



astrachan gunst thomas

a professional corporation
attorneys at law
baltimore . washington, d.c.
www.agtlawyers.com

AN ADVERTISER'S GUIDE TO FALSE ADVERTISING, AND HOW TO AVOID IT

By: Jim Astrachan and Carrie Williams

What is it?

Advertisers who don't tell the truth about their products or their competitor's products often have to come up with more than "I'm sorry," when they are caught. False advertising is, in essence, exactly what the name implies: the passing off of goods or services (yours or a competitor's) as something or someone's they are not. It is the usurpation of good will and sales by unfair means. False advertising is prohibited and actionable under federal law and by various state statutes which prohibit deceptive trade practices and unfair competition. The Federal Trade Commission, competitors and – in most states – the state attorney general have the power to bring suit to stop false advertising. In some states an aggrieved consumer can sue.

The Federal Trade Commission will initiate an action against an advertiser it believes is making false claims. These days, health and weight loss claims are high on the FCC's agenda. Likewise, the states' attorney generals are also capable of selecting ad claims for prosecution under state unfair competition or consumer protection statutes. A competitor can bring another's claims to the attention of the FTC or the state attorney general, but there is no assurance any action will result.

The Lanham Act

The federal law against false advertising is known as the Lanham Act. The Lanham Act was, in part, a Congressional reaction to a 1938 court case that many in Congress feared had eliminated a federal cause of action for unfair competition. The Lanham Act allows competitors to file private causes of action (suits in the courts) for false advertising. Although intended as a broad remedy, the Lanham Act's reach is not infinite. There are a number of requirements that must be met before a private person can sue for a Lanham Act violation.

First, only competitors have standing to bring a Lanham Act suit in federal or state court, so a potential plaintiff can only sue for the false advertising of its competitors. Next, to be actionable under Lanham Act Section 43(a) a communication must be made in commercial advertising or in the promotion of goods and services. Third, and this is critical, the communication must contain a false or misleading statement, description, or representation of fact which misrepresents the nature, characteristics, qualities or geographic origin of an advertiser's or its competitor's goods, services or commercial activities. Statements about a manufacturer's ability or size can be considered false advertising, if they relate to its products or services or its ability to deliver products or services. And, fourth, the false statement must be material to a consumer's purchasing decision.

Some state laws are more expansive, allowing consumers – not just competitors – to sue for false advertising. California, for example, allows a private person to act as a “private attorney general.” If you doubt that a private citizen with access to the courts can be a sharp thorn in the side, just ask Nike. In 1998, Marc Kasky, a labor activist, sued Nike for alleged false advertising based on statements Nike made about conditions in its foreign factories. After five years and a trip to the United States Supreme Court, Nike settled with Kasky for \$1.5 Million; the avalanche of negative publicity is proof positive that consumer suits can be problematic.

No one wants to be on the receiving end of a false advertising complaint. While nothing is a foolproof guarantee against being sued, following the rules discussed below will help your business avoid charges of false advertising.

Use of Another's Trademark in Comparative or Other Advertising

Perhaps nothing raises the ire – or fuels the litigious tendencies – of a competitor more than seeing its trademark used in the advertising of another. Using another's trademark, federally registered or not, in a manner likely to cause confusion as to affiliation, connection or association of the advertiser with the owner of the mark is unfair competition. Use of another's mark in this way is unlawful because that use is intended to siphon off the goodwill associated with the other's trademark. For the most part, this aspect of unfair competition is treated on our website www.abouttrademarks.com. Still, the use of someone else's trademark is a ripe topic for any discussion about false advertising.

We were involved in the filming of a TV commercial using a *Sports Illustrated*® swimsuit cover girl as the spokesperson for an unrelated product. Her line was, “As the *Sports Illustrated* swimsuit cover girl, I am known for my fabulous... .” Time Warner, then owner of *Sports Illustrated*, screamed foul — that line, it said, caused confusion as to whether there existed some connection or affiliation between it and our advertiser. “Fair use,” we responded and the matter was done. But this is exactly the type of

