UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BROADSPRING, INC., Plaintiff, v. CONGOO, LLC, doing business as ADIANT and ADBLADE, ASHRAF NASHED, RAFAEL COSENTINO, Defendants.	13 Civ. 1866 (JMF)

PLAINTIFF'S MEMORANDUM OF LAW IN SUPPORT OF MOTION TO STRIKE DEFENDANTS' AFFIRMATIVE DEFENSE OF UNCLEAN HANDS

Respectfully submitted,

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Plaintiff Broadspring, Inc. ("Broadspring") respectfully submits this memorandum of law in support of its motion pursuant to Rule 12(f) of the Federal Rules of Civil Procedure to strike the unclean hands defense of Defendants, Congoo, LLC, doing business as Adiant and Adblade, Ashraf Nashed, and Rafael Cosentino (collectively, "Defendants").

PRELIMINARY STATEMENT

As discussed in Broadspring's omnibus motion *in limine* and pretrial memorandum, Defendants' unclean hands defense is deficient as a matter of law because, *inter alia*, Broadspring's allegedly "unclean" conduct comes nowhere close to satisfying the high standard of unconscionability necessary to sustain such a defense, nor is the conduct sufficiently related to Broadspring's claims against Defendants. (ECF Nos. 203, pp. 10-11; 215, pp. 18-19.) Consequently, no rational fact-finder could possibly find in Defendants' favor on their unclean hands defense.

According to Defendants, however, the Court's hands are tied, because it would be "wholly inappropriate" for "the Court to pre-judge Defendants' defense." (ECF No. 232, p. 16.) They contend that Broadspring "should have made a motion to strike" (*id.*), and as long as "the defense stands there is no basis to preclude evidence" (*id.*, pp. 16-17 & n.10), regardless of the transparent lack of merit to the defense. Although Defendants are incorrect (among other things, the Court has the power *sua sponte* to dismiss a legally insufficient defense), this motion is being filed to remove any possible doubt about whether the Court can and should stop Defendants from turning the trial into an irrelevant "unclean hands" sideshow. As explained below, the Court should strike the defense and bar Defendants from raising it at trial.

DEFENDANTS' AFFIRMATIVE DEFENSE OF UNCLEAN HANDS

On September 11, 2014, Defendants filed their Answer to Broadspring's Second Amended Complaint. (ECF No. 172.) That Answer contains twenty-three "Affirmative Defenses." (By contrast, their Answer to the First Amended Complaint contained only ten Affirmative Defenses, *see* ECF No. 45.) Defendants' "Twenty-First Affirmative Defense" reads as follows: "The claims set forth in the SAC are barred by the doctrine of unclean hands." (ECF No. 172, ¶ 64.) That sentence is the sum total of Defendants' unclean hands allegations. Previous iterations of Defendants' Answers also purported to raise unclean hands as a defense, but the allegations were equally exiguous. (*See, e.g.,* ECF Nos. 26, ¶ 38; 45, ¶ 35.)

This boilerplate unclean hands defense was never actively litigated, and the theory of the defense was only revealed in connection with the parties' pretrial filings. As discussed in Broadspring's motion *in limine*, its review of Defendants' trial exhibit list "indicated that they still intend to offer evidence that was relevant only to their counterclaims." (ECF No. 203, p. 10.) Although Defendants had "not disclosed the purpose of any of this evidence now that the counterclaims have been dismissed," Broadspring explained, "it appears to be part of their newly-concocted effort to rely on an unclean hands defense at trial." (*Id.*) Defendants' opposition filed on October 24, 2014, confirmed that Broadspring's surmise was correct. According to Defendants, the "unclean hands" evidence that

> Defendants contemplate presenting will prove … that Broadspring [1] systematically made false statements about Congoo and its advertisers, [2] regularly placed misleading images with text (the "unit") on publishers' websites without disclosing that the unit was in fact an advertisement linked to an advertisement masquerading as a review, and [3] posted fake reviews of products without properly disclosing that the reviews were paid advertisements actually written by and/or approved by the advertiser.

(ECF No. 232, p. 3 (bracketed numbers inserted to facilitate exposition).)

The first item is a pure rehash of Defendants' dismissed counterclaims. As the Court explained in its Opinion and Order granting Broadspring's motion for summary judgment, "Congoo alleges that Broadspring misled the publishers by telling them that its advertisements, or 'creatives,' were much 'cleaner' than Congoo's, and failed to disclose—as required by FTC guidelines—that they are advertisements, and thus no 'cleaner.'" (ECF No. 163, pp. 21-22.) The Court dismissed these counterclaims because "no rational jury" could accept Congoo's claim that Broadspring's "statements were 'false' and 'misleading.'" (*Id*., p. 22.)

