No. 15-2526

IN THE UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

VERISIGN, INC.,

Plaintiff-Appellant,

v.

XYZ.COM, LLC and DANIEL NEGARI,

Defendants-Appellees.

On Appeal from the United States District Court
for the Eastern District of Virginia, Alexandria Division
No. 1:14-cv-01749 (Hon. Claude M. Hilton)

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UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT
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(name of party/amicus)

who is Appellant, makes the following disclosure:
(appellant/appellee/petitioner/respondent/amicus/intervenor)

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2. Does party/amicus have any parent corporations? ☐ YES ☑ NO
If yes, identify all parent corporations, including all generations of parent corporations:

3. Is 10% or more of the stock of a party/amicus owned by a publicly held corporation or other publicly held entity? ☑ YES ☐ NO
If yes, identify all such owners:
T. Rowe Price Associates, Inc.;
Berkshire Hathaway Inc.

4. Is there any other publicly held corporation or other publicly held entity that has a direct financial interest in the outcome of the litigation (Local Rule 26.1(b))? ☐YES ☑NO
If yes, identify entity and nature of interest:

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If yes, identify any publicly held member whose stock or equity value could be affected substantially by the outcome of the proceeding or whose claims the trade association is pursuing in a representative capacity, or state that there is no such member:

6. Does this case arise out of a bankruptcy proceeding? ☐YES ☑NO
If yes, identify any trustee and the members of any creditors' committee:

Signature: /s/ Lisa S. Blatt Date: February 9, 2016

Counsel for: Verisign, Inc.

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I certify that on February 9, 2016 the foregoing document was served on all parties or their counsel of record through the CM/ECF system if they are registered users or, if they are not, by serving a true and correct copy at the addresses listed below:

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STATEMENT IN SUPPORT OF ORAL ARGUMENT

Appellant respectfully requests oral argument. This appeal addresses serious legal and factual errors in a Lanham Act claim involving an industry critical to the functioning of the Internet. At least one issue involves a conflict among the Circuits. Oral argument will materially assist the Court.

JURISDICTIONAL STATEMENT

Plaintiff-Appellant VeriSign, Inc. brought this action against Defendants-Appellees XYZ.com, LLC and its CEO Daniel Negari under Section 43 of the Lanham Act, 15 U.S.C. § 1125(a). The district court had jurisdiction under 28 U.S.C. § 1331. This Court has jurisdiction under 28 U.S.C. § 1291.

STATEMENT OF THE ISSUES

1. Whether the district court erred in a Lanham Act case by finding alleged misrepresentations of fact true as a matter of law—when the court failed to consider whether such statements were misleading or impliedly false, and notwithstanding unequivocal evidence that the factual statements were false.

2. Whether the district court misapplied the law in requiring Verisign to prove materiality, and failed to consider the evidence of materiality that created a genuine issue of fact.

3. Whether the district court erred in requiring Verisign to prove deception, and whether the evidence of deception created a genuine issue of fact.

4. Whether the district court erred in holding that Verisign raised no genuine issues of material fact on four separate theories of injury.

INTRODUCTION

The Lanham Act was designed precisely to reach cases such as this. Defendants-Appellees XYZ and its CEO Daniel Negari (collectively "XYZ") perpetrated a patently dishonest scheme to capture Verisign's business by deceiving consumers into buying XYZ's product. Nonetheless, at every turn and on every contested element under the Act, the district court misapplied the law and impermissibly resolved disputed fact after disputed fact. The opinion is replete with these errors, adopting an interpretation of the Lanham Act foreclosed by its plain text, failing to heed multiple decisions from this Court, picking winners between competing experts, overlooking evidence of intentional deception, and reading documents to mean the opposite of what they state.

Plaintiff-Appellant Verisign is one of the architects of the domain name system, which lies at the heart of the functioning Internet. Verisign and its predecessor company (collectively "Verisign") have operated the critical .com and .net domain name registries, also known as "top-level domains," since the creation of the domain name system in the early 1990s. A website's domain name, such as "google.com," indicates where it can be found on the Internet. The portion before the dot in the domain name—"google"—is the more localized and memorable "second-level domain." The portion after the dot—"com"—is the broad "top-level domain" or "TLD."

Verisign sells registrars, such as GoDaddy, the right to register a domain name in Verisign's TLDs. The registrars market those registrations to individuals and businesses. Verisign also maintains a list or "registry" of the names registered: 124 million in .com and 15 million in .net. For the .com registry, Verisign operates under a one-of-a-kind agreement with the U.S. government requiring the Company to assure Internet security and stability. In addition, as a public service and for no compensation, Verisign operates other vital elements of the Internet's infrastructure. Accordingly, for decades, Verisign has served as a steward of the domain name system.

In 2014, XYZ introduced a new TLD, .xyz. Immediately upon entering the market, XYZ launched a campaign of falsehoods and misrepresentations to propel .xyz to profitability and consumer acceptance. To start with, XYZ duped consumers into purchasing .xyz domain names, by creating the illusion of a gold rush of consumer demand for them. XYZ implemented this deception by reporting grossly inflated "sales" of .xyz domain names, fabricating a faux popularity to distinguish .xyz from the hundreds of other new TLDs, and to boost the perceived value of .xyz domain names. XYZ hoped in particular that this scheme would draw sales away from Verisign's .com and .net domains.

To that end, XYZ colluded with a registrar—*i.e.*, its direct customer and retailer of domain names—to give away 375,000 .xyz domain names by stuffing them, unsolicited and without notice, into the accounts of the registrar's customers. XYZ then falsely proclaimed that all these customers actually *bought* .xyz domain names. [redacted] This conduct is quintessential, intentional, false advertising—like claiming a place on the New York Times Bestseller list by stuffing books in the mailboxes of several hundred thousand consumers, unsolicited and unannounced. When some industry experts called XYZ out on what they labeled [redacted], Negari denied any connection with the giveaway, even though [redacted]

XYZ also sought to improve its position by maligning Verisign. Viewing Verisign as its principal competitor, XYZ sought to divert potential .com customers by misrepresenting the availability and quality of .com domain names. XYZ falsely told consumers that searching for a .com domain name was futile—only long, complex and nonsensical .com names were left, and 99% of requests to register a new .com domain name were unsuccessful.

Verisign brought this suit for two reasons. First, Verisign seeks to remedy the commercial harm it suffered, including lost sales, corrective advertising costs, and reputational damage, from XYZ's dishonest conduct. Second, in addition to its stewardship role for the domain name system, Verisign has a commercial interest in the integrity of the domain name system. With the government warning about the risks to the Internet posed by dishonest operators among the glut of new TLDs, XYZ's dishonesty, if unchecked, would exacerbate the erosion of business standards among registry operators and spark a race to the bottom.

In November 2015, the district court entered summary judgment for XYZ. In so doing, the court applied the wrong legal standards to the four contested elements of the Lanham Act claim. It effectively eliminated the "misleading" part of the Lanham Act's "false *or* misleading" cause of action. And it denied Verisign multiple presumptions the law conferred. The court further failed to address many statements that Verisign challenged as false and resolved key factual disputes without acknowledging Verisign's contrary evidence. The decision therefore should be reversed.

STATEMENT OF THE CASE

A. Verisign Has Played a Critical Role in Developing and Sustaining the Internet

Since the early 1990s, Verisign has exclusively operated the .com and .net top-level domains. Other TLDs include .org, .gov, and .edu, plus hundreds of new

TLDs approved since 2013, such as .hotels, .pizza, .weddings, and the one at issue here, .xyz.[1] TLDs are also called "registries."

Verisign's predecessor and the National Science Foundation helped create the domain name system to solve a practical problem: Every computer and website connected to the Internet has a unique "Internet protocol" or "IP" address (*e.g.*, 123.456.789.123). Those numbers are too difficult to remember to be useful for navigating to the associated websites. The domain name system instead associates these IP addresses with easier-to-remember letters and words—like www.google.com. *See Peterson v. Nat'l Telecomms. & Info. Admin.*, 478 F.3d 626, 629 (4th Cir. 2007).

Registries perform two functions at issue in this case. First, registries like Verisign and XYZ sell registrations of second-level domain names (such as google.com) to their customers, *i.e.,* registrars such as GoDaddy. In turn, the registrars essentially resell the registrations to businesses and individuals who pay them to register the domain name. *See* Joint Appendix ("JA") 654; Sealed Appendix ("SA") 109. Second, registries provide domain name system services—enabling Internet users to find a site by identifying the IP address associated with the second-level domain name. Basically, if an Internet user enters

[1] These are all generic TLDs, or gTLDs, rather than country-code or ccTLDs, like .de for Germany. ccTLDs are not at issue here.

"google.com" into a browser, the browser will search the domain name system and eventually the registry's databases to find google.com's IP address.[2]

Since the 1990s, Verisign has operated the .com registry under a Cooperative Agreement first with the National Science Foundation and later the Commerce Department. The U.S. government has repeatedly found that Verisign's operation of the critical .com domain registry "is in the public interest," including specifically, the public interest in "the continued security and stability of the Internet domain name system and the operation of the .com registry."[3] Verisign also operates its .com and .net registries under a separate agreement with the Internet Corporation for Assigned Names and Numbers ("ICANN")—the nonprofit corporation that coordinates the domain name system.