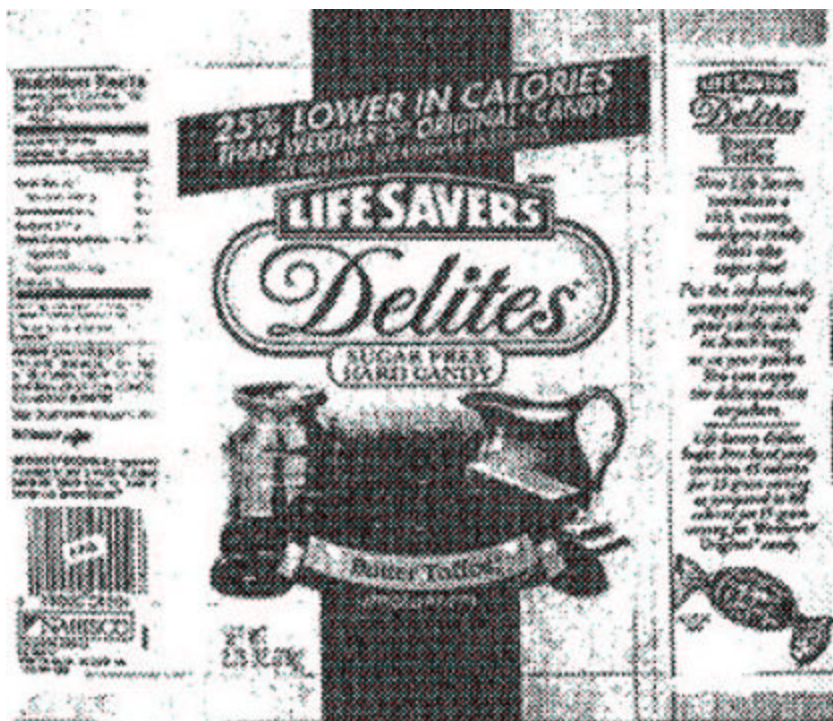
cause of action that some advertisers get a little too close to, usually on purpose, in order to bask in the perceived positive association of a more familiar product.

Same with the NFL's (No Fun League?) attempts to stop the world from use of the word *Superbowl*. When you refer to it as an event, it's a nominative fair use. We had a case a few years back where a TV ad spokesperson offered to send a winning contest entrant to the *Superbowl* and the NFL objected. Perhaps the NFL has caused some harm to itself as most advertisers have bypassed use of *Superbowl* in favor of *The Big Game*.

Put yourself in the position Gustav Nebel found himself (actually, August Storck, K.G., the maker of Werther's[®] Original candy) when Nabisco decided to target his candy in its advertising campaign. Nebel created his candy with real butter, fresh cream, white and brown sugars and lots of love. All the healthy ingredients. The candy was so good he called them "Werther's Original" in honor of his little village, Werther.

Nabisco took a different approach when it developed its LifeSavers[®] Delites candy — its candy was concocted in a chemist's lab and tested against Werther's Original in focus groups, where it was concluded that Nebel used too much sugar in his candy. So Nabisco substituted isomalt, hydrogenated glucose syrup, and acesulfame potassium for Gustav's natural ingredients. Then, on the package of its LifeSavers[®] Delites, Nabisco printed, "25 PERCENT LOWER IN CALORIES THAN WERTHER'S[®] ORIGINALS."

What would you have done if you were Gustav Nebel or August Storck? Outraged and wanting its trademark removed from Nabisco's package, Storck filed suit for false advertising and trademark violations. Nabisco had yet to release its new Delites product so Storck sued on the grounds that the imminent release of the candy by Nabisco would likely infringe its trademark and trade dress. But merely using another's trademark in advertising is not a violation of Section 43(a). Storck's burden was to prove that the use of its trademark on Nabisco's packaging would likely cause an appreciable number of consumers to believe that Nabisco's product came from Werther's or that there was a connection- other than competition- between them.



Nabisco placed the Werther's trademark and information about calories directly above its own trademark on the package; the Nabisco LifeSavers trademark was twice as large as was Werther's. It should have been fairly clear to anyone looking at the package that the package contained LifeSavers and not Werther's Originals. Nevertheless, the trial court sided with Storck and enjoined Nabisco from using the Werther's trademark on its packaging. Nabisco appealed the trial court's ruling and obtained a more reasoned decision from the appellate court, holding:

It is hard to see how anyone could think that the LifeSavers Delites package contains Werther's Original candies, or has anything to do with Storck's products. LifeSavers, one of the most famous brand names in American life is emblazoned on the package of LifeSavers Delites; the candy gulping public will quickly grasp that the point of the diagonal stripe containing the Werther's Original name is to distinguish the two candies — to say that one is different from, and better than, the other. Trademarks designate the origin and quality of products... A use of a rival's mark that does not engender confusion about origin or quality is therefore permissible.