The second item is derivative of the dismissed counterclaims. The theory there is that Broadspring has unclean hands because its advertising units do not adequately disclose that they are advertising units. All of Broadspring's units are disclosed as advertising, but the location and format of the disclosure is ultimately determined by the web site publishers. (*See* Declaration of Jonathan Markiles in Opposition to Defendants' Motion for Summary Judgment, ECF No. 141, ¶ 13.) Defendants contend that some of those publishers have chosen disclosures that are not adequate and are inconsistent with the FTC's non-binding guidelines for making effective online advertising disclosures. (Def. Tr. Ex. AX.)

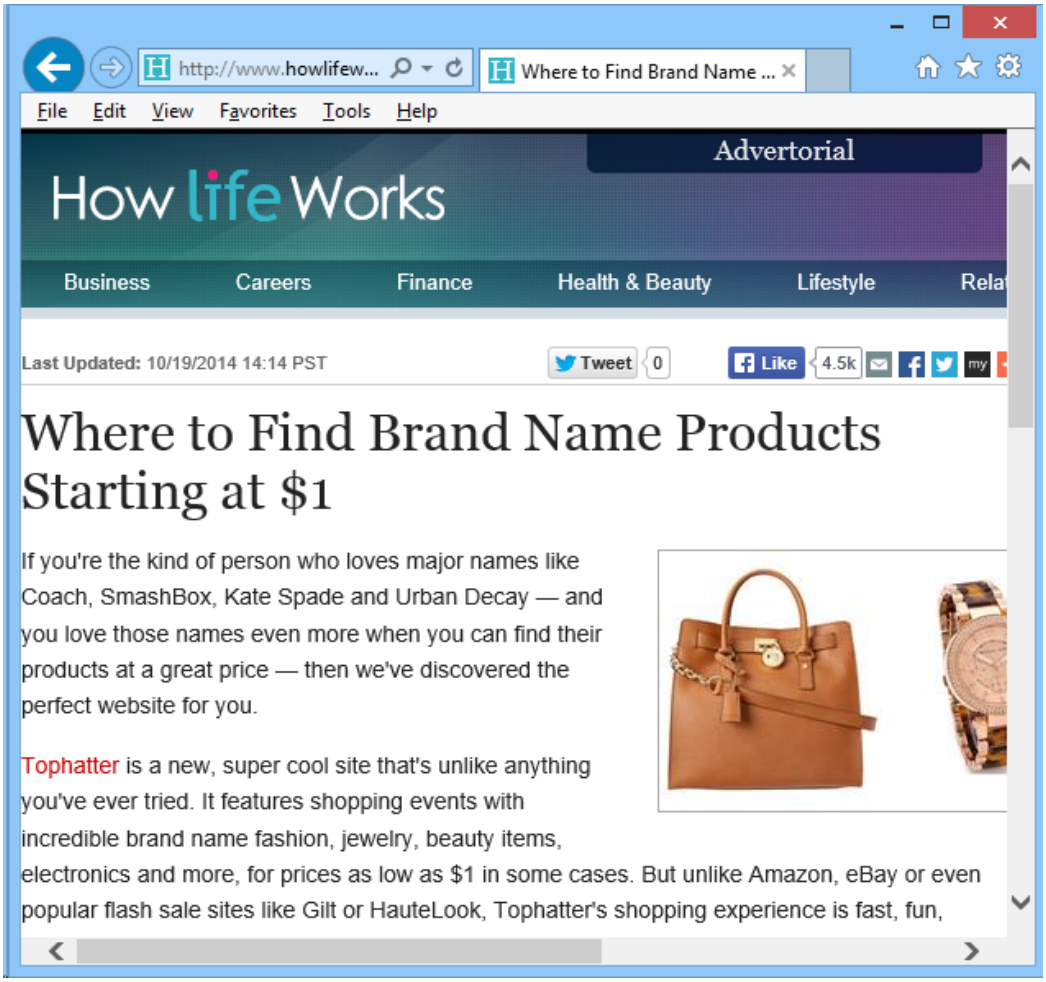
The third item—that Broadspring "posted fake reviews of products without properly disclosing that the reviews were paid advertisements actually written by and/or approved by the advertiser"—refers to a form of advertisement known as an "advertorial," which both Broadspring and Congoo employ. "An advertorial is an advertisement in the form of editorial content." (http://en.wikipedia.org/wiki/Advertorial, last visited October 27, 2014.) "The Merriam-Webster dictionary definition of advertorial dates back to 1946 and early advertorials

