FALSE ADVERTISING IN FRANCHISE SYSTEMS

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October 16-18, 2013
Rosen Shingle Creek Resort
Orlando, FL

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# Table of Contents

I. OVERVIEW OF FALSE ADVERTISING LAW .................................................................... 1
   A. Federal Lanham Act ............................................................................................. 1
   B. Federal Trade Commission Enforcement ............................................................. 4
   C. State Laws ............................................................................................................ 5
   D. National Advertising Division of the Better Business Bureau ................................ 7

II. COMMON CLAIMS AND DEFENSES IN FALSE ADVERTISING ACTIONS UNDER THE LANHAM ACT ................................................................. 8
   A. Types of Claims ..................................................................................................... 8
      1. Literally False Statements ............................................................................ 8
      2. Literally True But Misleading Statements ..................................................... 9
      3. Establishment And Testing Claims ............................................................. 10
      4. Comparative And Superiority Claims .......................................................... 10
      5. Testimonials ............................................................................................... 11
   B. Key Defense Issues ............................................................................................ 12
      1. Puffery ........................................................................................................ 12
      2. Opinion Versus Statements Of Facts .............................................................. 15
      3. Standing Issues .......................................................................................... 17
         a. The Five Factor Test .................................................................... 17
         b. The Categorical Test .................................................................... 18
         c. The Reasonable Interest Test ...................................................... 19
      4. Whether Statement Is Part of Commercial Advertising Or Promotion ...... 20
      5. No Evidence Of Injury ............................................................................... 22

III. SPECIAL FALSE ADVERTISING ISSUES FOR FRANCHISING......................................... 24
   A. Consumer Class Actions For False Advertising ................................................. 25
   B. “Green” Advertising Claims ........................................................................... 25
C. Food Advertising ........................................................................................................... 26
D. Social Media Risks And Implications............................................................................. 27

IV. BEST PRACTICES TO AVOID FALSE ADVERTISING CLAIMS .............................................. 28
   A. Consider The “Reasonable Consumer” Standard ......................................................... 28
   B. Analyze The Entire Context Of The Ad And Consider Implied Claims ...................... 29
   C. Review The Basis For Establishment Or Comparative Claims ..................................... 30
   D. Impact Of Disclaimers And Qualifiers ....................................................................... 32
   E. Establishing A Process For Review of Proposed Advertising ................................... 32

V. LITIGATION CONSIDERATIONS .......................................................................................... 33
   A. Consider Whether Litigation Is The Best Course ......................................................... 33
   B. Obtaining And Defending Against Injunctive Relief ..................................................... 34
      1. Legal Standard For Injunctive Relief After eBay............................................................ 34
      2. Practical Evidentiary Issues....................................................................................... 36
   C. Obtaining And Defending Against Monetary Relief ..................................................... 36
      1. Traditional Damages ................................................................................................. 37
      2. Defendant’s Profits ................................................................................................. 37
      3. Recovering Attorneys’ Fees ..................................................................................... 38
   D. Corrective Advertising And Other Alternative Remedies ........................................... 38
   E. Use of Surveys in False Advertising Litigation ............................................................ 39

VI. CONCLUSION ....................................................................................................................... 39
I. OVERVIEW OF FALSE ADVERTISING LAW

Advertising is a primary and necessary component of building a franchise brand. Advertisers strive for pithy, catchy statements to get the attention of their target audience of consumers. But advertising can be fraught with legal pitfalls for a franchisor or franchisee that is not aware of the relevant legal framework and that does not carefully review its ads before publication.

News reports in recent years are replete with lawsuits against franchisors and substantial settlement payments for false advertising claims. Subway®, for example, is defending itself against the allegation that its “$5 foot long” ads are misleading because not all of its sandwiches are a full twelve inches. McDonald’s® and one of its franchise owners recently agreed to pay $700,000 to members of the Muslim community in Detroit area to settle allegations that a restaurant there falsely advertised its food as being prepared in accordance with Islamic dietary laws. The Oregon attorney general sued LA Weight Loss Fitness Co. and an Oregon franchisee alleging false and misleading representations about the costs, products, and benefits associated with the franchisor’s program, seeking $25,000 for each alleged violation.

