Brown was very involved at the start."

The damages 3M has collected from those cases are all being donated to COVID 19-related relief, according to Childs, who added that the litigation is part of a broader 3M effort to respond to the pandemic that has also included taking down over 13,000 fraudulent e-commerce offerings and over 200 deceptive internet addresses.

It hasn't been just other firms following 3M and Mayer Brown's lead. In May, federal prosecutors in Manhattan charged Performance Supply's principal, used car salesman Ronald Romano, 58, with wire fraud and conspiracy after 3M made a criminal referral. The company has made "hundreds" of such referrals, Childs said, and several people have been arrested for their roles in various other schemes.

Prosecutors and counsel for Romano did not respond to requests for comment.

"I don't know if we're making new law exactly, but we're certainly using trademark law in a way to really advance something that's consistent with our corporate values and the public good, and we're really proud of that," Childs said.

Zarlenga expressed a similar sentiment.

"Not only did we succeed, but we succeeded in a way that could be duplicated and it was," he said. "In my book, that is 'leaving a mark,' and yes, it's pretty darn rewarding."

3M is represented in the Performance Supply case by Carmine R. Zarlenga, A. John P. Mancini, Andrew J. Calica, Jordan Sagalowsky, Jonathan W. Thomas, Richard F. Bulger, Richard M. Assmus and Kristine M. Young of Mayer Brown LLP. It is represented in the Rx2Live case by Carmine Zarlenga, Keri E. Borders and Dale Joseph Giali of Mayer Brown LLP.

Counsel information for Performance Supply was not immediately available.

Rx2Live is represented by John William Hastrup and by Lloyd M. Eisenberg of Eisenberg & Carton.

The cases are 3M Co. v. Performance Supply LLC, case number 1:20-cv-02949, in the U.S. District Court for the Southern District of New York and 3M Co. v. Rx2Live LLC, case number 1:20-cv-00523, in the U.S. District Court for the Eastern District of California.

--Editing by Brian Baresch.

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