Verisign plays a key role in managing the infrastructure of the Internet. Under its Agreement with the Commerce Department, Verisign, without compensation, maintains and publishes the authoritative "root zone file," the

[2] To perform these services, Verisign must maintain an enormous infrastructure—three secure data centers in the United States and Switzerland and more than 75 other sites worldwide. This huge investment is essential so that Verisign can support its stewardship role and maintain its high level of service. XYZ, by contrast, outsources this function to CentralNic, an overseas company.

[3] U.S. Dep't of Commerce, Amendment to Financial Assistance Award, NCR-92-18742, Amendment 30 (Nov. 29, 2006), at 3, *available at* https://goo.gl/1LFdwU.

definitive database of IP addresses for every TLD on the Internet.[4] Further, Verisign operates two of the domain name system's 13 root servers, which are essential to routing users to the website they request.[5]

Verisign is thus unique. No other registry operator has such a Cooperative Agreement with the government, plays such a critical role in the domain name system and Internet infrastructure, has such a substantial commercial stake in the integrity of the system, or operates under such a public interest imperative. And no other registry operator functions as such a steward of the domain name system.

B. Top-Level Domains Expand Dramatically

In 2008, ICANN announced a plan to dramatically increase the number of TLDs. By 2013, ICANN's open-door procedures had yielded nearly 2,000 applications.[6] U.S. government agencies expressed alarm regarding the risks of fraud, consumer deception, cybersquatting, and other threats posed by the influx of new TLDs. In particular, the FTC, charged with preserving competition and

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[4] U.S. Gov't Accountability Office, *Internet Management: Structured Evaluation Could Help Assess Proposed Transition of Key Domain Name and Other Technical Functions*, GAO-15-642 (Aug. 19, 2015) (GAO Rept.), at 10-11, 12 n.23.

[5] JA51; Nat'l Acad. of Science, *Signposts in Cyberspace* (2005), at 110 (Verisign's operation of root servers is "a valuable service, whose provision is a little-known and little-appreciated gift in kind to all users of the Internet"), *available at* http://goo.gl/LNtZDu; *see also* GAO Rept. at 6.

[6] ICANN, *New Generic Top Level Domains: Current Statistics*, *available at* https://goo.gl/NdH9EK.

protecting consumers from fraud, was concerned that ICANN would not adequately screen new operators. The FTC viewed this as problematic because "a bad actor"—that is, a dishonest applicant or scammer—who slipped through and became a registry operator would be in a position to cause "significant consumer harm."[7]

C. XYZ Schemes to Falsely Present Itself as the Blockbuster Among New Top-Level Domains

XYZ was part of the deluge of new applicants. As one of 400-plus TLDs approved by March 2015, XYZ needed to distinguish .xyz domain names from the pack. XYZ therefore launched a coordinated multi-media blitz, laden with false statements designed to create the illusion of a gold rush for .xyz, and simultaneously to denigrate Verisign's .com domain names as unavailable.

1. XYZ Conjures a False Gold Rush

The first pillar of XYZ's launch strategy was to saturate the market with statements falsifying sales of .xyz domain names and misrepresenting consumer acceptance. The goal was to convey a tidal wave of demand, because, [redacted] the popularity of a TLD drives sales and affects the utility and value of a particular domain name. Popularity is important to website owners, [redacted]

[7] FTC, Letter to ICANN (Dec. 16, 2011), *available at* https://goo.gl/aD6jp9; *see also* NTIA, Letter to ICANN (Jan. 3, 2012); *available at* https://goo.gl/5FaKxK.

[redacted] In addition, investors buy domain names to resell on the secondary market, where popularity influences resale value. *See* JA623; [redacted]

XYZ also conveyed the same false scenario of overwhelming demand to registrars—its customers. As registrars were the retailers selling .xyz domains to consumers, demand directly drove their profits. [redacted] JA600-01 (XYZ presentation to registrars: "[a]wareness leads to traffic," and "[a]wareness and traffic lead to registrations").

2. XYZ Plots to Stuff 375,000 Free, Unsolicited Domain Names in the Accounts of .com Consumers and Call Them Sales

In truth, there was no tidal wave of demand—barely a ripple. Defendants fabricated phony demand by negotiating a deal with Web.com to have its affiliated registrar, Network Solutions, Inc. (collectively, "Web.com") [redacted] register 375,000 .xyz domain names for Web.com's existing .com customers. Web.com did this without the customers' request or knowledge and then, [redacted] registered hundreds of thousands of .xyz domain names and dispensed them for free. JA754-55; JA532; [redacted].

Defendants schemed to make these unsolicited giveaways look like a genuine surge in sales, [redacted]

[redacted]

3. XYZ and Web.com Use a Sham Transaction to Cover Up Their Scheme

To cover up the true nature of the giveaway, XYZ devised a plausible cover story that it had "sold" the domain names to Web.com, even if Web.com's affiliated registrar then gave them away to consumers unsolicited and for free. XYZ provided Web.com with 375,000 .xyz domains, purportedly at $8/domain, or $3 million total. JA754-55; [redacted]. [redacted] XYZ purported to pay Web.com exactly the same amount, $3 million, for Internet advertising. JA754-55; [redacted]. Neither party wrote a check, wired funds, or paid cash. JA754; [redacted]. The transaction was a barter of items that cost each participant essentially nothing—which is how Web.com could give away for free domain names it purportedly had purchased for $3 million. [redacted]

Verisign's accounting expert (one of four Verisign experts that the district court found qualified, JA477), opined [redacted]

4. XYZ Launches .xyz with A Tall Tale of Epic Sales

Come launch day, XYZ executed its strategy to immensely overstate consumer demand for the new domain. XYZ posted an online video of the "launch" ("Launch Day Video") where Negari ceremoniously opened the .xyz domain for sale and stated that the overwhelming demand immediately "crash[ed] the system because there's too many registrations coming through. They've never seen this many registrations at once." JA531. While Mr. Negari purportedly was shocked by the high volume of registrations, the surge in fact reflected the pre-planned unsolicited giveaways that XYZ had carefully orchestrated. Two days later, XYZ announced in a video on its website, "We are now the number one new TLD in the marketplace." "WE DID IT." ".xyz is officially the #1 new domain extension!" JA529 ("We Did It! Video").

In truth, consumers had not asked for, much less purchased, an .xyz domain name and many were not happy to receive it. [redacted] Even Verisign received an unsolicited .xyz domain. JA268. The number of customers who had paid Web.com for an .xyz domain at this point amounted to … [redacted]

Nonetheless, at every opportunity, XYZ falsely proclaimed that .xyz "sales" were breaking records. *See, e.g.*, [redacted] JA631 ("number one new domain extension"; "sold over 600,000 domains just in the first four months that we've been live"); JA464-65. These and similarly grandiose claims were false.

5. Industry Experts Object

Despite Defendants' attempted cover-up, some in the industry were immediately suspicious. *See* JA563; [redacted] Negari responded with more lies. [redacted]

Some in the trade press figured out that the "record-breaking" sales of .xyz reflected unsolicited giveaways. [redacted] Other criticism was also withering, *e.g.*:

- One site tracking TLD statistics "dropped all free .xyz domain names" from its rankings. JA563-64.
- [redacted]
- [redacted]

[redacted]

In response, Negari redoubled the duplicity. Despite [redacted], Negari denied that XYZ "g[a]ve away free domain[s]," claiming that he was not "behind" the giveaways, and indeed had "never even [seen] the email that [Web.com] sent to its customers until [he] discovered it on the blogs." JA626-28; *see* JA532. Negari further asserted that XYZ had sold every domain name for the putative $8 wholesale price. *E.g.*, JA627; JA654; [redacted] This assertion, based on the sham barter transaction, was untrue.

6. XYZ Falsely Claims that NPR Dubbed .xyz "the next .com"

As the second pillar of its deceptive advertising campaign, XYZ turned its sights directly on Verisign. As part of its campaign, XYZ falsely and repeatedly announced that NPR had deemed .xyz "the next .com." In April 2014, before .xyz's launch, NPR reported on new TLDs, interviewing Negari and other registry operators. NPR stated that the new registry operators "*could try to become* the next .COM," and that "[Negari's] contender to take on .COM is .XYZ"—but "*Negari is going to have plenty of competition*. There were close to 2,000 applications for new domains … ." JA587-88 (emphasis added). XYZ immediately broadcast the false claim that NPR had "described .xyz as the next

.com." JA590; *see* [redacted]

7. Defendants Malign Verisign's .com Domain

Defendants' marketing strategy also included maligning Verisign's product, .com. Among other things, XYZ falsely told the public and registrars that Verisign had no remaining inventory of .com names, that the only ones available were cumbersome, unsightly, and impractical. For example, in an interview during XYZ's multi-media blitz, Negari asserted that "[a]ll of the good [.com] real estate is taken. The only thing that's left is something with a dash or maybe three dashes and a couple numbers in it." JA587. Similarly, an XYZ advertisement on YouTube sounded this theme. Comparing a new Audi with an .xyz license plate to a dilapidated Honda with a .com plate, the video stated: "with over 120 million dot coms registered today, it's impossible to find the domain name you want." JA526 ("Two Cars Video").

