

Who Misses Law School?: A Practical Application of the Law to a Lanham Act Hypothetical

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Roger Colaizzi chairs Venable’s national Advertising Litigation group. Roger has significant trial experience litigating Lanham Act false advertising, state deceptive trade practices, unfair competition, advertising class actions, trial and continuity marketing, direct-to-consumer marketing, social networking, affiliate advertising, domain names, keyword advertising, and other e-commerce matters. He has extensive trial experience in litigating brand protection advertising issues, including anti-counterfeiting, trademark, trade dress, patent, and copyright. He has successfully brought and defended against dozens of emergency preliminary injunction motions and requests for temporary restraining orders—important remedies in competitive advertising and the protection of IP, product brands, and other proprietary assets.



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William Lawrence practices at the intersection of litigation, antitrust, intellectual property, and advertising. William has represented individual and corporate clients in media, entertainment, retail, finance, and legal industries. Prior to joining Venable, he worked with clients on commercial litigation, including securities fraud, white collar investigation, and malpractice.

Hypothetical

- **SandStorm** (Plaintiff) is the largest manufacturer of sand blasters in the country
- **Conway Power Blaster** (Defendant) sells a new combination pressure washer/sand blaster
- Conway makes a number of marketing claims regarding the product's performance in the following advertisement



FACT: The **Conway Power Blaster®** can shoot water, sand, or any other substance you want to propel at a given surface.

FACT: The **Conway Power Blaster®** removes 100% of paint from any surface, better than any competing brand.

FACT: 73% of **Conway Power Blaster®** users prefer it to SandStorm power blasters.

Conway Power Blaster®

Blast anything away with a Conway

Home Improvement Specialist Approved!!!
See more at www.conwayrules.com

**MORE
DURABLE
CONSTRUCTION
THAN ANY
BRAND**

Elements of False Advertising Claims

- 43(a)(1)(B): Misrepresentation in commercial advertising
- Conway Power Blaster has made false or misleading statements about its product
- Actual deception or at least a tendency to deceive
- Deception is material (likely to influence purchasing decision)
- Interstate commerce
- Injury



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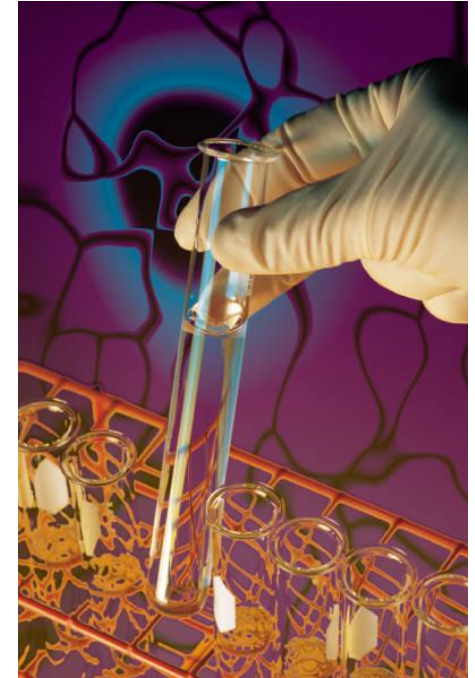
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Comparative Superior Performance Claims

- Challenger generally bears burden of submitting its own testing to prove the claim is false.
- Establishment claim is the exception to this rule.
 - “Studies Show”; “Tests Prove.”
 - Can be implied.
 - Challenger can prevail by showing the advertiser’s testing is not sufficiently reliable to support the claim.