were stories that were assigned to staff writers at the magazines or newspapers and became common practice in the 1960s." ("The History of Advertorials," available at http://overthemoonmedia.com/informative-advertising-services/advertorial-marketing-services/the-history-of-advertorials/, last visited October 27, 2014.) Advertorials also became ubiquitous on television and radio. (*Id.*) Today, they are common on the Internet. (*See, e.g.*, Brian Morissey, The New York Times Kicks Off Sponsored Posts, http://digiday.com/publishers/new-york-times-kicks-sponsored-posts/, last visited October 27, 2014.)

Both Broadspring and Congoo offer advertising units that link to web sites that display advertorials. Congoo owns and operates an advertorial web site called Smarter Lifestyles (www.smarterlifestyles.com). Below is a screen shot of a typical Smarter Lifestyles advertorial, which is being used to sell Nugenix, a product that naturally increases testosterone:

(http://www.smarterlifestyles.com/category/men/, last visited October 27, 2014.)

Broadspring's advertorial web site is called How Life Works (www.howlifeworks.com). Below is a screen shot of a How Life Works advertorial promoting a live auction web site called Tophatter:



(http://www.howlifeworks.com/shopping/Where_to_Find_Brand_Name_Products_Starting_at_1_514, last visited October 27, 2014.)

When Defendants write that they intend to offer evidence that Broadspring "posted fake reviews of products without properly disclosing that the reviews were paid advertisements," and thus engaged in the same kind of conduct as Cosentino when he created the Squidoo Lens (ECF No. 232, p.3), they are referring to these advertorials, which Defendants assert do not clearly disclose that they are advertorials.

ARGUMENT

I. The Timeliness of Broadspring's Motion to Strike

Pursuant to Rule 12(f), the Court may strike a defense either "on its own," Fed. R. Civ. P. 12(f)(1), or "on motion made by a party either before responding to the pleading or, if a response is not allowed, within 21 days after being served with the pleading," Fed. R. Civ. P. 12(f)(2). Defendants' Answer to the Second Amended Complaint was served electronically on September 11, 2014, making Broadspring's motion to strike due by October 6, 2014. *See* Fed. R. Civ. P. 6(d). Although this motion is being filed on October 27, 2014, the Court should nevertheless exercise its discretion to entertain the motion.

Courts have long held that their power *sua sponte* to strike a defense at any time renders the 21-day time limit "essentially unimportant," *Ciminelli v. Cablevision*, 583 F. Supp. 158, 161 (E.D.N.Y. 1984) (citing 2A J. Moore, Moore's Federal Practice, par. 12.21, at 2420 (2d ed. 1983)), and, on that basis, routinely entertain untimely motions to strike. *See, e.g., Deere & Co. v. MTD Holdings Inc.*, 2004 U.S. Dist. LEXIS 15776, *7 n.2 (S.D.N.Y. Aug. 11, 2004); *Emmpresa Cubana del Tabaco v. Culbro Corp.*, 213 F.R.D. 151, 155 n.2 (S.D.N.Y. 2003); *G-I Holdings, Inc. v. Baron & Budd*, 238 F. Supp. 2d 521, 554-55 (S.D.N.Y. 2002); *Estee Lauder, Inc. v. Fragrance Counter, Inc.*, 189 F.R.D. 269, 271 (S.D.N.Y. 1999); *FDIC v. Ornstein*, 73 F. Supp. 2d 277, 280 n.2 (E.D.N.Y. 1999); *Wine Mkts. Int'l, Inc. v. Bass*, 177 F.R.D. 128, 133 (E.D.N.Y. 1998); *Ciminelli*, 583 F. Supp. at 161; *Uniroyal, Inc. v. Heller*, 65 F.R.D. 83, 86 (S.D.N.Y. 1974).