Defendants bolstered this claim with phony statistics. For example, XYZ told consumers: "Did you know that 99% of all registrar searches today result in a 'domain taken' page?" JA622; *see* JA523 ("[M]ore than 99% of domain name availability searches result in a 'sorry, unavailable' page'"); [redacted]. Or, "on average, … nine out of ten .com searches show up as unavailable." JA637; [redacted]

These claims were untrue. Internet users registered more than [redacted] new .com names last year. SA1030 (Simpson Reply Rpt. ¶ 14). Moreover, millions of .com domain names without numbers and dashes are available. [redacted] Verisign's expert even provided a sampling of short, memorable .com domain names—with no dashes or numbers—newly registered in the prior 12 months, including golfingfan.com; soapshows.com; sportruns.com; and trumpfans.com. SA1019-24 (Simpson Rpt. Ex. 2). Customers register thousands more such domain names every day.

It was also untrue that 90% or 99% of searches for new .com domain names are unsuccessful. Verisign's expert found that "7 out of 10 .COM EPP domain availability checks"—representing searches for domain availability—"indicate that the domain is available." SA1009 (Simpson Rpt. ¶ 13c). XYZ's calculation deceptively included billions of automated computer queries by registrars, not consumers, seeking to register existing, but about-to-expire domain names, hoping to be first in line during the millisecond the domain name's availability reopens. SA1032-34 (Simpson Reply Rpt. ¶¶ 20-29); [redacted]

[redacted] Those billions of searches say nothing about availability to consumers but instead represent a race by registrars to win a domain name to resell or otherwise profit from when the prior registration expires. The queries do not reflect consumer demand or affect the consumer's ability to find a suitable new .com domain name.

D. Verisign Suffers Economic and Reputational Harm from Defendants' Misconduct

Substantial evidence showed that XYZ's advertising campaign eroded goodwill in Verisign's .com domain and caused substantial lost profits by diverting .net sales to .xyz.

Verisign's Senior Vice President for Marketing detailed the significant harm to Verisign's reputation and goodwill. SA1377, SA1374. To mitigate its reputational damages, Verisign spent [redacted] in corrective advertising [redacted]

In addition, Verisign's damages expert concluded that XYZ's misstatements cost Verisign [redacted] She also calculated that XYZ earned [redacted] from false and misleading statements. [redacted]

E. Proceedings Below

In December 2014, Verisign brought this false advertising case under the Lanham Act, 15 U.S.C. § 1125(a). JA48. Verisign sought damages for its lost sales and goodwill, disgorgement of XYZ's ill-gotten gains, and an injunction against XYZ's false and misleading advertising.

The parties conducted extensive discovery, necessitating numerous successful motions to compel Defendants to produce documents and one to compel Negari to testify forthrightly. As Magistrate Judge Nachmanoff found, Negari, like a "small child[ ] … feeling truculent," was intentionally uncomprehending and did not "provide candid answers." JA143.

Two weeks before the trial date, the district court awarded XYZ summary judgment. JA762. The court ruled that Verisign had not raised a genuine issue of material fact as to four of the five elements of its Lanham Act claim—all but the interstate commerce requirement. JA747-61. Verisign timely appealed. JA763.

SUMMARY OF ARGUMENT

The court erred in awarding XYZ summary judgment. As to each disputed element under the Lanham Act, the court misinterpreted the law, overlooked contrary evidence, and impermissibly resolved disputed issues of material fact.

First, Verisign established a genuine issue of material fact as to whether XYZ's statements were literally false or misleading. The court failed to consider whether any of XYZ's statements were literally false by necessary implication, a well-established test, and effectively read the prohibition of misleading statements out of the Act. Whatever the legal standard, the court also violated Federal Rule of Civil Procedure 56 in finding that all XYZ's statements were true. The court resolved disputed facts, misread documents, picked winners between competing experts, and failed to consider contrary evidence. For example:

D. CT. DECISION ON DISPUTED FACTS	**CONTRARY EVIDENCE NOT ADDRESSED BY COURT**
"[M]ore than ninety-nine percent (99%) of <.com> names are unavailable." JA753.	*Expert Report:* 70% of availability checks for .com names succeed. *Infra* pp.34-35.
Web.com deal "determined to be fair value." JA754-55.	*Expert Report*: [redacted] *Infra* pp.31-32.
XYZ claims about revenue and sales "are verifiably true." JA754.	Defendants counted as sales 375,000 domain names given away unsolicited. *Infra* pp.27-31.
"NPR did in fact describe XYZ as the next <.com>." That was "not a false statement." JA753.	*NPR*: Negari "could try to become the next .COM," but XYZ faces "plenty of competition." *Infra* p.36.
Four allegedly false "communications cited by Plaintiff were internal exchanges." JA754.	False communications cited by Verisign, identified by court as internal, were not internal: 2 *public* interviews, 1 *public* media submission. *Infra* p.29.

Second, Verisign established a genuine issue of fact as to whether XYZ's false and misleading statements were material. Statements concerning a product's inherent characteristics are material as a matter of law. In any event, Verisign presented overwhelming evidence of materiality. The district court failed to consider almost all of it, apparently on the mistaken theory that Verisign had to offer a survey or consumer testimonials.

Third, Verisign established deception as a matter of law. Two presumptions of deception apply, one because XYZ's statements were literally false, and the other, because its deception was intentional. The court applied neither. Even so, Verisign offered a survey showing 63% of respondents were deceived—more than three times the threshold for Lanham Act liability—creating a genuine issue of material fact on deception. The court misread the survey and impermissibly resolved the factual issue.

Finally, Verisign suffered substantial monetary harm—including lost sales, harm to goodwill, and expenditures on corrective advertising. Verisign also was entitled to disgorgement of XYZ's profits and an injunction prohibiting XYZ from disseminating its false statements. The court found insufficient evidence to show that XYZ's acts caused Verisign any harm. Once again, the court failed to apply the appropriate presumptions, disregarded or misread the testimony of an expert previously found qualified, and impermissibly resolved disputes of fact.

STANDARD OF REVIEW

This Court reviews an order granting summary judgment de novo. *D.L. ex rel. K.L. v. Balt. Bd. of Sch. Comm'rs*, 706 F.3d 256, 258 (4th Cir. 2013). "Summary judgment is appropriate only where there is no genuine issue of material fact and the movant is entitled to judgment as a matter of law." *Id.*; *see* Fed. R. Civ. P. 56(a). Deference extends not to the court's ruling, but to Verisign's claims, as this Court must view the evidence in the light most favorable to Verisign and draw all reasonable inferences in Verisign's favor. *D.L.*, 706 F.3d at 258. Of critical importance here, the court cannot weigh the evidence, cannot choose sides in a battle of experts, and cannot determine credibility. *Reyazuddin v. Montgomery Cty., Md.*, 789 F.3d 407, 413 (4th Cir. 2015).

ARGUMENT

The Lanham Act prohibits the "false or misleading description of fact, or false or misleading representation of fact, which … in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1)(B). The Supreme Court recently underscored the importance of the Lanham Act's false advertising protections. *Pom Wonderful LLC v. Coca-*

Cola Co., 134 S. Ct. 2228, 2238-39 (2014). To succeed on its Lanham Act claim against XYZ, Verisign must establish:

> (1) the defendant made a false or misleading description of fact or representation of fact in a commercial advertisement about his own or another's product; (2) the misrepresentation is material, in that it is likely to influence the purchasing decision; (3) the misrepresentation actually deceives or has the tendency to deceive a substantial segment of its audience; (4) the defendant placed the false or misleading statement in interstate commerce; and (5) the plaintiff has been or is likely to be injured as a result of the misrepresentation, either by direct diversion of sales or by a lessening of goodwill associated with its products.

PBM Prods., LLC v. Mead Johnson & Co., 639 F.3d 111, 120 (4th Cir. 2011). No one disputed that XYZ's statements were in interstate commerce. On the remaining four elements, however, the district court incorrectly found that Verisign failed to raise a jury issue. In so holding, the court repeatedly misapplied the Lanham Act and overstepped Rule 56.

I. The District Court Misread the Law and Impermissibly Resolved Disputed Facts on the "False or Misleading" Element of the Claim

The district court's finding that all XYZ's statements were true is seriously flawed. First, the court misinterpreted the Lanham Act, abandoning this Court's test for literal falsity and failing to analyze whether XYZ's claims were misleading. The court in effect deleted "*misleading*" from the statutory prohibition against "false *or* misleading" advertising. Second, the court violated Rule 56 by impermissibly resolving key factual disputes without considering substantial evidence that directly controverted the court's resolution.