Facts, Facts, Facts and More Facts

Cases of infringement rely heavily on the facts. Nabisco's corporate policy required that wherever it used a competitor's trademark in its advertising and packaging it used the ® symbol, where appropriate, and a disclaimer. This disclaimer

failed to impress the appellate court, however, which stated when ruling for Nabisco “we make little of the disclaimer, which few consumers will read.”

But, in ruling for Nabisco, the court was very quick to point out that under the Lanham Act there needs to be some showing of a likelihood of confusion. That is, an appreciable number of consumers who, being shown Nabisco’s package, would say, “Who makes this?” or “Are these two products made by the same firm?” or “What’s the connection between these two companies, for surely there must be one?”

Storck had to lose on appeal because at the trial it failed to offer any evidence of a likelihood of confusion. The trial court failed to hold an evidentiary hearing when Storck requested injunctive relief. Storck had not even conducted the typical consumer survey. The appellate court held that “perhaps the packages are confusing after all...But all the district court found...is that Nabisco’s packaging uses Storck’s mark and that confusion is possible.” “Possible” confusion is not the same as “likely” or “actual” confusion, the court ruled, and “possible” is not enough to postpone the introduction of a new product.

To illustrate, consider a situation where the outcome should be exactly the opposite. Print ads for the maker of men’s cosmetics feature a photograph of a man’s hands applying the advertiser’s product and worn on the inside of his wrist where the face is visible in the photo, is a Rolex® wristwatch big as life. What is the intended purpose of using the watch in the photo if not to bootstrap the quality of the cosmetic product by associating it with the high-end, sophisticated reputation of the watch? And what will customers believe when they see the ad? Perhaps there is some connection between Rolex® and the cosmetics company?

The Rule: A competitor can use another’s trademark as long as the use is not likely to cause consumer confusion as to source, quality or affiliation. In fact, using another’s mark fairly in comparative advertising serves a public function because it draws attention to the similarities and differences in competitive products. The days of Brand X advertising are long gone.

A Caution: Your competitor, or someone else, will not fail to notice its mark on your package or in your advertising. A court’s finding of likelihood of confusion is based on the facts, such as results of consumer surveys and calls and letters from confused consumers. Test your use carefully for likelihood of consumer confusion and never use the mark in a way that might indicate your product is connected with, comes from, or is, the competitor’s or someone else’s. Your initial, gut reaction as to whether use of someone’s mark in your ad or package causes confusion is often the best judge.

False Representations in Advertising

False representations are often the type of Section 43(a) violations people think of when they say “false advertising.” Simply put, it is unlawful for an advertiser to make statements which are false or misleading about the nature, characteristics, qualities or geographic origins of its or a competitor’s goods, services or commercial activities.

To preserve the First Amendment right of free speech, the reach of Section 43(a) extends only to “commercial speech” as defined by the United States Supreme Court. Commercial speech is afforded less constitutional protection than other types of speech and can be significantly restricted. To qualify as commercial speech the Supreme Court holds there needs to be a “buy me” message in the communication.

The Lanham Act would not apply to a review of stereo speakers in *Consumer Reports*, for example, because the intent of the review is not to sell stereo speakers of one brand or another. Reviews, criticisms or other comments about a company or its products made by non-competitors and not made while trying to convince the audience to buy a product the author is selling (the “buy me” message), are judged under First Amendment principals and not according to the regulatory confines of the Lanham Act which can impose prior restraint on commercial speech. Non-commercial, false speech may subject the author to an action for defamation or disparagement but not false advertising.

The line between commercial and non-commercial speech is not always a clean one. Remember Marc Kasky, the labor activist who sued Nike? His false advertising suit was based on statements made by Nike’s public relations department in response to criticisms of the working conditions in Nike’s foreign factories. Kasky argued – and the Ninth Circuit agreed – that Nike was making representations about its factory conditions to convince conscientious consumers to buy its products. Buried in Nike’s public relations campaign was a “buy me” message. Consequently, if Nike’s statements about conditions in its foreign factories were false or misleading, it would be liable under Section 43(a).

Remember, however, that consumers do not have standing to sue under the Lanham Act; only competitors can bring a false advertising suit under federal law. Still, aggrieved consumers, such as Kasky, may find standing under state consumer protection statutes.

What follows is a case that serves up an example of garden-variety, actionable, false advertising. It involved Coca-Cola, Tropicana and a 30 second TV commercial. As Tropicana’s spokesperson, former Olympian Bruce Jenner, appeared on screen squeezing an orange and said, “It’s pure, pasteurized juice as comes from the orange.” Then Jenner poured the freshly squeezed juice into a Tropicana carton and said, “It’s the only leading brand not made with concentrate and water.”