Social media is taking advertising to new frontiers beyond the traditional print, radio, and television advertising of the past. Posts regarding a company’s own product or services, or those of its competitors, which might have been treated as “one-off” statements by individuals in the past, now can be the subject false advertising claims under federal or state statutes.

This paper discusses the basic principles of false advertising law and issues that franchisors and franchisees might encounter in connection with their advertising. Section I explains the different federal, state and industry frameworks for bringing and resolving false advertising claims. Section II discusses common types of claims and key legal issues in false advertising actions under the Lanham Act. Section III discusses special false advertising issues relevant for franchising. Section IV describes certain best practices to avoid or minimize exposure for false advertising claims. Finally, Section V discusses litigation considerations including seeking injunctive relief, damages remedies, and use of surveys in false advertising litigation.

A. Federal Lanham Act

The most common legal basis for a false advertising claim is the Federal Lanham Act. Congress originally enacted the Lanham Act in 1946 to address trademark infringement, but courts and litigants came to rely on the language prohibiting “false description or representation” and “false designation of origin” as a basis for false advertising actions against competitors. One noted commentator described the evolution of this section, known as Section 43(a), as

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follows: “Like an unappreciated child laboring in the light of a favored sibling, §43(a) was eventually to steal the spotlight.”

The relevant language in Section 43 of the Lanham Act currently provides:

(a)(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any work, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . .

(B) 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, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Section 43(a) always allowed for a claim of false advertising based on representations by a competitor about the competitor’s own product. Courts disagreed, however, whether this language authorized a claim based on a competitor's false or misleading statements regarding the plaintiffs own products. Such claims are often referred to as “trade libel” or “product disparagement.” Congress addressed this issue in the 1989 amendments to the Lanham Act, making clear that the statute covers not only false representations about the defendants own goods or services but also false statements about the plaintiffs goods or services.

Federal courts state the elements of a false advertising claim under the Lanham Act in different ways, but the fundamental requirements are the same. These fundamental elements can be summarized as follows:

(1) the defendant made a false or misleading statement of fact about either the plaintiff's or the defendant's own product;

(2) the false or misleading statement had the capacity to deceive, or actually did deceive, a substantial segment of potential customers to which the advertisement was targeted;

(3) the false or misleading statement is material – that is, likely to influence the purchasing decision;

(4) the false or misleading statement was made in commercial advertising or promotion;

(5) the false or misleading advertisement substantially affects interstate commerce;

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6 See, e.g., *SSP Agricultural Equip., Inc. v. Orchard-Rite, Ltd.*, 592 F.2d 1096, n.6. (9th Cir. 1979); *American Rockwool, Inc. v. Owens-Corning Fiberglas Corp.*, 640 F.Supp. 1411, 1441 (E.D.N.C. 1986).
(6) the plaintiff has been injured or is likely to be injured as a result of the false or misleading advertisement.7

The various types of false advertising claims that are actionable under the Lanham Act are discussed in detail in Section II.A., below.

Significantly, only competitors have standing to bring a false advertising claim under the Lanham Act. Although the nature and extent of the competition can vary, courts generally require that the parties “vie for the same dollars from the same customer group” such that a false or misleading ad might “upset their relative competitive positions.”8 Consumers who might have been deceived by a company’s advertisement cannot bring a Lanham Act claim, although certain state statutes provide remedies for consumers under certain circumstances.

The Lanham Act authorizes preliminary and permanent injunctive relief for a party “who believes he or she is likely to be damaged” by the defendant’s false advertising.9 The Second Circuit has explained: “The correct standard was whether it was likely that [defendant’s] advertising had caused or would cause a loss of [plaintiff’s] sales, not whether [plaintiff] had come forward with specific evidence that [defendant’s] ads actually resulted in some definite loss of sales.”10 Further, although the consumer does not have standing to bring a Lanham Act false advertising claim in her own name, courts consider the impact of the false advertising on consumers in deciding whether to grant, and how to fashion, injunctive relief.11

Traditional monetary remedies under the Lanham Act also are available for false advertising claims. In a proper case courts may award damages for lost profits, disgorgement of the profits of the defendant, enhanced damages, as well as attorney’s fees and costs. Remedies under the Lanham Act are discussed in more detail in Section V. below.