A. The Court Applied the Wrong Test for Falsity and Overlooked the "Misleading" Provision Entirely

The Lanham Act covers promotional statements that are literally false, including ones literally false by necessary implication, and statements that are literally true but misleading. *Scotts Co. v. United Indus. Corp.*, 315 F.3d 264, 272-74 (4th Cir. 2002). The district court applied only part of this standard.

To assess whether a statement is literally false, this Court instructs that "a court must determine, first, the unambiguous claims made by the advertisement," and "second, whether those claims are false." *Scotts*, 315 F.3d at 274. "A literally false message may be either explicit or *conveyed by necessary implication* when, considering the advertisement in its entirety, the audience would recognize the claim as readily as if it had been explicitly stated." *Id.* (emphasis added). That determination, whether a claim is literally false, must be analyzed in full context. *Id.* at 275; *Castrol Inc. v. Pennzoil Co.*, 987 F.2d 939, 946 (3d Cir. 1993) (same).

That a speaker can find some lens through which claims appear truthful—no matter how obscure the perspective—is no shield from liability if the claims necessarily convey a false message to the audience. In fact, courts enforcing the Lanham Act routinely enjoin claims conveying false messages by implication. *See Time Warner Cable, Inc. v. DirecTV, Inc.*, 497 F.3d 144, 158 (2d Cir. 2007) (collecting cases). For example, in a recent case, a yogurt manufacturer claimed that a competitor's brand included artificial sweetener with "chlorine added to it."

Chobani, LLC v. Dannon Co., Inc., No. 16-cv-30, 2016 WL 369364, at *3-4 (N.D.N.Y. Jan. 29, 2016). This statement, the court found, necessarily and falsely implied that the competitor's product was unsafe, because the public associates chlorine with a disinfectant used in pools rather than the chemically distinct chlorine atom. *Id.* at *4, 8-9. Another court deemed the slogan "One pill. 24 Hours. Zero Heartburn" false because it necessarily implied that 24 hours of effectiveness began immediately upon ingestion; the slogan failed to convey that the pill did not begin to provide relief until five hours later. *Johnson & Johnson-Merck Consumer Pharm. Co. v. Proctor & Gamble*, 285 F. Supp. 2d 389, 391-92 (S.D.N.Y. 2003). Similar cases abound. *E.g.*, *Clorox Co. Puerto Rico v. Proctor & Gamble*, 228 F.3d 24, 34-36 (1st Cir. 2000).

Although the district court considered—albeit incorrectly, *infra* § I.B—whether some XYZ claims were explicitly false, the court did not examine whether *any* were false by necessary implication. The court looked at each statement divorced from context. For example, the court stated that XYZ's statements touting hundreds of thousands of "registrations" were literally true, JA755, but failed to consider what those statements necessarily communicated—that consumers *wanted* an .xyz domain, made a decision to get one, and paid for it, and not that they received a free domain without asking for one. The court likewise did not address whether, in context, XYZ's claims to have received "full wholesale price" for the domain names given to Web.com necessarily and falsely implied that XYZ had sold its domains and obtained revenue. JA754.

Separately, the district court also failed to address whether *any* of XYZ's statements were *misleading*. The court concluded that "statements regarding the Defendants' revenue, registration numbers, and marketing budget" were "true," and that as a consequence "Plaintiff fails to meet the first element" of a Lanham Act claim. JA755. In other words, the assessment of whether statements were misleading ended once the court found them literally true. This ruling was consistent with the court's observation in an earlier hearing that literally true statements could not violate the Lanham Act: "[I]f somebody makes a true statement and somebody misunderstands it, that's not actionable." JA271; *see id.* ("If 40 people misunderstand it, that's not actionable if the statement is true.").

The Act, however, prevents "more than literal falsehoods," as otherwise "clever use of innuendo, indirect intimations, and ambiguous suggestions could shield the advertisement from scrutiny precisely when protection against such sophisticated deception is most needed." *Am. Home Prods. Corp. v. Johnson & Johnson*, 577 F.2d 160, 165 (2d. Cir. 1978). The Act thus covers statements that "whatever [their] literal truth, ha[ve] left an impression on the listener that conflicts with reality"—in other words, statements that are misleading. *Schering Corp. v. Pfizer Inc.*, 189 F.3d 218, 229 (2d Cir. 1999) (Sotomayor, J.); *see also PBM*, 639

F.3d at 120. The court erred by awarding summary judgment without determining whether XYZ's statements were misleading.[8]

B. Verisign Established a Genuine Issue of Material Fact

A reasonable jury could easily have found XYZ's statements to be false or misleading. In concluding that none of XYZ's statements was literally false, the court violated Rule 56, by repeatedly resolving disputed issues of fact and ignoring contrary evidence. What's more, the district court failed to consider many false statements that Verisign identified. All these statements were literally false, or at minimum, misleading.

1. The District Court Impermissibly Found that XYZ's Statements about Registrations and Sales Were Accurate

As noted, XYZ contrived to give away product unsolicited and then falsely treated that volume as real sales. XYZ claimed on that basis that .xyz was the fastest selling TLD ever when actual sales were [redacted] This was a scam.

XYZ faked a level of popularity to boost the apparent value of an .xyz domain name, and to reassure customers, *i.e.*, registrars, and consumers that .xyz would be a long-lived, reputable, and recognizable domain. From Day 1, XYZ pushed this message with the Launch Day Video, claiming they got "too many

[8] The court's determination that consumers were not deceived does not make this failure moot. One reason that the deception finding was erroneous is that the court failed to assess whether and how consumers were misled, and therefore disregarded evidence that they were. *See infra* pp.47-50.

registrations" which "crash[ed] the system." JA531. Within a week, XYZ falsely claimed to be "#1 - we are outselling any other new gTLD," JA465; [redacted] *see also* We Did It! Video, JA529. In fact [redacted] Falsely touting its unsolicited giveaways as sales, XYZ repeatedly claimed to be the "fastest growing new domain," JA465; [redacted]; JA525 (XYZ "leads the pack" in "gross sales"); JA523 ("largest and fastest growing new domain extension with well over 600,000 registrations to date"); *supra* pp.13-14 (citing additional examples). This was literally false. At a minimum, it misleadingly advertised consumer demand that did not exist.

[redacted] To pretend in public that these unsolicited giveaways were sales was false and misleading.

When challenged on these tactics, XYZ asserted that it had nothing to do with the unsolicited giveaways, and that registrars had paid XYZ the "ENTIRE wholesale price" of $8 for each registration, JA627, [redacted]; *see* JA654; [redacted]; JA627; [redacted]. These were also lies. Indeed, XYZ's lying to cover up the fake transactions supports an inference of guilty knowledge that the giveaways were not sales as claimed.

The district court found that certain false statements "cited by Plaintiff were *internal* exchanges between Negari and XYZ employees, and other media consultants." JA749 & n.2, 754 (emphasis added). This is incorrect on its face. Three of the statements the court pointed to were demonstrably *public*: Negari's statements during an NBC interview (JA654-56) and a radio interview (JA630-40). The fourth was intended for the public: [redacted] JA749. Moreover, Verisign challenged ten more statements that were not "internal exchanges," JA754, including advertisements, JA593, press statements, JA626-28, [redacted], and promotional communications with registrars (XYZ's and Verisign's customers), JA594-619; [redacted] Nothing in the opinion suggests the court considered these statements. Yet every one of them falsified XYZ's revenue and sales, forged counterfeit demand based on giveaways demanded by no one, and communicated to consumers that .xyz domain names would be trendy, marketable, and good business platforms.

The district court also erred as to the substance of the communications, finding XYZ's statements about its "revenue [and] registration numbers … to be true." JA755. With respect to the "registration numbers," the court focused on the "zone file," a database listing registrations, and concluded that the registrations listed matched XYZ's figures. *Id.* Of course they did. [redacted] The court's reliance on the zone file missed the point. XYZ's statements were deceptive not because they miscounted any recorded tally of registrations. They were deceptive because they identified as sales those registrations that consumers never asked or paid for, that were stuffed unsolicited in their accounts, and because XYZ used those non-sales to tout .xyz as the top-*selling* and fastest-*growing* new domain. JA465; [redacted] JA631; [redacted] *see also* JA563 (removing free .xyz domains from TLD rankings). Again, the court ignored the context and the necessary implication of XYZ's claims about registrations—that they reflected consumer demand or use of the domain name, when in fact consumers neither demanded nor had prior knowledge of the 375,000 domain names. These statements were literally false or at least grossly misleading. Were there any doubt that the jury could reasonably reach that conclusion—and there is not—it would dissipate before the evidence that a domain-name rankings organization drew exactly that conclusion. Upon learning at the time about the unsolicited giveaway, the organization excluded all XYZ's free registrations from its calculations, demoting XYZ from the *top*-selling new TLD, to #14. JA563-64. The district court never mentioned this evidence, which established a disputed issue of fact.

