

Practice Update

Second Circuit Issues Decisions on Lanham Act False Advertising Case

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Decisions Holds That Presumptions of Consumer Confusion and Competitive Injury Arise in False Advertising Cases

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On July 29, 2014, the Second Circuit decided a Lanham Act false advertising case that clarified the circuit's jurisprudence on demonstrating consumer confusion and competitive injury. In *Merck Eprova AG v. Gnosis S.P.A. and Gnosis Bioresearch, S.A.*, 12-4218-cv (2d Cir. July 29, 2014) the Court held that when literal falsity and deliberate deception have been demonstrated, it is appropriate for courts to apply a presumption of consumer confusion and a presumption of injury to the plaintiff, at least where the parties operate in the context of a two-player market or the economic equivalent.

Since 2002, Merck has sold a nutritional supplement under the name Metafolin. Metafolin is comprised of a naturally occurring version of folate and is considered to be a "pure isomer product." In 2006, Gnosis S.P.A. began to sell a competing product called "Extrafolate." Gnosis' product was composed of a chemically mixed form of folate that was not naturally occurring. Because the Gnosis' product was a mixed product, it sold for significantly less than Metafolin. Between 2006 and 2009 Gnosis printed product specification sheets, brochures, and

other marketing materials that used the chemical descriptions, terms and formulas associated with Merck's pure folate product for the sale of its chemically mixed product. In 2007, Merck sued Gnosis for false advertising based on Gnosis' use of the pure isomer product chemical name and properties in its marketing materials for Extrafolate.

Following a bench trial, the district court entered judgment for Merck and awarded damages in the amount of Gnosis' profits, trebled those damages, prejudgment interest and attorney's fees, as well as a corrective advertising injunction. The court found that Merck had demonstrated literal falsity based on Gnosis' use of the common name and abbreviation for pure folate on its product specification sheets, brochures, certificates of analysis and material safety data sheets. The court also found implied falsity based on Gnosis' descriptions of the chemical properties of a pure folate product in its brochures, material safety data sheets, and certificates of analysis since its product was not pure. In essence, Gnosis was describing a product that it was not selling.

The district court determined that Gnosis had used the common name and abbreviation for a pure folate product as a part of an organized campaign to deceive consumers and capture a portion of Merck's market share. Therefore Merck was entitled to a presumption of consumer confusion with regard to the brochures, material safety data sheets, certificates of analysis, and e-mails that Gnosis sent to customers. Because Merck and Gnosis were competitors the court presumed injury to Merck based on Gnosis' literal false statements and impliedly false statements.

On appeal, the defendant challenged the district court's conclusion that consumer confusion and competitive injury could be presumed, asserting that the court improperly relied on cases dealing with comparative advertising. Gnosis argued that proof of *actual* consumer confusion and evidence of *actual*

injury was needed. Gnosis also challenged the damages award as well as the award of prejudgment interest, attorney's fees, and the corrective advertising injunction.

The Second Circuit affirmed the district court's rulings. It is well settled that, in order to prevail on a false advertising challenge, the plaintiff must prove actual consumer confusion or deception *or* that the defendant's actions were intentionally deceptive, thus giving rise to a rebuttable presumption of consumer confusion. In light of the district court's finding that Gnosis' statements were literally false, the district court correctly applied the presumption of consumer confusion and no evidence of actual confusion was needed.

The Court also found that the district court correctly applied the presumption of injury to Merck. It rejected Gnosis' argument that the presumption of injury was limited to cases involving comparative advertising. Although Gnosis did not mention Merck's name in any advertising, the two were direct competitors. Because the only competitor for a pure folate product was Merck, it followed that Merck was damaged by Gnosis falsely advertising its mixed product as a pure one. Thus, when a plaintiff proves deliberate deception in the context of a two-player market, it is appropriate for courts to apply a presumption of injury.

The Court also affirmed the damages award, as well as the other relief granted by the district court. The Court held that when the parties are direct competitors and where literal falsity and willful deception have been proven, the presumptions of injury and consumer confusion can be used for the purposes of awarding injunctive relief as well as monetary damages to a successful plaintiff.

The decision is important because evidence of actual competitive injury is often difficult to quantify. Proof of actual consumer confusion often requires a

consumer survey, which is expensive, imprecise, and subject to evidentiary challenges.

Moreover, the presumption of injury is equally important, since actual lost sales are difficult to prove in the absence of proof of actual customer confusion. In addition, it is often preferred not to involve customers in the dispute.

Thus, the availability of presumptions, even in the absence of comparative advertising, allows Lanham Act plaintiffs another way of proving its claims. Finally, the case should not be limited to two-player markets: the same logic that supported the presumption of injury here also applies in other cases where the parties are direct competitors.

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