The problem is that pasteurization requires temperatures of 200 degrees Fahrenheit. That's one hot orange! Another problem was that Tropicana's product was sometimes frozen prior to packaging. That's one cold orange! Coke, the maker of Minute Maid orange juice, said the image of juice being squeezed straight from an orange into a Tropicana carton was misleading and sued Tropicana for false advertising. Although the district court denied relief, the appellate court reversed.

Another good example of unfair competition and false advertising makes you wonder whether someone was asleep at the switch when the ads in question were cleared (if they were cleared). Gillette created numerous ads for its new M3 Power Razor claiming "micro-pulses raise hair up and away from the skin." The ads said or implied that while facial hair grows at different angles, the hair-raising effect of the M3 is to straighten the angle for a smoother shave. Gillette also animated for TV ads facial hair growing at what Gillette claimed was a "somewhat exaggerated" rate. Schick, a disposable razor manufacturer in competition with Gillette, said Gillette's hair-raising claims were untrue and that the animated facial hair was growing at far more than a "somewhat exaggerated" rate.

The court agreed with Schick and found the angle claim to be false. It also reiterated the law of the First Circuit that for a message to be literally false (see the following discussion) the message must be unambiguous. The court held the animation exaggeration to be a false claim, because it was not even a "reasonable approximation."

In the First Circuit, case law establishes that a defendant can not successfully defend against a false advertising claim by asserting that a TV ad is "approximately" correct, or simply a representation and not meant to be exact. That court has ruled that for a commercial message, such as Gillette's animated portion of the ad not to constitute false advertising it *must* be exact.

Ironically, in the 1990's Gillette successfully sued Wilkinson Sword (and its advertising agency) for false advertising in connection with an ad for Wilkinson Sword that implied that because Wilkinson Sword can shave a basketball better than the competitor's blades, it will also shave the human face better. "Foul," cried the court.

Literal v. Implied Falsity

False advertising claims can be found to be literally false or implicitly false. Literally false means that the claim on its face is untrue. A claim that is implicitly false is literally true, but misleading in some way. For example, if a car rental company advertises in airports and in-flight magazines that it has more cars than all of its competitors, the frequent business traveler might reasonably interpret the ad to mean that the rental company has more cars at airport locations than its competitors. If the rental car company does technically own more cars than its competitors, but does not

have more cars at airport locations – because half the fleet is in non-airport locations – the claim, while literally true, is implicitly false. An implicitly false claim, while true on its face, needs qualification or clarification to prevent it from being misleading to consumers. Where those qualifications or clarifications are absent, the claim can be the subject of a false advertising suit.

If an advertisement is literally false, many courts do not require evidence that the ad is likely to deceive consumers. That the ad contains false claims is enough to establish that consumers will believe these false claims and be deceived. On the other hand, a plaintiff seeking relief for an implicitly false advertisement must usually establish that the ad is likely to deceive consumers. Survey evidence is usually the way this is done.

In another example of an implicitly false ad that resulted in an injunction, Polar Corp., the maker of Polar Seltzer, animated an ad in which a polar bear picked up a can of Coke Classic and flipped it over its shoulder into a trashcan. A sign over the trashcan read, "Keep the Arctic Pure." The court ruled that by throwing the Coke Classic can into a trashcan labeled "Keep the Arctic Pure", Polar implied that Coke is not pure, and misrepresented the nature and quality of Coke. The court also found that the soft drink industry relies heavily on consumers' perceptions of quality and purity, and that Coke would suffer irreparable harm if the ad, implying a lack of purity, was allowed to run.

Advertising Puffing

Puffing, or puffery, are claims that are either so vague or exaggerated that a consumer basically ignores them. Claims like "number one," "best," or "greatest" are puffery. Puffing is considered "sales talk." The Federal Trade Commission has described puffery as,

... a term frequently used to denote exaggerations reasonably to be expected of a seller to the degree of quality of his product, the truth or falsity of which cannot be precisely determined. In contrast thereto, the representation as to 'the world's lowest price' is a statement of objective actuality, the truth or falsity of which can be ascertained with factual precision. This representation cannot, therefore, properly be termed 'puffing'. It is either true, or it is false; and accordingly such a determination must be made.

The Federal Trade Commission may take a different and more strict view of puffing than the courts. The Federal Trade Commission seldom permits puffing while the courts are prone to allow it to occur in ads. The test for permissible puffery is whether the claim is subject to quantification – could it be proven true or false using objective facts – and whether a reasonable consumer will recognize the claim as mere hype or whether he will consider it a material claim.