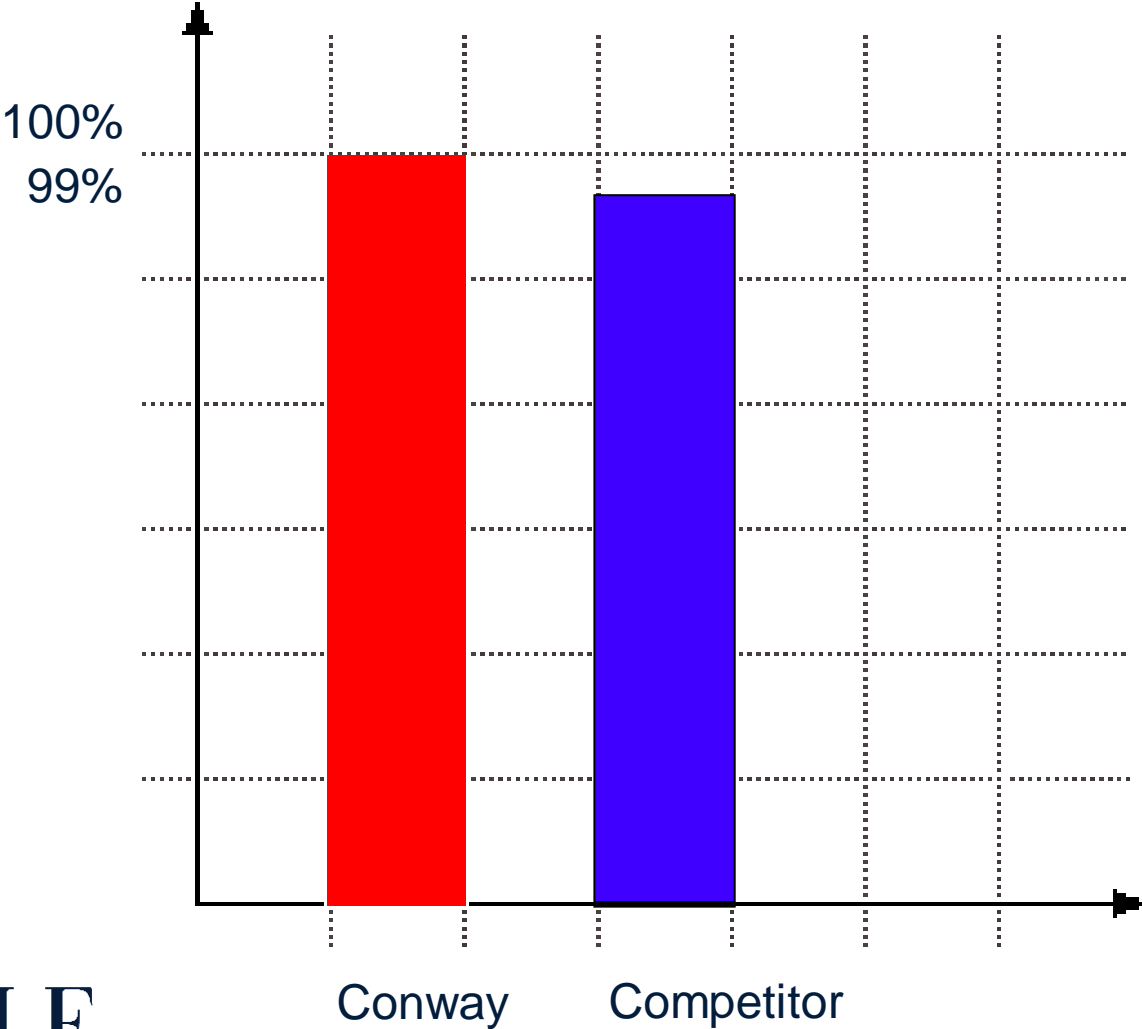
Comparative Superior Performance Claims

Common Product Testing Issues

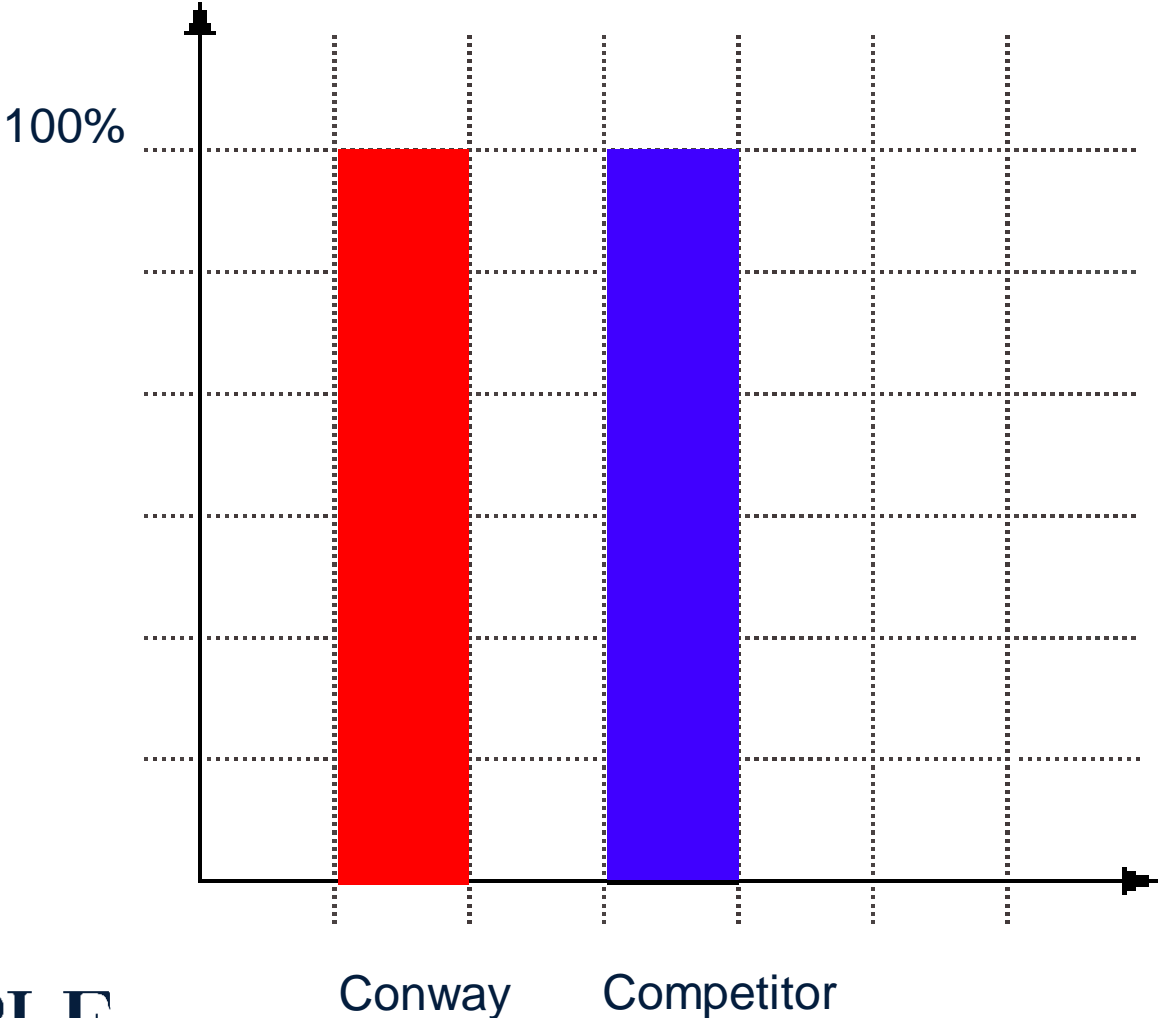
- Is there an industry standardized test?
- Is the methodology sound?
- Did the study test the actual products at issue?
- Can a correlation be drawn between the test results and the challenged claims?
- Are the parameters of the test consumer relevant/clinically meaningful?



Percentage of Paint Removed from Wood Surfaces



Percentage of Paint Removed from Wood Surfaces



Comparative Superior Performance Claims





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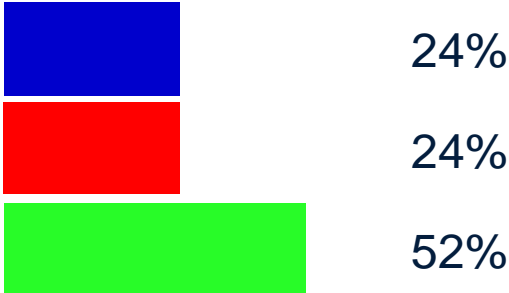
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Comparative Preference Claim

Q1: Which brand of power blaster do you prefer?

- a. Conway:
- b. SandStorm:
- c. No preference:



Comparative Preference Claim

Q2: Between Conway and SandStorm, which brand of power blaster do you prefer?

- a. Conway:
- b. SandStorm:



Consumer Perception Surveys

Survey must be well designed and reliable.

- Representative population
- Proper control
- Use of non-leading questions
- Proper coding and analysis
- Fit between the survey and the relevant question at hand



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“Home Improvement Specialist Approved” Claims

- What is a “Home Improvement Specialist”?
- How many Home Improvement Specialists must approve the product before the advertiser can claim that the Conway is generally approved by Home Improvement Specialists?