Here, the Court should entertain this motion because it is meritorious and because Broadspring has good cause for not moving before today. As discussed above, the unclean hands

defense is pled in boilerplate fashion, providing no clue whatsoever as to the theory of the defense. It was also buried among twenty-two other affirmative defenses, many of which are similarly boilerplate. Broadspring did not become aware that Defendants intended to pursue such a defense until October 3, 2014, when it reviewed the draft jury charges that Defendants had provided at 11:24 p.m. the night before. And the theory underlying the defense was not even hinted at until Broadspring completed its review of Defendants' voluminous exhibit list, also provided at 11:24 p.m. on October 2. Their exhibit list contained dozens of exhibits that were relevant only to Defendants' dismissed counterclaims. Forced to guess that these exhibits were intended to support the unclean hands defense, Broadspring moved to exclude them *in limine*. (ECF No. 203, pp. 10-11.) In response, on October 24, 2014, Defendants filed their opposition which disclosed, for the first time, their theory of the unclean hands defense.[1]

As the foregoing demonstrates, it would not have been feasible for Broadspring to move to strike before the October 6 deadline. Broadspring did not even learn that Defendants intended to pursue such a defense until one business day before the deadline, and the factual and legal basis for the defense was not disclosed until well after. Under these circumstances, it was entirely reasonable for Broadspring to wait until the issues had begun to crystallize, so that it could properly address them in this motion. In fact, courts have held that it is particularly appropriate to entertain an untimely motion to strike where, as here, the plaintiff also "seeks an

[1] Defendants have not denied this time line in their oppositions to Broadspring's motion *in limine* and pretrial memorandum; instead, they argue that "Plaintiff's suggestion that Defendants' assertion of the defense of unclean hands appeared, for the first time, in Defendants' Answer to the Second Amended Complaint is blatantly false." (ECF Nos. 229, p. 22; 232, p. 16.) Broadspring made no such suggestion. Further, the relevant question is not when did Defendants first include the defense as mindless boilerplate in a pleading; rather, it is when did they disclose their intent to pursue the defense at trial.

order in limine precluding introduction of evidence on the disputed defenses," because "that application requires an analysis of the legal viability of the defense." *FDIC*, 73 F. Supp. 2d at 280 & n.2. Accordingly, the Court should entertain this motion to strike.

II. Legal Standard for Motion to Strike

The Federal Rules of Civil Procedure authorize this Court "to strike from a pleading an insufficient defense." Fed. R. Civ. P. 12(f)(1)-(2). "[M]otions to strike serve a useful purpose by eliminating insufficient defenses and saving the time and expense which would otherwise be spent in litigating issues that would not affect the outcome of the case," and, therefore, "where the defense is insufficient as a matter of law, the defense should be stricken to eliminate the delay and unnecessary expense from litigating the invalid claim." *Simon v. Manufacturers Hanover Trust Co.*, 849 F. Supp. 880, 882 (S.D.N.Y. 1994) (quotations omitted).

Accordingly, the "plaintiff must establish three criteria to prevail on a motion to strike an affirmative defense: First, there must be no question of fact that might allow the defense to succeed. Second, there must be no substantial question of law that might allow the defense to succeed. Third, the plaintiff must be prejudiced by the inclusion of the defense." *De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate Inc*, 2005 U.S. Dist. LEXIS 9307, *7 (S.D.N.Y. May 19, 2005) (striking unclean hands defense in Lanham Act suit).

III. Defendants' Unclean Hands Defense Should be Stricken

As a pleading matter, there is no question that Defendants' unclean hands defense is deficient. *See Cartier Int'l AG v. Motion in Time, Inc.*, 2013 U.S. Dist. LEXIS 50035, *9-10 (S.D.N.Y. Apr. 5, 2013) (Furman, J.) ("the law is clear that the mere recitation of the legal buzzwords is not sufficient … Because Defendant's Answer offers no indication of how the

doctrine[] of unclean hands … would bar Plaintiffs' claims, the motion to strike Defendant's second affirmative defense is granted.") (quotations omitted). More importantly, even looking beyond the pleadings and considering the arguments in Defendants' briefs, it is clear that the defense has no possible merit. Therefore, it should be stricken.