Regarding XYZ's statements that it received full market value when it sold domain names to registrars, the court held that, "[p]ursuant to the Generally Accepted Accounting Principles and an independent audit by a reputable accounting firm, this exchange was determined to be fair value." JA754-55. But the court never addressed the contrary conclusion of [redacted][9] Nor did the court address

[9] "Round-trip" transactions, common in securities fraud cases, are reciprocal agreements that "lack economic substance," often used to overstate financial performance. *Teachers' Ret. Sys. of La. v. Hunter*, 477 F.3d 162, 178 (4th Cir. 2007); *S.E.C. v. Kelly*, 765 F. Supp. 2d 301, 305, 307 (S.D.N.Y. 2011) (payments of "inflated prices that were offset, dollar for dollar, by sums ostensibly paid for online advertising" were round-trip transactions).

the finding of Verisign's expert that [redacted] SA866-67 (Berenblut Rebuttal Rpt. ¶ 26 & p.9); SA620-70. Likewise, the court contradicted, but did not address the expert's opinion challenging [redacted] SA831 (Berenblut Rpt. ¶ 16).

The court's citation of an independent audit accepting the Web.com transaction as a fair value exchange did not permit the court to disregard Verisign's contrary evidence. Resolving this dispute was the province of the jury, not the judge. *Gould v. Winstar Commc'ns, Inc.*, 692 F.3d 148, 155, 160 (2d Cir. 2012); *Reyazuddin*, 789 F.3d at 417 ("The evidence therefore sets up a battle of the experts, which should not be resolved at summary judgment."); *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134, 1144 (9th Cir. 1997).

2. XYZ's Statements Disparaging .com Were False and Misleading

The second pillar of XYZ's marketing campaign was to undermine Verisign's .com registry by claiming that .com domain names were unavailable, that only scraps—clunky, long, undesirable .com names—were left, and that 99% of searches for a .com name failed. These statements were literally false, or at least misleading. In finding otherwise, the district court failed to address most of the statements Verisign challenged, and as to the rest, made findings directly controverted by Verisign's expert evidence.

First, the district court held that Negari's statement to NPR that "[a]ll the good [.com] real estate is taken" was "opinion." JA753. But the court overlooked the very next words Negari spoke: "The only thing that's left is something with a dash or maybe three dashes and a couple numbers in it." JA587. Verisign disagrees that the comment about real estate is opinion—it communicates that Verisign has no remaining useable inventory—but, on its face, Negari's statement about dashes and numbers is objectively verifiable, and verifiably false. Verisign's industry expert demonstrated both, identifying the many millions of new .com domain names without hyphens or numbers. *Supra* p.17. Even XYZ's expert conceded that, [redacted] This evidence created a disputed issue of fact, but the court impermissibly failed to consider it.

Second, Verisign challenged the Two Cars Video, JA526, portraying .com as an old jalopy and .xyz as a racy new car. The court deemed this video "puffery and opinion," that "communicates [XYZ's] opinion of itself as a shiny new sports car and nothing more." JA754. In fact, there was much more. The court apparently missed the video's *narrative*: "With over 120 million .coms registered today, *it's impossible to find the domain name that you want*." JA526 (emphasis added). This statement is not puffery and opinion. What any individual customer "wants" may be subjective. But the blanket statement that no one can get what they want is objectively verifiable. *Dunn v. Borta*, 369 F.3d 421, 431 (4th Cir. 2004) ("specific factual allegations" that "can be proven true or false" not puffery); *Pennzoil*, 987 F.2d at 946 ("specific and measurable" claims not puffery). And, as Verisign's expert demonstrated, it is verifiably false. *See* SA1008-09 (Simpson Rpt. ¶¶ 12-13) ("thousands of consumers and businesses" register .com domain names daily; 70% of searches for .com domain names succeed). XYZ's own expert acknowledged [redacted] Verisign thus raised an issue of material fact as to whether this statement is literally false, or at minimum, misleading.

Third, XYZ's recitation of statistics in its advertising purportedly reflecting .com unavailability was false and misleading. *E.g.*, JA622 ("Did you know that 99% of all registrar searches today result in a 'domain taken' page?"); JA523 ("[M]ore than 99% of domain name availability searches result in a 'sorry, unavailable' page'"); JA637 ("nine out of ten .com searches show up as unavailable"); [redacted] The court again failed to consider Verisign's expert testimony. Adopting XYZ's calculation, the court concluded: "Plaintiff reports that it receives two (2) billion requests to register <.com> domain names, yet fewer than three (3) million are actually registered … three (3) million out of two (2) billion is less than one percent (1%); thus, more than ninety-nine percent (99%) of <.com> names are unavailable." JA753.

But Verisign's expert had demonstrated that, as a metric of "unmet user demand" for .com domain names, these simplistic statistics were "naïve" and "misleading" because they included *billions* of automated searches in a discrete segment of the market—registrars trolling for expiring names to acquire. JA498; SA1008 (Simpson Rpt. ¶ 13); SA1033 (Simpson Reply Rpt. ¶¶ 24-26); [redacted] These efforts have nothing to do with the availability of domain names. *Supra* pp.17-18. [redacted] Verisign's expert opined, contrary to the court's finding, that 70% of such searches are successful. SA1009 (Simpson Rpt. ¶ 13c). Moreover, the court's calculation reflects a classic misuse of averages, which are misleading when applied without regard to variability or differentiation with a group. This is akin to telling a beachgoer who asks how deep the water is, that the average depth of the Atlantic Ocean is 12,881 feet. Only a small area of the ocean is relevant to the beachgoer, and the average is skewed by the vast depths that do not affect her.

Verisign advised the district court that the 99% calculation was fallacious, and pointed to the expert reports. The court nonetheless adopted the calculation without mentioning this substantial evidence directly controverting it. Perhaps because much of this evidence "is expert opinion and statistics … the district court believed that it was more efficient to go ahead and resolve the evidentiary conflicts in the summary judgment record"—still, the court "may not resolve conflicts in the evidence on summary judgment motions." *TFWS, Inc. v. Schaefer*, 325 F.3d 234, 241 (4th Cir. 2003) (citation omitted).

3. The District Court Incorrectly Found that NPR Dubbed .xyz "the Next .COM"

XYZ repeatedly proclaimed to the press, registrars, and consumers that NPR described .xyz as the "next .com." *See supra* pp.15-16; *e.g.*, JA590; [redacted] The district court held that, contrary to Verisign's evidence, "NPR did in fact describe XYZ as the next <.com>. XYZ reporting this fact in advertising is not a false statement." JA753.

The transcript of the NPR interview shows that the court was plainly mistaken. JA587-88. The NPR reporter *actually* said: new registry operators like Negari "*could try* to become the next .COM," but would face stiff competition from nearly 2,000 applicants for TLDs. *Id.* (emphasis added). NPR reported XYZ's aspirations, not the network's own assessment. XYZ's statements were literally false, and it was improper as a matter of law—and incorrect as a matter of fact—for the court to resolve this disputed question in XYZ's favor.

II. The Court Misread the Law and Impermissibly Resolved Disputed Facts on Materiality

The second element of a Lanham Act claim is that "the misrepresentation is material, in that it is likely to influence the purchasing decision." *PBM*, 639 F.3d at 120 (quoting *Scotts*, 315 F.3d at 272). The district court's holding that Verisign failed to establish a genuine issue of fact on materiality was wrong for at least three reasons. First, XYZ's statements were material as a matter of law because they concerned inherent qualities and characteristics of domain names. Second, Verisign was entitled to a presumption of materiality because XYZ's statements were literally false. Third, Verisign presented extensive evidence of materiality that the district court failed to analyze, apparently on the erroneous assumption that surveys or "testimonials" were required. JA756.

A. XYZ's Statements Were Material as a Matter of Law Because They Related to an Inherent Characteristic of Domain Names

XYZ's statements were material as a matter of law because they "relate[] to an 'inherent quality or characteristic' of the product." *Cashmere*, 284 F.3d at 311-12 (quoting *Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 855 (2d Cir. 1997)); *accord Gen. Steel Domestic Sales, LLC v. Chumley*, No. 14-1119, 2015 WL 4591924, at *3 (10th Cir. July 31, 2015); *Osmose, Inc. v. Viance, LLC*, 612 F.3d 1298, 1319 (11th Cir. 2010). The law reflects the common sense conclusion that representations about a quality or characteristic of a product are "likely to influence the purchasing decision." *PBM*, 639 F.3d at 120.

XYZ's false and misleading statements about the unavailability of useable .com domain names self-evidently relate to an inherent quality or characteristic of the product because the name *is* the product. "[W]hether a product is available goes directly to one of that product's characteristics." *Surdyk's Liquor, Inc. v. MGM Liquor Stores, Inc.*, 83 F. Supp. 2d 1016, 1021 (D. Minn. 2000).

XYZ's false and misleading statements about the popularity of .xyz, its revenue and sales, and its rapid growth relative to other TLDs relate to desirability, competitive superiority, and value—inherent qualities in any product. A representation that a product is "competitively superior" is "surely a representation regarding its inherent quality." *Vidal Sassoon, Inc. v. Bristol-Myers Co.*, 661 F.2d 272, 278 (2d Cir. 1981). That is especially so because many domain names are investments based on predictions about future demand. *Supra* p.10. Treating a massive, unsolicited giveaway of domain names to a registrar and in turn to consumers as sales is a telling signal of quality and value. The apparent demand falsely suggests willingness to pay for domains in .xyz. The truth—that the "demand" reflects an unsolicited giveaway—suggests that consumers will not pay for the product. Even to the non-investing consumer, these signals of consumer demand communicate the value of the product. Just as no one wants to move into a condo unless there will be a critical mass of occupants, no one wants to be one of only [redacted] websites using an .xyz domain name. [redacted] a fake gold rush alleviates that concern. *Supra* pp.9-11.