These following examples of word claims have been held by courts to be puffery: best; perfect; prime; exceptional; a bargain; original; comparable in quality; and wonderful.

The Rule:

It is not illegal to make claims about your product or your competitor's product. It is encouraged for how else does an advertiser distinguish its goods from its competitors? But verifiable claims must be accurate and substantiated – claims which are false or misleading can result in a lawsuit.

A Caution:

Clear all ads with experienced legal counsel. You'd be surprised what other problems might exist in your ads. We've known some ad professionals who know so much they sometimes forget the basics. And when it comes to claims, whether about your product or your competitors, obtain prior substantiation from a good, independent source. And retain it. Keep in mind that the Federal Trade Commission has ruled that a claim, unsubstantiated when made, is false even if the claim is later proven true!

Damages

An advertiser that doesn't follow the rules might become intimately familiar with the damages awardable in a false advertising case. A Lanham Act plaintiff can obtain injunctive relief, monetary damages or both. To qualify for injunctive relief – that is a court order requiring the defendant to stop making the claims at issue – the plaintiff must offer proof that its competitor's false ads will cause the plaintiff harm. It is critical to be able to show lost sales or a likelihood of lost sales. Mere subjective belief that harm will occur is not enough. A plaintiff must submit proof which provides a reasonable basis for the belief that the plaintiff will be harmed by a defendant's false claims. If a defendant's advertising tends to mislead consumers in a way that is likely to cause them to buy the defendant's falsely advertised products instead of the plaintiff's products, it is more likely than not the plaintiff has been harmed.

How can a plaintiff prove harm? Market studies are the most common way to show that consumers were misled by the false advertisement and because of the false advertisement, choose the defendant's product instead of the plaintiff's. To use the Coca-Cola/Tropicana example discussed above, if Coca-Cola can show through market studies that the Tropicana ad convinced some consumers who have a choice only between Minute Maid and Tropicana that Tropicana is more desirable because it contains only fresh squeezed, unprocessed juice, it is likely that Coke can show it lost (or will lose if the advertisement doesn't stop airing) a portion of the chilled juice market and suffer the needed irreparable injury.

For example, in one case involving dog food, the defendant's sales grew almost at exactly the same rate as the plaintiff's lost sales. Because these results occurred immediately following the litigated ad campaign, the court was able to attribute the defendant's new sales to its false claims.

Many courts will grant injunctive relief upon a showing that the ad is literally false and that it is likely to influence consumers to buy the product. If the ad is implicitly false, courts will usually grant injunctive relief upon a showing that consumers are likely to be misled and that the claim influences the buying decision.

The Lanham Act, and many state unfair competition statutes, also allow for monetary damages and sometimes attorney's fees. A plaintiff seeking these damages, however, must adopt a realistic outlook; monetary damages are based on lost profits the plaintiff can show were caused by defendant's false advertising, which can sometimes be difficult to prove. Not every lost sale need be proved, and in some cases a drop in plaintiff's sales with a comparable increase in the defendant's sales during the same period is all that is needed to support a finding that quantifiable lost sales did occur, as was the case in the dog food suit. It is the rare plaintiff, however, who has access to such proof at the start of litigation, and the decision to press on after injunctive relief is granted is often based on a hunch, or the limited and expedited discovery taken in order to prepare for the injunctive portion of the case. Still, these cases are full of twists and turns and the outcome is often difficult to predict. And courts can be skeptical – and often are.

Conclusion

Whether initiated by the FTC, a state attorney general, a competitor, or a private citizen, no one wants to be on the receiving end of a law suit. To recap, some basic guidelines to help advertisers steer clear of such a fate are as follows:

1. Take care when using another's trademark in advertising. If an advertiser's use of another's mark is likely to cause confusion as to origin or affiliation, the ad runs afoul of the Lanham Act.
2. Make sure all claims made are accurate and substantiated, or so vague and exaggerated as to be considered puffery.
3. Have experienced legal counsel clear all advertising before it is run. The best defense to false advertising is not to allow it to run.

James B. Astrachan is a principal of Astrachan Gunst & Thomas, P.C. and teaches trademark and unfair competition law at the University of Maryland Law School.

Carrie J. Williams is an associate at the Baltimore firm of Astrachan, Gunst & Thomas and teaches Copyright & Publishing Law at University of Baltimore Graduate School of Publication Design..