There are a number of ways in which a commercial advertisement about a product can constitute false advertising under the Lanham Act. A statement may be literally false, either based on express claims or by “necessary implication.”12 Even if the words in an advertisement are literally true, the advertisement is actionable if its statements are likely to mislead, confuse, or deceive consumers.13 Proof that a statement is literally false usually will support the grant of injunctive relief without further proof of actual deception of consumers.14 In the case of a

7 See, e.g., Skydive Arizona, Inc. v. Quattrochi, 673 F.3d 1105, 1110 (9th Cir. 2012); Osmose, Inc. v. Viance, LLC, 612 F.3d 1298, 1318 (11th Cir. 2010); Clorox Co. Puerto Rico v. Proctor & Gamble Commercial Co., 228 F.3d 24, 33 n. 6 (1st Cir. 2000); Pizza Hut, Inc. v. Papa John’s Int’l, Inc., 227 F.3d 489, 495 (9th Cir. 2000).
11 See, e.g., Harper House, Inc. v. Thomas Nelson, Inc., 889 F.2d 197, 210 (9th Cir. 1989) (recognizing “consumer protection” as a rationale for granting injunctive relief under Section 43(a) in the absence of actually injury to the plaintiff).
12 See, e.g., Time Warner Cable, Inc. v. DirectTV, Inc., 497 F.3d 144, 158 (2d Cir. 2007).
13 See, e.g., S.C. Johnson & Son, Inc. v. Clorox Co., 241 F.3d 232, 238 (2nd Cir. 2001); Southland Sod Farms v. Stover Seed Co., 108 F.3d 1134, 1139 (9th Cir. 1997).
14 See, e.g., Johnson & Johnson Vision Care, Inc. v. 1-800 Contacts, Inc., 299 F.3d 1242, 1246 (11th Cir. 2002).
statement that is literally true but misleading, on the other hand, a plaintiff generally must establish the elements of likelihood of deception and materiality.\(^{15}\)

Context is key in evaluating any false advertising claim. The context of an advertisement, including the specific words or images included, can determine whether the ad “conveys an actionable statement of fact or instead is mere puffery,” \textit{i.e.,} subjective statements of boasting or opinion not capable of empirical verification, which are not actionable. The case of\textit{ Pizza Hut Inc. v. Papa John’s International Inc.},\(^{16}\) presents a prime example of how context matters. Papa John’s ran an ad campaign using the slogan “Better Ingredients. Better Pizza.” Pizza Hut sued claiming that this ad slogan constituted a verifiable representation regarding the quality of Papa John’s pizza dough and sauce. A jury found that the ads were literally true but misleading. On appeal, the Fifth Circuit held that, standing alone, the slogan “Better Ingredients. Better Pizza.” constituted a non-actionable “general statement of opinion regarding the superiority of its products over all others “which optimizes the exaggerated advertising, blustering and boasting by a manufacturer upon which no customer would reasonably rely.”\(^{17}\) But the appeals court did not end its analysis there. When viewed in combination with specific images of Papa John’s dough and sauce, the Fifth Circuit determined that this slogan could be construed as a verifiable comparative representation regarding the relative quality of the parties’ ingredients and thus could support a false advertising claim.

\textbf{B. Federal Trade Commission Enforcement}

The Federal Trade Commission (“FTC”) also has the power to bring government enforcement actions to address false advertising. The Federal Trade Commission Act directs the FTC to take action to prevent people and businesses from using “unfair methods of competition” or “unfair or deceptive acts or practices” in or affecting interstate commerce.\(^{18}\) There is no private right of action under the FTC Act.\(^{19}\) As a result, the FTC generally directs its limited resources against widespread deceptive conduct or actions that are likely to impact a significant portion of the consuming public. The FTC Act authorizes the FTC to bring civil actions to seek a civil penalty and/or an injunction to prohibit the unfair or deceptive conduct.\(^{20}\) The FTC also can bring an administrative action for a cease and desist order to prohibit a particular act or practice.\(^{21}\)

Congress granted the FTC authority to promulgate “trade regulation rules” setting forth specific acts or practices that constitute “unfair or deceptive acts or practices under the FTC Act.” Once proposed and approved following a public comment and hearing procedure, these trade regulation rules become substantive prohibitions in that a violation of a rule amounts to a

\(^{15}\) See Clorox Co. Puerto Rico v. Proctor & Gamble Commercial Co., 228 F.3d. 2433 (1st Cir. 2000).