Fake Blogs

- Fake Blogs/Gripe Sites
 - Lanham Act False Advertising?
 - FTC Testimonial Guidelines
 - Require disclosure of material connections that consumers would not expect between advertisers and endorsers
 - Applies to blogs



Bruce's Home Improvement Blog

Serious Reviews for Serious DIYers

[Click Here to Buy Conway](#)



Conway Power
Blaster®
[Consumer Reviews](#)



[Click Here to Buy Conway](#)

To: Bruce's Home Improvement Blog
From: CrazyJaney@AsburyPark.org
Re: [Blasting Made Easy](#)

The Conway can strip away anything using any material. I ran out of sand and used gravel from my driveway to finish blasting paint off of my house.

To: Bruce's Home Improvement Blog
From: SaintIntheCity@EStreet.com
Re: [Makes Me Look Super Tough](#)

Not only is the blaster great at removing paint, but its gun like appearance makes me look tough. I carry it around with me in the city to deter would be muggers from attacking me. It is working great because I haven't been attacked yet. Conway is keeping me safe.

To: Bruce's Home Improvement Blog
From: BaltimoreJack@DarlingtonCounty.gov
Re: [Working on the Highway](#)

I work for the County out on route 95. All day I hold a red flag and watch traffic pass me by. Last week, a car swerved and nearly ran me over. Thanks to Conway's powerful blasting, I was able to blast the tail of the car, rending the taillights useless. Thanks Conway.

To: Bruce's Home Improvement Blog
From: Homer@simpson.com
Re: [So Easy, Even a Caveman Could Do It.](#)

The triggering system on the Conway is so easy, I let my 2 year old help out with my sand blasting while I lay in a hammock sipping a nice cold Duff beer. Mmmmmmmm Duff. Thanks Conway!!!

False Advertising v. Puffery

Better Sand
Better Blasting
Conway®



False Advertising v. Puffery

- **False Advertising or Puffery?**
 - Similar to Pizza Hut vs Papa John's (“Better Ingredients. Better Pizza.”)
 - Fifth Circuit ruled:
 - Standing alone, statement is subjective opinion puffery
 - In the context of Papa John's broader comparative advertising campaign, statement became misleading



What About Damages?

- Fast forward to trial
- SandStorm wins
- SandStorm proves false advertising and the jury awards disgorgement—\$20,000,000
- Conway files post-trial motions under Rule 50 seeking judgment under the Lanham Act as a matter of law and argues: **no evidence of causation**

Damages Under the Lanham Act

Under 15 U.S.C. § 1117:

- Defendant's profits
- Any damages sustained by the plaintiff
- Costs of action
- In assessing profits, the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed
- Court can treble judgment

Damages Under the Lanham Act

If you prove false advertising, do you get defendant's profits?

Maybe



Damages Under the Lanham Act

15 U.S.C. 1117 is the **remedy**.

What does the plaintiff have to prove to get the remedy?

- “[E]conomic or reputational **injury** flowing directly from the deception wrought by the defendant’s advertising.”
 - *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, —U.S.—, 134 S. Ct. 1377, 1391, 188 L.Ed.2d 392 (2014)
- Disgorgement is “limited to situations in which the **defendant’s profits represent unjust enrichment derived from diversion of business that clearly would otherwise have gone to the plaintiff** ... rather than [situations in which the defendant] engaged simply in false advertising of the defendant’s own product.”

Damages Under the Lanham Act

- “To recover damages under the Lanham Act, [a plaintiff] must show not only false advertising... **but also that [false advertising] caused... actual damages.**”
 - *See XYZ.COM, LLC*, 848 F.3d 292, 299-300 (4th Cir. 2017)
- “[D]efendant's profits in a false advertising case **cannot be recovered “unless there is some proof that plaintiff lost sales or profits,** or that defendant gained them, [and if not, then] the principles of equity do not warrant an award of defendant's profits.”
 - *Balance Dynamics Corp. v. Schmitt Industries, Inc.*, 204 F.3d 683, 695 (6th Cir. 2000)
- “We agree with the Sixth Circuit in *Balance Dynamics*, and accordingly, we hold that **where a plaintiff who has brought a Lanham Act claim for false advertising has failed to present evidence that the defendant benefitted from the alleged false advertising,** the plaintiff will not be permitted to recover any of the defendant's profits under 15 U.S.C.A. § 1117(a).”
 - *Logan v. Burgers Ozark Country Cured Hams Inc.*, 263 F.3d 447, 464 (5th Cir. 2001)

Damages Under the Lanham Act

Potential exceptions to causation:

- Willful deception
- Two-player market
- Direct comparative advertising (i.e., mentioning competitor by name)
- “To satisfy the Lanham Act's zone of interests requirement, ‘a plaintiff ... ordinarily must show economic or reputational injury flowing directly from the deception wrought by the defendant's advertising.’...However, ‘injury may be presumed’ for ‘a misleading comparison to a specific competing product,’ because such an advertisement ‘necessarily diminishes that product's value in the minds of the consumer.’”
 - *Souza v. Exotic Island Enterprises, Inc.*, No. 18-CV-9448 (KMK), 2021 WL 3501162, at *13 (S.D.N.Y. Aug. 9, 2021), aff'd, 68 F.4th 99 (2d Cir. 2023) (internal citations omitted)

Damages under the Lanham Act

- “[U]nder any theory, a finding of defendant's willful deceptiveness is a prerequisite for awarding profits’...or at a minimum, willfulness should be considered in determining the equity of awarding defendant's profits.”
 - *Pipe Restoration Techs., LLC v. Coast Bldg. & Plumbing, Inc.*, No. 8:13-CV-00499-JDE, 2018 WL 6012219, at *5 (C.D. Cal. Nov. 16, 2018) (internal citations omitted)

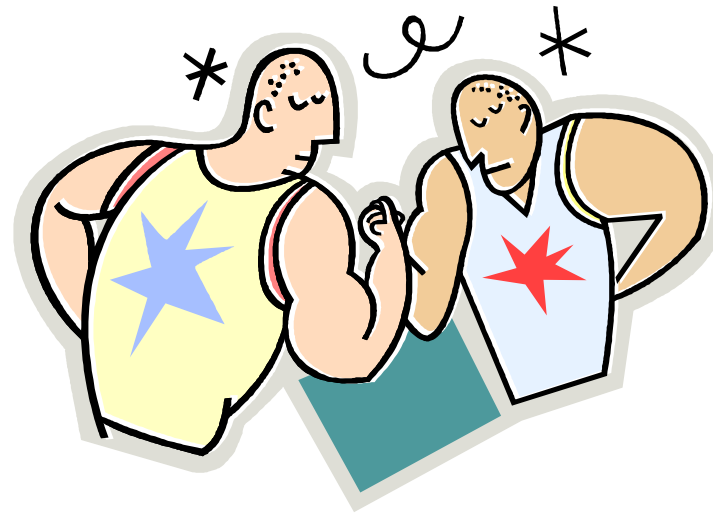
Challenging the Claims

- **Cease and Desist Letter**
 - Should you notify the other side?
 - Possibility of amicable resolution.
 - Risk of Declaratory Judgment (DJ)?
 - A letter may slow the process
- **The advertiser's response to the demand letter**
 - Is the claim-in-question literally false?
 - Can ad be changed executionally without affecting campaign?
 - DJ? Counterclaim?



Where to Challenge?

- A challenger has a number of options for filing an advertising claim.
- Selecting the appropriate forum depends on the particular facts and goals of the challenge.
- Considerations:
 - Burden of proof?
 - Timing?
 - Evidence?
 - Cost?
 - Other issues?



Where to Challenge?

- **FTC Trade Complaint**
 - Section 5 of FTC Act
 - Only FTC can enforce FTC Act, but FTC will consider complaints filed by market participants in determining whether to bring action
- **Considerations**
 - FTC can be a useful tool against improper advertising
 - Burden of proof is on the advertiser to provide a "reasonable basis" for its claims
 - But a challenger "loses control" over the challenge
 - Timing?
 - Agency likely has different concerns/incentives versus challenger

Where to Challenge?

- **National Advertising Division (NAD)**
 - Self-regulation for advertisers; voluntary process
 - No enforcement power, but FTC will often enforce advertising violations brought to its attention by NAD
 - Electronic Retailing Self-Regulation Program (ERSP) is a similar process
- **Considerations**
 - Burden of proof is on the advertiser to substantiate all reasonable interpretations of its claims.
 - No survey required for implied claims
 - But NAD process can take longer than litigation (4-6 months).
 - Lack of discovery can be a disadvantage.

Where to Challenge?

- **Commercial Litigation**
 - Lanham Act, 15 U.S.C. 1125(a)(1)(B); Section 43(a);
 - state laws; and
 - TRO/preliminary injunction
- **Considerations**
 - How significant is the claim-in-question? Timing?
 - Burden of proof on plaintiff to establish falsity of claim
 - Survey evidence may be required
 - Risk of counterclaims
 - Discovery can be both “good” and “bad”

Questions? Contact Us



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