B. XYZ's Statements Were Presumptively Material Because They Were Literally False

Alternatively, this Court should apply a presumption of materiality because XYZ's statements were literally false. "With respect to materiality," other circuits have explained, "when the statements of fact at issue are shown to be literally false, the plaintiff need not introduce evidence on the issue of the impact the statements had on consumers." *Pizza Hut, Inc. v. Papa John's Int'l, Inc.*, 227 F.3d 489, 497 (5th Cir. 2000); *see Vincent v. Utah Plastic Surgery Soc.*, 621 F. App'x 546, 549 n.6 (10th Cir. 2015); *Penn-Plax, Inc. v. L. Schultz, Inc.*, 988 F. Supp. 906, 909 (D. Md. 1997). Although some circuits disagree, the presumption makes good sense: businesses promoting their products are unlikely to make literally false statements unless they expect them to influence consumers. It is appropriate to require such defendants to show that they did not accomplish their objective. If this Court concludes that Verisign established a genuine issue of material fact on literal falsity, it should hold that Verisign has likewise shown materiality.

C. The Court Did Not Address Overwhelming Evidence of Materiality

In any event, the district court's determination that Verisign did not prove materiality applied the wrong legal standards and failed to address substantial evidence.

The district court made two legal errors in assessing whether Verisign had proven materiality. First, it incorrectly required Verisign "to show that consumers were influenced by" Defendants' statements. JA756. In fact, the standard is not whether the statements *did* influence consumers, but whether they are "*likely to*" do so. *PBM*, 639 F.3d at 120 (emphasis added); *Scotts*, 315 F.3d at 272. A plaintiff can show materiality by demonstrating "actual[] influence[]," but such evidence is "not required." *Cashmere*, 284 F.3d at 313. The test is prospective and objective, not retrospective and subjective.

Second, the district court impermissibly constricted the types of evidence that can establish materiality. The court observed that Verisign's consumer survey did not test materiality (*i.e.*, the survey focused on deception, *infra* pp.48-50) and that Verisign did not present "testimonials" from consumers. JA756. While a survey can establish materiality, "nothing in the Lanham Act … requires a plaintiff to use such surveys." *Skydive Arizona, Inc. v. Quattrocchi*, 673 F.3d 1105, 1110 (9th Cir. 2012). Nor are "testimonials" required.

While noting the evidence Verisign did not present, the district court never addressed what Verisign *did* present. The court apparently was under the misconception that Verisign had failed to offer any "other evidence of the consumer decision making process." JA756. In fact, Verisign presented substantial evidence of materiality—the court just did not address it:

Assessments by XYZ. XYZ employees repeatedly communicated, before and during this litigation, that registration figures and comparative growth were important to consumer purchasing decisions. *E.g.*, JA600-01. [redacted]

[redacted]

[redacted] This effort would make no sense if sales volume were not material to purchasers of domain names.

The nature and extent of XYZ's marketing campaign. The effort that XYZ devoted to publicly hyping .xyz's popularity and the centrality of the claim in XYZ's campaign is strong evidence of the importance of popularity to consumers' purchasing decisions. XYZ repeatedly told registrars—their customers—that they should buy .xyz domains for resale because "XYZ is the #1 selling new gTLD." JA306; *see* JA594-95, 601, 611 (presentation to registrar group); [redacted] XYZ featured its fake sales numbers in blog posts, JA528; JA593; JA524-25, and in public outreach through media and prominent bloggers, [redacted] JA654-56; JA631; [redacted] JA523. XYZ engaged in [redacted], including widely broadcasting NPR's imagined endorsement, *see, e.g.*, JA590; JA592; [redacted]. A jury could find XYZ's spurious popularity material to consumer purchasing decisions.

Consumer and Industry Response. Journalists, industry experts, and XYZ's potential customers complained and criticized XYZ when they learned of its massive unsolicited giveaway. [redacted]

[redacted] That email standing alone establishes materiality. But it does not stand alone.

The record documents the negative reaction of registrars, media, industry watchers, and knowledgeable consumers to the unsolicited giveaway, reflecting their assessment that it was highly material to the general consumer. [redacted]

Likewise, the evidence shows the materiality of XYZ's misrepresentations about receiving the "entire wholesale price" for all registrations. *Supra* p.29. When journalists, consumers, and others charged that [redacted] XYZ reassured wary consumers—directly or through the media—that XYZ was paid full value. [redacted]; *see* JA627; [redacted]; JA654. That strategy made no sense if it was immaterial whether XYZ got full value.

Purported unavailability of .com domain names. XYZ's disparagement of .com in particular was likely to influence consumer purchasing decisions. The prominence and frequency of XYZ's false statements depicting the futility of searching for a new .com domain name and the availability of only scraps reflect its assessment that the statements would likely influence consumers. *Supra* pp.16-18. Even XYZ's own experts [redacted] Another XYZ expert opined, [redacted] And Negari explained that "users are very frustrated" that their only options are "unsightly domain names with numbers and dashes," JA622, and that "a 3,4, or 5 word domain name nearly 30 characters long … puts you at an inherent disadvantage in your worldwide marketing efforts," JA524. All these statements reflect the obvious: informing a consumer that he or she will be unable to purchase a desirable .com domain name will likely deter the consumer from trying.

The district court's opinion discussed none of this evidence of materiality.

III. The Court Misread the Law and Impermissibly Resolved Disputed Facts on Deception

The district court erroneously required Verisign to prove the third element of a Lanham Act claim, that XYZ's "misrepresentation actually deceives or has the tendency to deceive a substantial segment of its audience." *PBM*, 639 F.3d at 120 (quoting *Scotts*, 315 F.3d at 272). Verisign was entitled to a presumption of deception because XYZ's statements were literally false and because XYZ intended to deceive consumers. But even if neither presumption applied, Verisign's evidence created a genuine issue of fact on deception.

A. XYZ's Statements Were Presumptively Deceptive Because They Were Literally False

"Where the advertisement is literally false, a [Lanham Act] violation may be established without evidence of consumer deception." *Scotts*, 315 F.3d at 273-74 (citation omitted). The district court failed to apply this rule because it concluded that none of XYZ's promotional statements was literally false and that no reasonable juror could find otherwise. JA756. That conclusion was incorrect. XYZ's literally false statements include its claims, for example, that XYZ had "sold" hundreds of thousands of new domains, that NPR called .xyz the "next .com," and that the "only" .com domain names left had "dashes" and "numbers." *Supra* pp.27-36. As Verisign established genuine issues of material fact on literal falsity, it likewise met its burden on deception.

B. XYZ's Statements Were Presumptively Deceptive Because XYZ Intended to Deceive Consumers

1. Intent to Deceive Establishes a Presumption of Deception

Even if XYZ's statements had not been literally false, deception is presumed because XYZ *intended* to deceive consumers. The district court held that evidence of intent to deceive is "not enough to show actual deception," JA757, but the law is decidedly to the contrary. As this Court has acknowledged, "other circuits have held that, like a finding of literal falsity, a conclusion that a defendant intended to deceive triggers a presumption of consumer confusion that relieves a Lanham Act plaintiff of any obligation to present evidence of likely confusion." *Scotts*, 315 F.3d at 281. The First, Second, Eighth, and Ninth Circuits have adopted this presumption. *Cashmere*, 284 F.3d at 316; *Res. Developers, Inc. v. Statue of Liberty-Ellis Island Found., Inc.*, 926 F.2d 134, 140 (2d Cir. 1991); *Porous Media Corp. v. Pall Corp.*, 110 F.3d 1329, 1332-33 (8th Cir. 1997); *U-Haul Int'l, Inc. v. Jartran, Inc.*, 793 F.2d 1034, 1041 (9th Cir. 1986). To Verisign's knowledge, no circuit has rejected it.

Although this Court has not yet issued a precedential decision on the question in the promotional context, its precedent as a whole effectively resolves the issue. In an unpublished opinion, this Court has presumed deception from intentionally false advertising. *See Acme Pad Corp. v. Warm Prods., Inc.*, 26 F. App'x 271, 274-75 (4th Cir. 2002). Opinions in the analogous Lanham Act contexts of trademark and trade-dress infringement confirm the "presumption that intentionally copying someone else's mark causes a likelihood of confusion." *Shakespeare Co. v. Silstar Corp. of Am.*, 110 F.3d 234, 239 (4th Cir. 1997) (trademark infringement); *accord Osem Food Indus. Ltd. v. Sherwood Foods, Inc.*, 917 F.2d 161, 165 (4th Cir. 1990) (trade dress). The cause of action for false or misleading advertising appears in the same provision as the one for infringement, 15 U.S.C. § 1125(a), and the deception inquiry is no more onerous. Moreover, the trademark presumption "arises from the recognition that one who tries to deceive the public should hardly be allowed to prove that the public has not in fact been deceived." *Shakespeare*, 110 F.3d at 239. That logic applies with equal force as to false and misleading advertising. *U-Haul*, 793 F.2d at 1041.