\(^{16}\) 227 F.3d 489 (5th Cir. 2000).

\(^{17}\) \textit{Id.} at 499.


\(^{21}\) 16 C.F.R. §3.42.
violation of the FTC Act itself. The FTC’s trade regulation rules cover a wide variety of conduct and types of advertising, and are often very relevant to the business of franchisors and franchisees. Subjects of these trade regulation rules include:

- advertising substantiation;
- testimonials and endorsements;
- coupon offers;
- “free” advertising;
- limited quantity advertising;
- rebates;
- sweepstakes; and
- environmental and “green” claims.22

Although there is no private right of action under the FTC Act, federal courts accord significant weight to conduct deemed “unfair or deceptive acts or practices” under the FTC’s trade regulation rules.23 Indeed, the Seventh Circuit in that case noted that it is error for a district court not to consider the relevant FTC guidelines in a Lanham Act false advertising case.

C. **State Laws**

All states have some type of statute that addresses false advertising or deceptive trade practices. Some states have specific false advertising statutes that, for the most part, track the requirements and remedies under the Lanham Act.24 The Georgia Act, for example, makes it unlawful for anyone to “make or disseminate or cause to be made or disseminated before the public in this state any newspaper or other publication, radio, television, or advertising device or by public outcry or proclamation or any other manner or means whatever, any statement concerning such real or personal property or services…which is untrue or fraudulent and which is known or which by the exercise of reasonable care should be known to be untrue or fraudulent.”25 State courts generally look to court decisions interpreting the Lanham Act when applying these state false advertising laws.

California has a particularly potent false advertising statute that is part of its broader Unfair Competition Law (“UCL”). UCL § 17500 makes it unlawful:

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23 See, e.g., B. Sandfield Inc. v. Finley Fine Jewelry Corp., 168 F.3d 967, 972 (7th Cir. 1999) (referencing FTC guidelines defining when advertising of “50% off regular price” was false and misleading).


for any person, . . . corporation . . . or any employee thereof with intent
directly or indirectly to dispose of real or personal property or to perform
services . . . or to induce the public to enter into any obligation relating
thereto, to make or disseminate . . . before the public in this state, . . . in
any newspaper or other publication . . . or in any other manner or means
whatever . . . any statement, concerning that real or personal property or
those services . . . which is untrue or misleading, and which is known, or
which by the exercise of reasonable care should be known, to be untrue
or misleading. . . .

California courts apply the “reasonable consumer” test to determine whether an advertising
claim is misleading. 27 The Lavie court explained that liability requires evidence to show “that it
is probable that a significant portion of the general consuming public or a targeted consumer,
acting reasonably in the circumstances, could be misled.” 28

Many states have adopted a version of the Uniform Deceptive Trade Practices Act
(“UDTPA”), which addresses false advertising. 29 Similar to the FTC Act, the UDTPA contains a
general prohibition against deceptive acts or practices in commerce, and also includes specific
prohibitions against false or misleading representations in advertising, passing off goods or
services as those of another, product disparagement, and trademark infringement. Most states’
versions of the UDTPA also are interpreted under the same legal standards as Section 43(a) of
the Lanham Act. 30 Most versions of the UDTPA, however, limit remedies to injunctive relief and
attorney’s fees, and do not allow for recovery of damages. Thus, these claims are often brought
along with claims under the Lanham Act which provides for broader relief.

A number of states also have enacted statutes known as “little FTC Acts,” patterned
after the federal counterpart. Under these state statutes, proof of conduct that would violate
the standards applied under the federal Act generally is sufficient to establish a violation of the
corresponding state statute. 31 In contrast to UDTPA, little FTC Acts often have powerful
damages remedies.

State little FTC acts often authorize a state government official to bring enforcement
actions in the public interest. This authority is similar to the enforcement authority of the FTC at
the national level.