A. The Allegedly Unclean Conduct Is Not Unconscionable As A Matter of Law

Although unclean hands is a recognized defense under the Lanham Act, the standard for establishing it is strict. The proponent must offer clear and convincing proof of "truly unconscionable and brazen behavior." *Pedinol Pharmacal, Inc. v. Rising Pharms., Inc.*, 570 F. Supp. 2d 498, 505 (E.D.N.Y. 2008) (quoting *Freedom Calls Foundation v. Bukstel*, 2006 U.S. Dist. LEXIS 19685 (E.D.N.Y. 2006)). *See, e.g., Dress for Success Worldwide v. Dress 4 Success*, 589 F. Supp. 2d 351, 364 (S.D.N.Y. 2008) ("D4S claims that Worldwide induced D4S to sign the Agreements with promises of a joint fundraiser and a donation-sharing arrangement. Neither materialized. Even if the Court accepts this claim as true, however, it does not rise to the level of being 'truly unconscionable.'"); *Obabueki v. Int'l Bus. Machs. Corp.*, 145 F. Supp. 2d 371, 401 (S.D.N.Y. 2001) ("It is undisputed that an unclean hands defense requires a finding of bad faith."); *Gidatex, S.r.L. v. Campaniello Imports, Ltd.*, 82 F. Supp. 2d 126, 131 (S.D.N.Y. 1999) ("Typically, courts that have denied injunctive relief due to plaintiff's unclean hands have found plaintiff guilty of truly unconscionable and brazen behavior."). None of Defendants' allegations comes remotely close to satisfying this standard.

Defendants' allegation that Broadspring "systematically made false statements about Congoo and its advertisers" is, as discussed above, exactly the same as the theory of Congoo's now-dismissed tortious interference and unfair competition counterclaims. This Court's holdings

that no rational jury could find that Broadspring's statements were either improper or in bad faith (ECF No. 163, pp. 21-24) necessarily means that no rational jury could find them to be "truly unconscionable."

Equally deficient is Defendants' allegation that Broadspring's hands are unclean because its advertising units and advertorials do not adequately disclose that they are advertising. This theory relies on a publication issued by FTC in March 2013, entitled ".com Disclosures: How to Make Effective Disclosures in Digital Advertising." (Def. Tr. Ex. AX.) The publication discusses holistic guidelines for making effective online advertising disclosures, but neither prescribes nor proscribes any particular format, size, location or method of disclosure. Indeed, by their plain terms, the guidelines "do not have the force and effect of law" (*Id*., p. 2 n.5); and, even if they did, Defendants would have no right to enforce them. (ECF No. 163, p. 23 n.4 ("to the extent that Congoo brings a claim based on failure to comply with FTC guidelines, 'it is clear that no private right of action arises under [the Federal Trade Commission] Act.'") (quoting *Naylor v. Case & McGrath, Inc.*, 585 F.2d 557, 561 (2d Cir. 1978)).) Finally, despite Congoo's repeated entreaties (including sending Richard Cleland of the FTC a link to the Squidoo Lens without disclosing Cosentino's authorship (*see* Pl. Tr. Ex. 59)), the FTC has consistently ignored Congoo's requests that it take action against Broadspring based on its disclosures.

In sum, Broadspring's advertising disclosures are not even *malum prohibitum*. No rational jury could find them "truly unconscionable."

B. The Allegedly Unclean Conduct is Not Related to Broadspring's Claims

In addition to the "truly unconscionable" requirement, the unclean conduct must also be "directly related to the subject matter in litigation" and have "injured the party attempting to

invoke the doctrine." *PenneCom B.V. v. Merrill Lynch & Co.*, 372 F.3d 488, 493 (2d Cir. 2004). It is well-established that this requirement should be strictly construed, lest every trial become a morass of irrelevant accusations and counter-accusations. *See Project Strategies Corp. v. National Communs. Corp.*, 948 F. Supp. 218, 227 (E.D.N.Y. 1999). Indeed, "[t]he Second Circuit has repeatedly emphasized the narrowness of the doctrine's application." *Specialty Minerals, Inc. v. Pluess-Staufer AG*, 395 F. Supp. 2d 109, 112 (S.D.N.Y. 2005) (citing *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 334 (2d Cir. 1983) (allegedly false accusation of copyright infringement did not bar recovery on trademark theory); *Maatschappij Tot Exploitatie Van Rademaker's Koninklijke Cacao & Chocoladefadrieken v. Kosloff*, 45 F.2d 94, 96 (2d Cir. 1930) (unclean hands doctrine applies only to "wrongdoing directly connected with the right sought" and does not leave a wrongdoer "without protection in the vindication of other, though closely connected, rights.")).