2. XYZ Intended To Deceive Its Customers

Because it erroneously deemed intent irrelevant, the district court never considered the overwhelming evidence of XYZ's intent to deceive. There was more than enough evidence to allow a reasonable jury to find XYZ intentionally deceptive. *E.g.*, *Cashmere*, 284 F.3d at 317 (reversing summary judgment where "[o]ne reasonable explanation [for the defendant's actions], which a juror may choose to credit," was intent to deceive).

[redacted]

[redacted]

That evidence should be enough to get to the jury, but there is more, including Negari's false public claim that XYZ had nothing to do with the giveaways, JA627; JA532, when he in fact [redacted] And then there is the conclusion of Verisign's accounting expert that [redacted]

On this evidence, a jury would have a difficult time *not* finding intent to deceive. Verisign merited a presumption of deception.

C. The Overwhelming Evidence of Deception Created a Genuine Factual Dispute

Even absent a presumption, the evidence permitted a jury to find XYZ's misstatements "likely to mislead and to confuse consumers given the merchandising context." *Scotts*, 315 F.3d at 273.

Verisign's survey showed that XYZ's statements about its registration figures deceived consumers into believing that XYZ had actually sold that many domain names. JA327 (Mazis Rpt. ¶¶ 8, 11). Nearly two in three respondents (63%) who read a Negari blog post touting XYZ's 447,544 domain name registrations concluded that consumers had purchased those domain names. *Id.*; JA340 (Mazis Rpt. ¶ 37). Just 15-20% confusion would have sufficed under the Lanham Act. *Novartis Consumer Health, Inc. v. Johnson & Johnson-Merck Consumer Pharm. Co.*, 290 F.3d 578, 594 (3d Cir. 2002); *accord Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 466-67 & n.15 (4th Cir. 1996) (even 15-20% would establish that "actual confusion … exist[ed] to a significant degree"). Verisign's expert "conclude[d] that the blog post misled test cell respondents into thinking more .xyz domain names were purchased than was actually the case," JA328 (Mazis Rpt. ¶ 11), and "fail[ing] to disclose" the .xyz domain name giveaway program misled consumers, JA457-59 (Mazis Rebuttal Rpt. ¶¶ 2-6).

In the face of this conclusion, the district court stated without elaboration that consumers' perception of "unpurchased" .xyz domain names as "purchased" "does not show deception." JA757. This was erroneous. It missed both the context and the point of XYZ's misrepresentations. XYZ's oft-stated premise was that the popularity of a TLD affects the value of its domain names. XYZ therefore sought to create a false impression of popularity, making consumers think that others were fervently purchasing XYZ's domain names. The survey showing that an extraordinarily high proportion of respondents wrongly believed that XYZ's unsolicited, stuffed registrations reflected actual purchases establishes deception on a central issue in this case. This precludes summary judgment.

IV. The Court Misread the Law and Impermissibly Resolved Disputed Facts on Injury

The district court erred in concluding that Verisign failed to establish a genuine issue of material fact on the final element of a Lanham Act claim, injury. Evidence showed that XYZ's campaign of false and misleading statements caused (1) "direct diversion of sales" to XYZ, (2) "a lessening of goodwill associated with [Verisign's] products," *PBM*, 639 F.3d at 120 (quoting *Scotts*, 315 F.3d at 272), and (3) the expenditure of funds on corrective advertising—an injury the district court ignored. The Lanham Act also entitles Verisign to disgorgement of XYZ's profits, another theory of injury and recovery the court ignored. Even if Verisign could not prove any money damages at all—although it did—Verisign's claim for injunctive relief alone should have survived.

Erroneously rejecting *any* of these theories of recovery would require reversal. Here the district court erroneously rejected *all* of them.

A. XYZ's False and Misleading Statements Diverted Sales From .net

Verisign's damages expert, who was found to be qualified by the district court, JA759, calculated that Verisign [redacted]

[redacted] This report by itself established genuine issues of fact on damages. When a qualified economics expert analyzes the market and establishes a causal connection between misstatements and lost sales, that market analysis is "adequate evidence for a reasonable jury" to find causation. *Southland*, 108 F.3d at 1143, 1146.

The district court rejected the expert's conclusions based on criticisms that the report on its face refutes. The court deemed "not reliable" the expert's conclusion that XYZ's statements "caused the decline" in .net registrations, because she purportedly "failed to account for the over 700 competitors" of .net besides XYZ. JA759. But she expressly [redacted]

The court next charged that Verisign's economist "failed to account for the decline in [Verisign's] <.net> sales prior to Defendants' statements." JA759. Again, not so, [redacted]

[redacted]

Finally, the district court asserted without explanation that the expert "failed to account for changes in [Verisign's] own advertising and promotion." JA759. But there was no evidence in the record that Verisign had changed its advertising and promotion of .net in any way.

Even if Verisign's economist *had* failed to account for certain variables, courts may not grant summary judgment simply because a "qualif[ied]" expert's economic analysis "did not take into account" other variables. *Reyazuddin*, 789 F.3d at 417 (alterations and internal quotation marks omitted). "As a general rule, summary judgment is inappropriate where an expert's testimony supports the nonmoving party's case," and the purported failure the court identified only "go[es] to the weight" of the evidence. *Southland*, 108 F.3d at 1143-44 (internal quotation marks omitted).

Moreover, the independent evidence of causation was abundant. [redacted]

Negari blogged about his "predict[ion] that internet users—when given the choice—would select .xyz over .net and .org" and about .xyz's success in beating

.net. JA593. He repeated this claim frequently. [redacted]; JA611 (presentation to registrar group: ".xyz outsold .net and .org" on "a major retail site"); JA680.

A reasonable jury could infer from this evidence a causal link between XYZ's misrepresentations and Verisign's lost sales. And on summary judgment, Verisign is entitled to all such "reasonable inference[s]." *Cashmere*, 284 F.3d at 319. For example, where the parties "compete in the same market, … it is quite likely that the apparently effective suggestions of competitive superiority, if repeatedly communicated to consumers, would eventually result in loss of sales." *Vidal Sassoon*, 661 F.2d at 278. Here, XYZ set itself up as a competitor to .net and made misstatements about its product that deceived customers into purchasing .xyz domains. Simultaneously, [redacted] That is more than sufficient to defeat summary judgment.

B. XYZ's False and Misleading Statements Harmed Verisign's Reputation and Goodwill and Required Corrective Advertising

"[E]ven if no lost sales have been shown," a Lanham Act plaintiff may obtain damages for harm to its reputation and goodwill, *Ga. Pac. Consumer Prods., LP v. Von Drehle Corp.*, 618 F.3d 441, 454 (4th Cir. 2010), and may recover what it spent on corrective advertising, *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 997 F.2d 949, 952 (D.C. Cir. 1993). In rejecting Verisign's claims for damages to reputation and goodwill, the district court impermissibly resolved disputed issues of material fact, made credibility judgments, and ignored Verisign's expenses for corrective advertising, which establish both the fact and the amount of damages.

1. Damages to Verisign's Reputation and Goodwill

The district court held that Verisign failed to establish damage to goodwill because it purportedly did "not proffer evidence beyond their subjective belief that Defendants' statements caused harm." JA760. This was doubly wrong. First, Verisign did not have to offer evidence. A false *comparative* advertising claim presumptively causes reputational injury by "diminish[ing] [the] product's value in the minds of the consumer." *McNeilab, Inc. v. Am. Home Prods. Corp.*, 848 F.2d 34, 38 (2d Cir. 1988); *accord Southland*, 108 F.3d at 1146; *U-Haul*, 793 F.2d at 1040-41; *Castrol, Inc. v. Quaker State Corp.*, 977 F.2d 57, 62 (2d Cir. 1992). Thus "[a] predicate finding of intentional deception, as a major part of the defendant's marketing efforts, *contained in comparative advertising*, encompasses sufficient harm to justify a rebuttable presumption of causation and injury in fact." *Porous*, 110 F.3d at 1336.

The presumption applies here because XYZ disseminated false comparative statements about Verisign's product, .com. XYZ's strategy was to disparage .com, to portray it as passé, and to glorify .xyz as the "next.com" [redacted] JA590; [redacted]

[redacted] At trial, Verisign must show the amount of its reputational damage, but the fact of harm is presumed, precluding summary judgment. *Porous*, 110 F.3d at 1336.