28 Id. at 498.
30 See, e.g., Brunswick Corp. v. Spinit Real Co., 832 F.2d 513, 527 (10th Cir. 1987) (applying same standards of
31 See, e.g., PNR, Inc. v. Beacon Prep. Mgmt., 842 So.2d 773, 777 (Fla. 2003); Robinson v. Toyota Motor Credit
2004); see generally Mary Dee Pridgen, Consumer Protection and the Law §2:10 (2008).
D. National Advertising Division of the Better Business Bureau

In addition to traditional court litigation, the National Advertising Division ("NAD") and the National Advertising Review Board ("NARB") provide a quicker and lower cost alternative for trying to resolve false advertising claims. The NAD and NARB are part of an independent, self-regulatory body formed through an alliance of three trade associations including the Council of Better Business Bureaus. The NAD hears advertising disputes and issues rulings, and the NARB reviews the NAD's decisions.

The first thing to know about the NAD dispute resolution process is that it is strictly voluntary. Any party may file a complaint with the NAD alleging false advertising, but the respondent is not obligated to participate in the NAD process. Even if the respondent does not participate, however, the NAD may still investigate and refer the matter to appropriate federal or state regulatory authorities.

The NAD process proceeds on a swift timetable, providing a written decision within 60 business days. Thus, it is possible to resolve an advertising challenge while the ad campaign at issue is still running. The NAD process involves written submissions by each party, which typically include copies of the advertising at issue, documentary evidence supporting the challenge or supporting the propriety of the ad, and brief argument which the NAD's webpage suggests limiting to eight double-spaced pages. The NAD process is more expensive to initiate, with filing fees ranging from $5,000 to $20,000. But if successful, the higher filing fees are more than made up for by the savings in discovery costs and other expenses of litigation.

The NAD generally reviews advertising that is either national in scope or disseminated broadly throughout a region. The NAD will decline to review claims that are the subject of pending litigation, and usually will suspend its proceeding if one party initiates litigation while the NAD process is pending.

The NAD will issue a written decision determining whether the challenged advertisement is properly substantiated. If the NAD determines that the ad is not properly substantiated, the advertiser has five business days to submit written notice whether it will modify or discontinue the ad or appeal the decision. Advertisers may appeal NAD decisions to the NARB, which does not consider new evidence but reviews the record in the case. Although NAD and NARB decisions do not have the force of law, most advertisers accept these decisions.

The NAD process has significant potential advantages over court litigation. First, the NAD process can resolve false advertising disputes much faster than litigation, and often while the challenged ad campaign is still running. Second, the expedited nature of the process means that matters generally are resolved with significantly less cost than traditional litigation. Third, the legal standards and evidentiary requirements for Lanham Act litigation in federal court, including stricter standards for injury and use of survey evidence to show deception, generally do not apply in NAD proceedings. Finally, NAD proceedings generally are confidential so proprietary or competitively sensitive business data does not become part of a public court record.

There are, however, disadvantages of the NAD process. Most obvious is that the process is consensual, and a party cannot force its competitor to participate. Even if the competitor agrees to participate, the NAD’s decision is non-binding and does not prevent the competitor from forcing the complaining party to bring a lawsuit to secure relief. Also, the lack of
any discovery process means that a claimant generally cannot get access to potentially helpful internal documents or emails of the opposing party.

Finally, the NAD allows consumers to bring claims as well. Although this process may be rarely used, it is a significant difference from the standing requirement under the Lanham Act.

II. COMMON CLAIMS AND DEFENSES IN FALSE ADVERTISING ACTIONS UNDER THE LANHAM ACT

Under federal law, a company may bring a false advertising claim against a competitor under Section 43(a) of the Lanham Act. Specifically, the Lanham Act makes actionable a "false or misleading description of fact, or false or misleading representation of fact" concerning "the nature, characteristics, qualities, or geographic origin of" one's own "or another person's goods."32

A. Types of Claims

There are two methods by which a litigant can establish a "false or misleading representation of fact" within the meaning of the Act. First, a plaintiff may show that a statement in a competitor's advertisement is literally false, either on its face or by necessary implication.33 If an advertisement is literally false, a plaintiff need not provide evidence of consumer deception, and in some circuits, evidence of materiality.34 Further, a court may enjoin the competitor's use of the advertisement without any reference to its effect on the buying public.35 Second, even if an advertisement is literally true, a party can prevent the use of the advertisement if it has "misled, confused, or deceived the consuming public."36

1. Literally False Statements

A plaintiff claiming that an advertisement is literally false must convince a court that the advertisement in question explicitly states a false message. Courts will typically consider whether an advertisement is literally false to be an issue of fact.37

In addition to expressly false claims made in an advertisement, a plaintiff may also prove literal falsity by pointing to an advertisement that conveys a false message "by necessary implication."38 A claim is conveyed by necessary implication when, considering the

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33 Southland Sod Farms, 108 F.3d at 1139.