Thus, the unclean conduct must have an "immediate and necessary relation" to the relief sought by the plaintiff. *Specialty Minerals, Inc.*, 395 F. Supp. 2d at 112 (quoting *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 245 (1933)). "What is material is not that the plaintiff's hands are dirty, but that he dirtied them in acquiring the right he now asserts, or that the manner of dirtying renders inequitable the assertion of such rights against the defendant." *Project Strategies Corp.*, 948 F. Supp. at 227 (quoting *Republic Molding Corp. v. B.W. Photo Utilities*, 319 F.2d 347, 349-50 (9th Cir. 1963)). Consequently, it is not enough to show that the plaintiff's unclean conduct is merely analogous to the defendant's, or even to show that the plaintiff committed a violation of the same statute as the defendant. *Pom Wonderful LLC v. Welch Foods, Inc.*, 737 F. Supp. 2d 1105, 1110-11 (C.D. Cal. 2010) ("The essence of these three

claims is that through its advertising, Pom misleads consumers to believe its juices are not from concentrate. They are not directly related to Pom's claims that Welch misleads consumers into believing that its juice blend contains more pomegranate juice than it actually does by including the word 'pomegranate' in the name and prominently depicting a pomegranate in the label. Welch argues that it need only establish that Pom deceptively names, labels, and advertises its juice products such that consumers are led to believe the products have characteristics which they do not. However, the unclean hands defense is not that broad."); *S.C. Johnson & Son, Inc. v. Clorox Co.*, 930 F. Supp. 753, 785 (E.D.N.Y. 1996) ("because the claim made in the Commercial is different in kind from the claims made by SCJ since at least 1987 that its Dursban roach baits without hydroprene 'kill roaches and the eggs they carry,' Clorox's contention that SCJ is barred from challenging Clorox's egg kill claim on the basis of 'unclean hands' likewise must fail.").

Under these standards, it is plain that Broadspring's allegedly unclean conduct is not sufficiently related to Defendants' conduct. Indeed, even Defendants' suggestion that Broadspring's conduct is analogous to their own conduct is risible. Defendant Cosentino created a review of Congoo and its competitors while using a fake identity in which he pretended to be a web site publisher. Using other fake identities, he then posted links to the Squidoo Lens on discussion boards likely to be visited by publishers, and he also e-mailed links directly to publishers while lying to them about his authorship. And when he got caught, he continued to use new false identities to post defamatory statements about Broadspring. No one with a functioning moral compass could find any equivalency between Cosentino's conduct and the disclosures on Broadspring's advertising units and advertorials. *See, e.g., Pedinol Pharmacal, Inc.*, 570 F. Supp. 2d at 505 ("At worst, Rising was liable for wrongly stating that the brand name

of its product was Lactinol and this may have led to some confusion on the part of buyers. This behavior, however, pales in comparison to that of Pedinol which, as demonstrated above, disseminated a barrage of false letters aimed at destroying Rising's ability to compete with Pedinol."). Accordingly, the unclean hands defense fails for this reason as well.

C. Defendants' Meritless Unclean Hands Defense is Prejudicial

The final requirement—prejudice from the inclusion of the meritless defense—is also satisfied here. It is well settled that inclusion of a meritless unclean hands defense is inherently prejudicial due to the "[i]ncreased time and expense of trial." *De Beers LV Trademark Ltd.*, 2005 U.S. Dist. LEXIS 9307, *7 (quotation omitted); *see also, e.g., Coach, Inc. v. Kmart Corps.*, 756 F. Supp. 2d 421, 426 (S.D.N.Y. 2010) ("inclusion of [unclean hands] defense that must fail as a matter of law prejudices the plaintiff because it will needlessly increase the duration and expense of litigation"); *Specialty Minerals, Inc.*, 395 F. Supp. at 114 (unclean hands defense prejudicial because the "the length and scope of the portion of the trial related to the claims raised in this proceeding would be expanded.").

Here, Defendants have all but admitted their strategy to use "unclean hands" as a pretext to sidetrack the trial by overwhelming the jury with dozens of irrelevant exhibits and hours of irrelevant testimony. (ECF No. 232, pp. 18-19.) Similarly, Defendants' attempt to interject the FTC's non-binding guidelines into the trial also has significant potential to confuse the jury. Finally, the jury will likely be perplexed by the hypocrisy of Defendants' argument that Broadspring's advertorials are unconscionable "fake reviews," in light of Congoo's heavy reliance on advertorials on its Smarter Lifestyles web site. For all of these reasons, the defense is prejudicial and should be stricken.

CONCLUSION

Broadspring respectfully requests that the Court strike Defendants' affirmative defense of unclean hands, and grant Broadspring any other relief deemed proper.

Dated: New York, New York
October 27, 2014

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