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MONEY DAMAGES COME EASIER IN DECEPTIVE ADVERTISING CASES

By

Randall K. Miller[1]

INTRODUCTION

Until recently, Lanham Act deceptive advertising litigation has been about injunctions, not money. Notwithstanding a plaintiff's statutory right to win money damages, courts previously have required plaintiffs who seek money awards to make difficult showings that:

(1) the defendant "willfully" violated the Lanham Act; and

(2) the deceptive advertising caused monetary harm to plaintiff's business.

Recent cases illustrate a significant new approach that will make it easier for plaintiffs to win money damages. A successful plaintiff can now obtain disgorgement of defendant's profits simply by showing that the advertising is false. Relieved of its burden to prove willfulness or actual harm to its business, plaintiffs increasingly will pursue money damages, and this evolution may foreshadow an expanded volume of new deceptive advertising cases.

BACKGROUND

I. Deceptive Advertising Under the Lanham Act

The Lanham Act provides a private cause of action when a competitor engages in deceptive advertising. Section 43 of the Lanham Act prohibits an advertiser from making any promotional statement that "misrepresents the nature, characteristics [or] qualities" of its own or a competitor's products or services.

The Lanham Act prohibits advertising messages that are (1) false; (2) literally true, but have a tendency to deceive consumers; or (3) unsubstantiated. Actionable Lanham Act statements must be "material," that is, "likely to influence purchasing decision[s]" (as opposed to "puffery" or opinions that cannot be proven to be true or false).[2] For example, the slogan "You're in good hands with Allstate" is "puffery," not actionable under the Lanham Act.[3]

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The scope of the Lanham Act is not limited to "traditional" advertising (e.g., magazine and television advertisements), but instead reaches a wide range of statements, including: verbal claims by sales representatives, website postings, emails, phone calls, letters, customer testimonials, and statements made at trade shows. "[E]ven a **single** promotional presentation to an individual purchaser may be enough to trigger the protections of the Act."[4]

II. Statutory Basis for Lanham Act Damages

Beyond injunctive relief, a successful plaintiff theoretically can win several types of money damages in a Lanham Act deceptive advertising case:

(1) defendant's profits.

(2) actual damages, including:

(i) diversion of sales or price erosion.

(ii) money plaintiff spent responding to defendant's deceptive advertising.

(iii) the present value of future harm caused by the lingering impact of defendant's advertising.

(iv) damage to goodwill and reputation.

(3) the costs of the action.

(4) attorney fees (in "exceptional" cases).

(5) prejudgment interest.

(6) treble damages.

Disgorgement of defendant's profits may pose the greatest threat to defendants. A defendant theoretically could be required to disgorge **all** profits it earned during the time the deceptive advertising was running in the market. The Lanham Act eases plaintiff's burden by requiring the plaintiff only to prove "defendant's sales." Once the gross sales data are in evidence, the burden shifts to the defendant to "prove all elements of cost or deduction claimed," so that the jury can award "net profits."[5] After the jury issues its damage award, the Lanham Act provides that a court may equitably reduce–or enhance–the amount of defendant's profits.[6]

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III. Money Damages Rarely Pursued

Notwithstanding the availability of money damages for deceptive advertising, in the past, plaintiffs rarely pursued them. The parties ordinarily litigated the fast-track injunction proceeding and, even when plaintiff prevailed, most cases settled after the preliminary injunction decision.

Only a handful of reported decisions show plaintiffs winning monetary awards in Lanham Act deceptive advertising cases, for example: U-Haul Int'l, Inc. v. Jartran, Inc. ($40 million),[7] EFCO Corp. v. Symons Corp. ($13 million),[8] ALPO Foods v. Ralston Purina ($12 million),[9] BASF Corp. v. Old World Trading Co. ($2.5 million),[10] and Gillette Co. v. Wilkinson Sword, Inc. ($1 million).[11]

Conventional wisdom was that a plaintiff must produce significantly more evidence than needed for the injunction, and the burden and uncertainty of this effort was not worth the trouble.

OLDER CASES RESTRICTED AVAILABILITY OF MONEY DAMAGES

I. Obstacle # 1: Must Prove Willfulness

Courts previously required the plaintiff to prove a "willful" violation of the Lanham Act in order to obtain defendant's profits, i.e., that the defendant deliberately **intended** to deceive. Proving an improper mental state is difficult and expensive, and requires significant discovery. A plaintiff often can obtain a preliminary injunction with limited discovery (and perhaps only a facial challenge to the advertising itself), so the prospect of proving a "willful" violation is daunting by comparison.

Conditioning monetary awards on "willfulness" is a court-created concept. Prior to 1999, the Lanham Act authorized monetary damages for "a violation." The statute said nothing about "willfulness."