34 See, e.g., Osmose, Inc. v. Viance, LLC, 612 F.3d 1298, 1318-19 (11th Cir. 2010) (if ad is literally false, plaintiff not required to present evidence of consumer deception); Pizza Hut, Inc. v. Papa John's Int'l, Inc., 227 F.3d 498, 497 (5th Cir. 2000) (court also presumed materiality where statement was literally false).


36 Southland Sod Farms, 108 F.3d at 1140.


38 Id. at 34-35.
advertisement in its entirety, the audience would recognize the claim as readily as if it had been explicitly stated.39 The Southland case is an example of an advertisement that was found to be false by necessary implication. In that case, advertisements showed bar charts comparing the growth rate of different types of grass seed using data collected for less than a full year.40 The court found that, if the data on growth rates had been collected for a full year, the growth rates would have been approximately equal.41 Thus, even though the advertisement disclosed that the data was for a limited time period, the court found that the advertisement, taken as a whole, conveyed the false message that the chart intended to show the year-round growth properties of the various seeds.42

The plaintiff has the burden of proving the falsity of an advertisement's representation. Sometimes an advertisement is simply false on its face. For example, the Second Circuit found that an advertisement for Tropicana orange juice that used the phrase "It's pure pasteurized juice as it comes from the orange," in conjunction with an image of an orange being squeezed into a carton was literally false on its face.43 The court reasoned that the statement in the ad was blatantly false because "pasteurized juice does not come from oranges." Instead, pasteurization requires that the juice be extracted and processed by super-heating the juice to kill microorganisms that cause the juice to spoil.44 Often, however, proving literal falsity is not as simple and requires the plaintiff to introduce extrinsic evidence, most often in the form of expert testimony or test data.45

2. Literally True But Misleading Statements

A plaintiff also may prove a "false or misleading statement of fact" by establishing that its competitor's advertisement is literally true or ambiguous, but is likely to mislead consumers.46 Such ads may be misleading when viewed in context, may convey false impressions, or may be deceptive – all despite making statements that are literally true. Unlike a literally false advertisement, to prove that a literally true advertisement is misleading and thus violates the Lanham Act the plaintiff must produce extrinsic evidence – such as consumer surveys or market research – that demonstrate the message conveyed and how consumers reacted to that message, i.e., that consumers were actually deceived.47

39 Id. at 35.
40 Southland Sod Farms, 108 F.3d at 1138.
41 Id.
42 Id. at 1144.
43 Coca-Cola Co. v. Tropicana Prod., Inc., 690 F.2d 312, 314, 318 (2d Cir. 1982).
44 Id. at 318.
45 See, e.g., Southland Sod Farms, 108 F.3d at 1144 (plaintiff's own test data provides adequate support for the conclusion that the advertisement's representation was literally false).
46 See United Indus. Corp. v. Clorox Co., 140 F.3d 1175, 1182 (8th Cir. 1998) ("Statements that are literally true or ambiguous but which nevertheless have a tendency to mislead or deceive the consumer are actionable under the Lanham Act").
47 See Clorox Co. Puerto Rico, 228 F.3d at 33 ("To satisfy its burden, the plaintiff must show how consumers have actually reacted to the challenged advertisement rather than merely demonstrating how they could have reacted").
3. Establishment And Testing Claims

Often, a competitor's false advertisements expressly represent that product tests or studies prove that its products have certain measurable performance or characteristics, or compare in a specific way to competing products. Courts refer to this as an "establishment claim," because there purports to be a test or some other objective measurement to establish a foundation for the advertisement.\(^\text{48}\) For a further discussion of establishment claims, see Section IV.D., below.