Presumptions aside, Verisign introduced significant evidence of reputational injury. Verisign's Senior Vice President for Marketing, Scott Schnell, testified to the significant reputational harm XYZ's attacks inflicted on Verisign and the .com domain. SA1374-75; SA1377-78; SA1415-23. The district court dismissed this evidence as "subjective." JA760. Subjectivity, however, is an aspect of credibility, which is the province of the jury. On summary judgment, Verisign was "entitled to have the credibility of all [its] evidence presumed." *Wilkins v. Montgomery*, 751 F.3d 214, 220 (4th Cir. 2014). The district court here presumed just the opposite, that Mr. Schnell's evidence was *not* credible.

Contrary to the district court's holding, no consumer survey or expert testimony was required. JA760. The Lanham Act "demands neither empirical quantification nor expert testimony to support a monetary award of actual damages; many sources can provide the requisite information upon which a reasonable jury may calculate damages." *Skydive*, 673 F.3d at 1113. That includes the plaintiff's marketing personnel. *Groupe SEB USA, Inc. v. Euro-Pro Operating LLC*, 774 F.3d 192, 196-97, 205-06 (3d Cir. 2014).

Finally, the jury can use its common sense. *Cashmere*, 284 F.3d at 319. XYZ publicly declared, again and again, that the only domain names left in Verisign's .com registry were undesirable. Reasonable jurors using common sense could readily find that this disparagement undermined Verisign's reputation.[10]

2. Verisign's Corrective Advertising Alone Established Damages

Verisign spent at least [redacted] on corrective advertising to combat XYZ's false statements about Verisign's .com registry and to inform consumers that desirable .com domain names remained available. SA959, SA974-75 (Kindler Rebuttal Rpt. ¶¶ 6, 37-40); [redacted] JA700-02; SA1377; SA1385; SA1428; SA1430; SA1432-34; SA896-97, 914-16 (Kindler Rpt. ¶¶ 13, 54-56). The district court did not deal with this evidence, even though a Lanham Act plaintiff "may recover the cost of its own advertisements that actually and reasonably respond[ed] to the defendant's offending ads." *ALPO*, 997 F.2d at 952 (internal quotation marks omitted).

Evidence of corrective advertising establishes both the *fact* and *amount* of damages. *U-Haul*, 793 F.2d at 1041; *Skydive*, 673 F.3d at 1112-13. A Lanham Act plaintiff may recover "damage control" expenses (like corrective advertising)

[10] The court's conclusion that .com could not have suffered damages because its registrations increased is logically flawed. JA758. Registrations might have increased more absent XYZ's disparagement, [redacted]

whether or not the plaintiff can "prove marketplace damages or actual confusion," *i.e.*, lost sales. *Balance Dynamics Corp. v. Schmitt Indus., Inc.*, 204 F.3d 683, 691-93 (6th Cir. 2000). "[P]laintiffs engaging in damage control are still at a stage where substantial uncertainty exists as to the extent of 'business harm' being inflicted by the false advertising." *Id.* at 691. In the face of such uncertainty, the defendant's statutory responsibility under the Lanham Act for "any damages" caused by its false statements extends to the plaintiff's mitigation expenses if there is a "reasonable likelihood of confusion." *Id.* (quoting 15 U.S.C. § 1117(a)). This makes sense because "[r]esponsive advertising may be the quickest, most effective way to mitigate damages or prevent them altogether," and "marketplace damages and actual confusion are notoriously difficult and expensive to prove." *Id.* at 692.

Verisign's evidence of corrective advertising expenses is more than sufficient to support a damages award and to preclude summary judgment. *ALPO*, 997 F.2d at 952 (upholding award based on evidence that "increased spending was prompted in part by" the defendant's false statements).

C. Verisign Was Entitled to Disgorgement

Even if the evidence had not established a jury issue on Verisign's damages, summary judgment still would be improper, because the Lanham Act provides for disgorgement of "defendant's profits." 15 U.S.C. § 1117(a). Disgorgement under § 1117(a) is appropriate "[e]ven when a plaintiff cannot quantify its [own] losses with sufficient certainty to recover damages." *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1392 (2014).

Verisign's damages expert calculated that XYZ earned [redacted] profits associated with .xyz domain name registrations during the period of XYZ's false statements, depending on the period used. SA958-59, SA966-67 (Kindler Rebuttal Rpt. ¶¶ 4-5 & n.5, ¶¶ 21-22); *see also* SA895-96, SA911-12 (Kindler Rpt. ¶¶ 11, 47-48). And Verisign's expert concluded that all of those profits were attributable to XYZ's false statements, [redacted]

The district court held that to obtain disgorgement, Verisign had to "show a causal connection between the alleged false statements and [Verisign's] associated economic damages." JA758. The court misconceived the point of disgorgement, which is unrelated to the *plaintiff's* damages. *Lexmark*, 134 S. Ct. at 1392. Like unjust enrichment, the remedy turns on whether the misstatements caused *XYZ*'s profits. The report of Verisign's expert [redacted] provided sufficient evidence that they did. Moreover, where parties are direct competitors and a defendant makes literally false statements, the plaintiff is entitled to disgorgement of defendant's profits "regardless of the extent of impact on consumer purchasing decisions." *Merck Eprova AG v. Gnosis S.p.A.*, 760 F.3d 247, 262 (2d Cir. 2014). "The presumption of injury may be used as a basis for awarding damages … in the form of [the defendant's] profits." *Id.*

D. Verisign Was Entitled to Injunctive Relief

The district court independently erred in denying Verisign's request for injunctive relief. "Before an injunction may issue [under the Lanham Act], the party seeking the injunction must demonstrate that (1) it has suffered an irreparable injury; (2) remedies available at law are inadequate; (3) the balance of the hardships favors the party seeking the injunction; and (4) the public interest would not be disserved by the injunction." *PBM*, 639 F.3d at 126 (citing *eBay, Inc. v. MercExchange*, 547 U.S. 388, 391 (2006)). The court incorrectly held that no injunction could issue because Verisign could not establish irreparable harm.

This Court held in *PBM* that irreparable harm can be established "based primarily on the fact that [the defendant's] advertising misled customers," coupled with testimony that "false advertising … inflicts substantial harm on a company's reputation and goodwill" that is not quantifiable. 639 F.3d at 126. Verisign offered precisely that evidence here. *Supra* pp.54-57. What's more, this Court held that a plaintiff "may obtain an injunction even if most of his sales decline is attributable to factors other than the competitor's false advertising," and in fact—because reputational harm is sufficient—"need not even point to an actual loss or diversion of sales." *PBM*, 639 F.3d at 126-27. The district court's assertion that Verisign was attempting to obtain an injunction based solely on a "presumption" of irreparable harm is thus incorrect. JA759.

But even if Verisign had not offered such evidence, courts regularly conclude that the fact of a false or misleading marketing campaign establishes the irreparable harm necessary for injunctive relief. "If the advertising claim is literally false, 'the court may enjoin the use of the claim without reference to the advertisement's impact on the buying public.'" *C.B. Fleet Co. v. SmithKline Beecham Consumer Healthcare, L.P.*, 131 F.3d 430, 434 (4th Cir. 1997); *see Merck*, 760 F.3d at 256; *McNeilab*, 848 F.2d at 38; *Southland*, 108 F.3d at 1146; *Porous*, 110 F.3d at 1336. Harm to goodwill and reputation is the paradigmatic harm that cannot be fully quantified and supports injunctive relief. *Fed. Leasing, Inc. v. Underwriters at Lloyd's*, 650 F.2d 495, 500 (4th Cir. 1981).

The district court concluded that these cases adopted an "irreparable harm" presumption inconsistent with the Supreme Court's decisions in *eBay*, 547 U.S. at 393-94, and *Winter v. Natural Res. Def. Council, Inc.*, 55 U.S. 7 (2008). But *eBay* and *Winter* held only that courts cannot presume irreparable harm from a showing of success on the merits. Neither was a Lanham Act case and neither precludes courts from finding harm to goodwill and reputation based on a defendant's false and disparaging statements about a competitor. As the Third Circuit has recently explained, courts may conclude that a Lanham Act plaintiff is "likely to suffer irreparable harm to its brand reputation and goodwill" based on the "literally false comparative advertising claims at issue, the competitive relationship between the parties and products, and [the testimony of the plaintiff's marketing director]." *Groupe SEB USA*, 774 F.3d at 205. Inferring irreparable harm from those facts does not improperly rely on a "general rule or presumption," and thus is consistent with *eBay* and *Winter*. *Id.*

CONCLUSION

The district court applied the wrong legal standards, failed to consider material evidence, impermissibly resolved key factual issues, and got them wrong, on each of the four disputed elements of the Lanham Act claim. The judgment of the district court therefore should be reversed, and this case returned for trial.

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Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

I certify, pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), that the attached Brief of Appellant contains 13,750 words and complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6) because it has been prepared in a proportionally spaced typeface using Word 2007, in 14-point Times New Roman font.

Dated: February 9, 2016

/s/ Lisa S. Blatt
Lisa S. Blatt

CERTIFICATE OF SERVICE

I hereby certify that on February 9, 2016, I electronically filed the foregoing document with the United States Court of Appeals for the Fourth Circuit by using the appellate CM/ECF system. I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

Additionally, I certify that I caused one hard copy of the sealed version of the foregoing to be served via third party overnight delivery on counsel listed below:

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