In 1999, Congress amended the "anti-dilution" provision of the Lanham Act to condition monetary recovery for a dilution claim on "a willful violation." Thus, Congress added the term "willful" only with regard to dilution claims–**not** to trademark infringement and deceptive advertising claims. Notwithstanding this clear indication that "willfulness" is not required for money damages in deceptive advertising cases, many courts have clung to the prior rule.[12]

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II. Obstacle # 2: Must Prove "Actual Damages"

Older cases held that a plaintiff cannot obtain any money damages, including defendant's profits, unless the plaintiff first proved that the challenged advertising "**actually harmed**" the plaintiff's business. For example, in Balance Dynamics Corp. v. Schmitt Industries, Inc.,[13] the court held–

> "unless there is some **proof** that plaintiff lost sales or profits, or that defendant gained them, the principles of equity do not warrant an award of defendant's profits."[14]

The court thus linked "actual damages" to "defendant's profits," even though these are two distinct categories of damages in the Lanham Act. In reaching its decision, the court in Balance Dynamics rejected the "deterrence theory," i.e., that the Lanham Act provides statutory damages to deter violations–even in the absence of harm to the plaintiff–and to make violations of the Lanham Act unprofitable.[15] The Balance Dynamics approach makes it difficult, if not impossible, for a plaintiff to win defendant's profits.

RECENT CASES EASE PLAINTIFF'S BURDEN TO OBTAIN MONEY DAMAGES

I. "Willfulness" No Longer Required in Growing Number of Courts

Newer cases hold that once the plaintiff proves liability, the defendant must disgorge its profits, even in the absence of a "willful" Lanham Act violation.

For example, in Wildlife Research Center, Inc. v. Robinson Outdoors, Inc.,[16] the court affirmed a $4.8 million jury award, overruling Robinson's objection urging that Wildlife was required to prove "willfulness" in order to obtain a disgorgement of profits. The court followed the Third Circuit's recent Banjo Buddies v. Renosky[17] case and held that the 1999 amendment to the Lanham Act "**removes any willfulness requirement**" for deceptive advertising cases.[18]

The Banjo Buddies court explained the rationale:

> "We presume Congress was aware that most courts had consistently required a showing of willfulness prior to disgorgement of an infringer's profits in Lanham Act cases, despite the absence of the word 'willful' in the statutory text prior to 1999. By adding [willful] to the statute in 1999, but limiting it to [dilution] violations, Congress effectively superseded the willfulness requirement [in deceptive advertising cases]."

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Wildlife claimed that Robinson made a false claim of superiority ("more effective") with regard to the parties' competing products sold to hunters. The products included "human scent elimination sprays" and "doe urine-based attractant" used to lure deer into hunting areas. The jury awarded Wildlife $4.8 million, which was composed of $2.9 million in actual damages **and** $1 million in Robinson's profits. The court concluded that no equitable reason existed to disturb the jury's money award.

II. Money Damages Can Be Justified by the "Deterrence Theory" Where No Actual Harm Is Shown

Recent decisions also have confirmed that the plaintiff need not prove quantifiable harm to its business in order to obtain defendant's profits. In Banjo Buddies, the Third Circuit held that disgorgement of the defendant's profits is acceptable even if the plaintiff "receives a windfall" from this award.[19] The court reasoned that a windfall to plaintiff is "preferable" to permitting a defendant to violate the Lanham Act with impunity. The court followed the "deterrence" theory (rejected in older cases, such as Balance Dynamics), where the goal is to ensure that a Lanham Act violation is unprofitable.[20]

III. A Trend Is Emerging

In addition to Wildlife Research and Banjo Buddies, other recent cases have signaled that money damages are becoming more prevalent in deceptive advertising cases.

For example, in Callaway Golf v. Dunlop Slazenger,[21] the Court also held that "willfulness" is "**not** . . . a prerequisite to an award of profits."[22] In Callaway, a jury found Dunlop's slogan that its A-10 golf ball was the "Longest Ball on Tour" was false, and awarded $2.2 million in damages. The court affirmed the jury award, and held that a plaintiff may obtain defendant's profits "irrespective of the fact that those profits may be greater than the plaintiff's damages."[23]

Another recent example is Playtex Products, Inc. v. Procter & Gamble Co.,[24] where a jury found that P&G violated the Lanham Act by claiming that its Pearl tampons were superior in comfort and leak protection to Playtex's Gentle Glide tampons. The jury awarded Playtex $2.96 million in actual damages based on an expert analysis of "circumstantial" evidence. Despite *Daubert* attacks, the trial court refused to disturb the jury's damage award. The Second Circuit affirmed, noting that the jury was permitted to engage in

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some degree of speculation in determining the amount of actual damages in Lanham Act cases.