Where a plaintiff challenges an advertisement based on explicit or implied testing, "the defendant must identify the cited tests."\(^\text{49}\) Once the tests have been identified, the plaintiff can then prove that the advertisement claim is literally false, and in violation of the Lanham Act, by showing either (1) "that such tests are not sufficiently reliable to permit one to conclude with reasonable certainty that they established the claim made," or (2) "that the tests, even if reliable, do not establish the proposition asserted by the defendant."\(^\text{50}\)

4. Comparative And Superiority Claims

Superiority claims, often called "better than" advertising claims, involve assertions by a party that its product is superior to a competitor's product. If an advertisement asserts that a product is superior to another product but does not refer to specific tests to support this assertion, the plaintiff must prove that the claim is false by showing that the defendant's product is either equal or inferior.\(^\text{51}\) There is some overlap here between actionable falsity and non-actionable "puffery," described below. Generally, claims of superiority that are prohibited by the Lanham Act refer to specific aspects of a competitor's product (e.g., "product X is more durable than product Y"), while non-actionable puffery tends to be more general (e.g., "product X is the best"). Courts generally do not require that an advertisement specifically identify a competitor for purposes of a false comparative advertising claim.\(^\text{52}\)

Examples of cases involving false comparative advertising claims include:

- **Claim that a toy manufacturer's building block set "looks and feels like Lego" was held to be false.**\(^\text{53}\)

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\(^{48}\) See *Johnson & Johnson Vision Care, Inc. v. 1-800 Contacts, Inc.*, 299 F.3d 1242, 1248 (11th Cir. 2002) ("If an advertisement cites such testing, the advertisement is labeled as an "establishment" claim").

\(^{49}\) *Castrol Inc. v. Quaker State Corp.*, 977 F.2d 57, 63 (2d. Cir. 1992).

\(^{50}\) *Southland Sod Farms*, 108 F.3d at 1139 (internal citations and quotation marks removed).

\(^{51}\) *Castrol*, 977 F.2d at 63 ("Where the defendant's advertisement claims that its product is superior, plaintiff must affirmatively prove defendant's product equal or inferior").

\(^{52}\) *Castrol, Inc. v. Pennzoil Co.*, 987 F.2d 939 (3d Cir. 1993).

• Statement that Quaker State Oil “protects better than any other leading 10W-30 motor oil” was held to be a false comparative advertisement, where plaintiff proved Quaker State’s product was not in fact superior;\(^{54}\)

• Statement that Advil brand ibuprofen is less susceptible than acetaminophen to adverse drug reactions was held to be false and the basis for an injunction;\(^{55}\)

• Advertisement claiming that motor oil “out performs any leading motor oil against viscosity breakdown” and provides “longer engine life and better engine protection” was held to be a false comparative advertisement;\(^{56}\)

The McCarthy treatise contains a fuller discussion of false comparative advertising cases and issues.\(^{57}\)

5. **Testimonials**

Both the FTC and the Better Business Bureau have produced guidelines regarding the use of testimonials and endorsements in advertising. The FTC’s guidelines were revised in 2009.\(^{58}\) The fundamental premise of both the FTC’s and the Better Business Bureau’s guidelines is that any endorsement or testimonial must reflect the honest and current opinion of the endorser, and must not contain any representations or statements which would be misleading if otherwise used in advertising by the company itself. After each subpart in the FTC guidelines there are helpful illustrations of the principles discussed therein.

The 2009 revisions to the FTC’s guideline continue the general proposition that “[e]ndorsements must reflect the honest opinions, findings, beliefs, or experience of the endorser.”\(^{59}\) An advertiser may use an endorsement of an expert or celebrity only so long as it has reason to believe that the endorser continues to adhere to the views presented, and it suggests that the advertiser satisfy this obligation by securing the endorser’s views at reasonable intervals.\(^{60}\) One significant change to the guidelines is that endorsers now also may be liable for statements made in the course of their endorsements, which as a practical matter puts a greater burden on the advertiser to make sure it can substantiate an endorser’s statements.\(^{61}\)

The new FTC guidelines also address user-generated content such as blogs or other social media postings. Section 255.5 requires disclosure of material connections between the

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\(^{54}\) *Castrol*, 977 F.2d at 63-64.


\(^{56}\) *Castrol, Inc. v. Pennzoil Co.*, 987 F.2d 939 (3d Cir. 1993).


\(^{59}\) FTC Guide §255.1(a).

\(^{60}\) *Id.* at §255.1(e).

\(^{61}\) *Id.* at §255.1(d).
endorser and the seller: “When there exist a connection between the endorser and the seller of
the advertised product that might materially affect the weight or credibility of the endorsement
(i.e., the connection is not reasonably expected by the audience), such connection must be fully
disclosed.” The examples to this section address a number of “new media” types of
endorsements, but the guidelines do not spell out what is meant by “materially affect the weight
or credibility of the endorsement” or provide further guidance on the circumstances under which
user-generated statements would be subject to these disclosure requirements.

