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Ninth Circuit Clarifies Standards for Equitable Damages in False Advertising Cases

A recent decision in the Ninth Circuit sheds new light on whether, and the standard by which, a false advertising claimant must prove equitable damages under the Lanham Act. In *Grasshopper House, LLC v. Clean & Sober Media, LLC*, No. 2:18-cv-00923-SVW-RAO the plaintiff obtained a jury verdict finding the defendants liable for false advertising. But the district court cancelled the damages phase of the jury trial after the exclusion of plaintiff's damages expert, which the court reasoned was plaintiff's only evidence concerning actual losses as a result of defendants' misrepresentations. Therefore, the district court held a bench trial concerning equitable relief, where it entered a permanent injunction against defendants' false advertising, but denied plaintiff's requests for disgorgement of profits, attorneys' fees, and costs.

Plaintiff appealed to the Ninth Circuit, and the appeals court affirmed the district court's exclusion of plaintiff's damages expert and cancellation of the damages phase of the trial, but found that the Court had erred in denying plaintiff's requests for

disgorgement of profits, attorneys' fees, and costs. First, the appeals court found that after the Supreme Court's subsequent decision in *Romag Fasteners, Inc v. Fossil, Inc.*, the district court was now incorrect to require proof of willfulness to sustain a finding of disgorgement. *Romag Fasteners, Inc.* established that while mental state is a highly important consideration in determining whether to award disgorgement under the Lanham Act, there is no categorical rule that willfulness is necessary. Therefore, the appeals court here ordered the case remanded for the district court to consider "defendants' mental state—whatever that may be—when determining what award of profits is appropriate."

Second, the appeals court found that the district court had abused its discretion in dismissing one viable theory for calculating disgorgement of defendants' profits. Plaintiff argued that each visit to the webpage with the offending advertisement constituted an affirmative viewing of the advertisement, which was valuable enough to defendants for them to maintain the false advertisement. Under this theory, the disgorgement award was meant to capture the value of each webpage visit to the defendants. The plaintiff's expert and the defendants' expert agreed on the methodology for calculating damages,

which concerned assigning a dollar amount of profit to defendants for each visit to the offending webpage. The only disagreement was whether each visit was worth \$40 as the plaintiff claimed, or \$1.80 as claimed by the defendants. Given that even the lower amount calculated by defendants' expert would have been at least five times the "hypothetical" alternative amount of \$60,000 reached by the district court, the appeals court instructed that the district court calculate a disgorgement amount based on the valuations of both experts.

Given that the case was being remanded for reconsideration of disgorgement, the appeals court also remanded for reconsideration of attorneys' fees. Under the Lanham Act, a district court may award "reasonable attorney fees" in "exceptional cases." Whether a case is "exceptional" is based on a "totality of circumstances" analysis. The district court concluded that "the case was not so 'exceptional' as to warrant a fee award," in part, because "plaintiff failed to establish the extent of its injury." The appeals court decided that because the district court is now required to reconsider the disgorgement award, it must also determine whether a change in that award affects the totality of the circumstances for the purpose of attorneys' fees.

Finally, the appeals court reversed the district court's denial of costs. Under the Lanham Act, successful plaintiffs are entitled to "the costs of the action." The appeals court found that the district court had erred in denying costs based on the same "exceptional" case standard as its denial of attorneys' fees. But, as the appeals court explained, the two standards differ substantially, and successful plaintiffs are generally entitled to costs.

Although *Grasshopper House, LLC* appears to be a thorough analysis of how the Ninth Circuit will assess the availability of equitable damages in false advertising cases, it also raises the question of what courts, at least in the Ninth Circuit, will consider the proper “mental state” for the purposes of disgorgement. It is clear from the appeals court’s reasoning that mental state still remains an important factor in the consideration of a disgorgement award for false advertising under the Lanham Act, but the Ninth Circuit offers no guidance on how mental state factors

into the analysis. Perhaps the district court opinion on remand may provide more insight, but for now it is up to the discretion of Ninth Circuit district courts to determine what mental state is actually required and how it will factor into the amount of disgorgement.

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