Companies often spend decades and millions of dollars developing a recognizable brand. Unfortunately, when a competitor disseminates false or defamatory information over the Internet, goodwill that took years to build can be destroyed in a matter of days. Because the Internet disseminates information faster and further than any previous means of publication, the potential damage can be devastating. To make matters worse, the likely audience is not the general public but potential customers directed to the competitor’s website by Google or another search engine.

Imagine the following scenario:
- Your client, ABC Corporation, sells marketing lists;
- XYZ Corporation sells competing marketing lists. ABC discovers that XYZ’s website falsely claims that ABC’s lists are outdated and less reliable than XYZ’s lists;
- XYZ’s website also includes negative publicity from ten years earlier regarding ABC’s sales practices. ABC no longer engages in any of the practices described on XYZ’s website, and has not for several years. XYZ’s website not only does not indicate this, but purposefully portrays the negative press as current news.

Compensatory damages are usually the only remedy available to ABC under state laws governing unfair competition, deceptive trade practices and trade or product disparagement. However, it can be difficult, if not impossible, to prove actual damages in this situation. If XYZ maintains records of its web traffic, it may be possible to identify how many people visited the competitor’s website when the deceptive advertising was present. Identifying who these people are, however, may be impossible. Despite the fact that XYZ’s deceptive advertising has been transmitted to potential customers around the globe, ABC may not be able to identify specific lost or diverted sales. The common law might leave ABC, the aggrieved party, without an available remedy.

Recently, however, courts in Lanham Act unfair competition cases have shown an increased willingness to order disgorgement of profits in situations where actual damages cannot be proven. Disgorgement is particularly well suited to cases involving deceptive advertising on the Internet because rather than requiring proof of specific lost or diverted sales, it is based on a consideration of various equitable factors, including whether there is a likelihood that sales were diverted, the adequacy of other available remedies.
and the public interest in making deceptive advertising unprofitable.

Since the vast majority of businesses today engage in e-commerce, XYZ’s website is probably designed to allow customers to place orders over the Internet. ABC should be able to show that it is likely that sales were diverted by demonstrating: (i) that XYZ is a direct competitor; (ii) potential customers visit XYZ’s website to compare the parties’ marketing lists and (iii) XYZ sold competing lists over its website when the deceptive advertising was present. From these circumstances, a court could find that sales were likely diverted. Given the difficulty of proving actual damages, ABC probably does not have any other available remedy. Finally, there is a strong public interest in making deceptive advertising on the Internet unprofitable.

I. Disgorgement Of Profits

Under The Lanham Act

A prevailing Lanham Act plaintiff is entitled, “subject to principles of equity, to recover (1) defendant’s profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.” Evidence of actual damages is not required to maintain a claim for false advertising or to recover the defendant’s profits. Prior to 1999, intentional wrongdoing by the defendant was required; today, however, intent is an important — but not indispensable — factor.

Traditionally, courts viewed disgorgement as a substitute measure of the plaintiff’s damages, rather than a discrete remedy. As a result, while disgorgement was routinely ordered in trademark infringement actions without evidence of actual damages, courts were reluctant to do the same in unfair competition cases. Troubled by the prospect of the plaintiff recovering a windfall, some courts limited disgorgement to cases involving false comparative advertising, reasoning that injury can be presumed when the defendant explicitly compared its product to the plaintiff’s product.

Recently, however, in Banjo Buddies v. Renosky the Third Circuit held that injury to the plaintiff is not required to recover the defendant’s profits because even if the plaintiff “receives a windfall,” it is preferable to the defendant profiting from its wrongdoing. A few months later, the federal district court of Delaware relied on Banjo Buddies in Callaway v. Dunlop Slazenger to sustain a jury verdict disgorging $1.1 million of the defendant’s profits in a non-comparative false advertising case. The jury in Callaway found that the defendant had falsely claimed that its golf balls were the longest ball on the tour. The defendant argued that disgorgement was improper because there was no evidence that the plaintiff was damaged. The court rejected this argument, reasoning that disgorgement was justified because it removes the incentive to violate the Act where potential profits are greater than the harm that would befall any aggrieved parties.

These cases appear to signal a shift away from viewing disgorgement as solely an alternative measure of the plaintiff’s damages. Notwithstanding this trend, many courts will not order disgorgement unless they are comfortable that the defendant’s profits approximate the plaintiff’s lost sales. Therefore, litigants seeking disgorgement of profits in lieu of compensatory damages should be prepared to demonstrate that it is justified either as a substitute measure of the plaintiff’s likely damages or on public policy grounds by establishing:

• That the parties are direct competitors.
• That the defendant made literally false statements regarding the plaintiff or its products.
• That the false statements relate to an inherent quality or characteristic of the plaintiff’s product.
• That the defendant acted purposefully or willfully.
• That potential customers visit the defendant’s website.
• That the remedy sought is narrowly tailored so that it will serve as compensation, not a penalty.

II. Presumed Damages Under Common Law Commercial Defamation

These same factors may also permit recovery of presumed damages on a common law defamation claim in New Jersey. Traditionally, a plaintiff could recover damages without introducing any evidence of actual damages under the doctrine of presumed damages. Injury was presumed from the fact of publication. Although called into question in recent years, the continued availability of presumed damages in certain defamation cases was recognized by the New Jersey Supreme Court in Roccì v. Ecole Secondaire MacDonald-Cartier. The Roccì court noted that presumed damages may still be awarded if the defamatory publication was made with “actual malice,” meaning with knowledge that it was false or with reckless disregard as to whether it was false.

Conclusion

Though by no means a panacea for otherwise deficient claims, disgorgement under the Lanham Act and presumed damages under the common law can, under certain circumstances, provide relief where compensatory damages are unavailable. These potential avenues of recovery may be especially helpful in cases involving false or misleading communications over the Internet, where the size and identity of the audience and the full scope of damages are difficult to ascertain.

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1 Some web servers use “cookies” to help identify web users. When a computer accesses a website the computer’s browser sends a request to the website’s server, which includes the computer’s IP address, the type of computer, the computer’s browser sends a request to the website’s server, which includes the computer’s IP address, the type of computer, the computer’s IP address, the type of computer.
8 Banjo Buddies, Inc. v. Renosky, 399 F.3d 168, 178 (3d Cir. 2005).
10 An analysis of whether presumed damages are available in commercial defamation cases under the common law of states other than New Jersey is beyond the scope of this article.