Callaway and Playtex show that false advertising cases no longer automatically end after a grant or denial of injunctive relief. Plaintiffs are pursuing money damages, and getting them.

IV. The Defendant's Perspective

In the face of the increased threat of money damages in deceptive advertising cases, defendants should prepare:

1. ***Counterclaim***. For defendants, the best defense in deceptive advertising cases often is a vigorous offense. Advertising disputes typically involve mirror claims that emerge in the marketplace before suit is filed: one party asserts a product attribute and a competitor launches a rebuttal. A defendant who seeks to stand by its advertising claim can counterclaim on essentially the same issue, and thereby equalize the litigation leverage. With exposure shared by both parties, the dual claims for monetary damages may provide an enhanced basis for the parties–or the jury–to compromise the dispute.

2. ***Cost of Sales and Alternate Causation***. Beyond having an offensive strategy, defendants should prepare for post-verdict equity practice. A jury's award of profits is subject to equitable reduction by the court, and guided by the statutory requirement that money damages be compensatory, not punitive.[25] A defendant should marshal comprehensive cost of sales evidence (including costs of materials, services, labor, insurance, and overhead). In addition, the defendant should identify all competitive disadvantages to plaintiff in the market, which could be contributing causes of plaintiff's asserted injuries.

3. ***Good Faith***. A defendant also must develop evidence to show that it acted in good faith, including that it made efforts to substantiate its claims (such as through product testing) **before** the claims were used in the marketplace. While "willfulness" may no longer be a prerequisite to damage awards, the defendant's mental state is not irrelevant and will be considered when a court is asked to reduce or enhance money damage awards.

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CONCLUSION

Recent cases signal a new trend that plaintiffs will recover money damages more easily in deceptive advertising cases. Given this trend, litigants should:

(1) establish a damages strategy from the outset of the case and not assume that the case will end after the preliminary injunction hearing; and

(2) pursue damages discovery early and extensively, with plaintiffs asking for defendant's sales data and defendants making sure to develop all (i) direct and indirect costs of sales; and (ii) evidence of its "good faith" in formulating advertising claims.

LAWYER'S REFERENCE SERVICE

1. Randall K. Miller is a Partner at the law firm of Arnold & Porter LLP. His practice focuses on complex business litigation, and he has litigated Lanham Act false advertising cases for both defendants and plaintiffs.

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3. Bologna v. Allstate Ins. Co., 138 F. Supp. 2d 310, 323 (E.D.N.Y. 2001).

4. Seven-Up Co. v. Coca-Cola Co., 86 F.3d 1379, 1384 (5th Cir. 1996).

5. See, e.g., Apollo Theater Found., Inc. v. W. Int'l Syndication, No. 02 Civ. 10037 (DLC), 2005 WL 1041141, at *11 (S.D.N.Y. May 5, 2005).

6. 15 U.S.C. Section 1117(a); see also Pizza Hut v. Papa John's, 227 F.3d 489, 494 (5th Cir. 2000); JTH Tax, Inc. v. H&R Block E. Tax Servs., Inc., 28 F. Appx 207, 216-17 (4th Cir. 2002).

7. 601 F. Supp. 1140 (D. Ariz. 1984), aff'd in part, rev'd in part, 793 F.2d 1034 (9th Cir. 1986).

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12. ISP.net v. Qwest Commc'ns Int'l, Inc., No. IP01-0480-CBS, 2004 WL 2272145, at *4 & n.4 (S.D. Ind. Sept. 24, 2004).

13. 204 F.3d 683 (6th Cir. 2000).

14. Id. at 695 (emphasis added); see also PPX Enters., Inc. v. AudioFidelity Enterprises, Inc., 818 F.2d 266, 271 (2d Cir. 1987).

15. Balance Dynamics, 204 F.3d. at 695 n.6. See also Southwest Recreational Indus. v. FieldTurf, Inc., No. 01-50073, 2002 WL 32783971, at *9 (5th Cir. Aug. 13, 2002); see also Audi AG v. D'Amato, 381 F. Supp. 2d 644, 668-69 (E.D. Mich. 2005).

16. 409 F. Supp. 2d 1131 (D. Minn. 2005).

17. 399 F.3d 168, 173-74 (3d Cir. 2005).

18. 409 F. Supp. 2d at 1136.

19. Banjo Buddies, 399 F. 3d at 178.

20. Id.

21. 384 F. Supp. 2d 735, 743-44 (D. Del. 2005).

22. Id.

23. Id. at 741.

24. 126 F. Appx 32, 35 (2d Cir. 2005).

25. 15 U.S.C. Section 1117.

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