The revised guidelines also change the disclosure requirements for consumer
endorsements involving “atypical results.” According to the FTC, “[a]n advertisement containing
an endorsement relating the experience of one or more consumers on a central or key attribute
of the product or service also will likely be interpreted as representing that the endorser’s
experience is representative of what consumers will generally achieve with the advertised
product or service in actual, albeit variable, conditions of use.” If the advertiser does not have
substantiation that the endorser’s experience is typical of what consumers generally will
achieve, the advertisement “should clearly and conspicuously disclose the generally expected
performance in the depicted circumstances, and the advertiser must possess and rely on
adequate substantiation for that representation.” The FTC specifically rejected more limited
disclosure language such as “results not typical” and instead requires disclosure of what the
typical results in fact are.

B. Key Defense Issues

1. Puffery

Puffery refers to non-actionable statements. The Second Circuit defined puffery as
“subjective claims about products, which cannot be proven either true or false.” The Third
Circuit described puffery as “an exaggeration or overstatement in broad, vague, and
commendatory language. Such sales talk, or puffing, as it is commonly called is considered to
be offered and understood as an expression of the seller’s opinion only, which is to be
discounted as such by the buyer. The ‘puffing’ rule amounts to a seller’s privilege to lie his head
off, so long as he says nothing specific.” The difference between non-actionable puffing and a
misleading false statement is governed by whether a “reasonable buyer would take [the
representation] at face value” which may cause consumer deception. There are no grounds for
a false advertising suit without the “danger of consumer deception.”

62  Id. at §255.2(b).
63  Id.
64  Time Warner Cable, Inc. v. DirecTV, Inc., 497 F.3d 144, 160 (2d Cir. 2007) (quoting Lipton v. Nature Co., 71 F.3d
464, 474 (2d Cir. 1995)).
65  Castrol, Inc. v. Pennzoil Co., 987 F.2d 939, 945 (3d Cir. 1999) (quoting W. Page Keeton et al., Prosser and Keeton
on the Law of Torts § 109, at 756-57 (5th ed. 1984)).
The circuits have recognized two forms of puffery under the Lanham Act. First, puffery may be a vague, subjective assertion of superiority. Alternatively, in its second form, puffery can be in the form of a general exaggeration. In American Italian Pasta Co. v. New World Pasta Co., a pasta manufacturer sued a competitor, alleging that use of the phrase “America’s Favorite Pasta” was false or misleading advertisement under the Lanham Act. The Eighth Circuit held that the phrase was not actionable because it seemed to fall under the first category of puffery. Similarly, in Dayton Sports Center, Inc., v. 9-Ball, Inc., a plaintiff sued a company that sold pool tables alleging claims of false and deceptive advertising under the Lanham Act because it advertised itself as “The World’s Leader in Billiards.” The court found that this claim constituted non-actionable puffery because it was a general assertion of superiority.

In Time Warner Cable, Inc. v. DirecTV, Inc., a cable television service provider sued a satellite television service provider under the Lanham Act based upon internet advertisements depicting cable television as providing “unwatchably blurry, distorted, and pixelated images” of very poor quality. The Second Circuit held that the internet advertisements amounted to puffery which could not support a false advertising claim under the Lanham Act. The visual depictions were categorized as the second form of puffery, because although they were “factually inaccurate,” they were “so grossly exaggerated that no reasonable consumer would rely on them in navigating the marketplace.”

In the notable case of Pizza Hut, Inc. v. Papa John’s International, Inc. case, the puffery defense was successful where a manufacturer of pizza products, Pizza Hut, sued a rival, Papa John’s, and alleged that various slogans used by Papa John’s, including its popular “Better Ingredients. Better Pizza,” advertising campaign, were false, misleading and violated the Lanham Act. A jury trial was conducted. At the conclusion of the presentation of the evidence, Papa John’s filed several motions for judgment as a matter of law, one of which argued that the slogans and campaigns were not actionable statements of fact but were instead statements of opinion and puffery. Papa John’s motion was denied and the jury ruled in favor of

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67 Am. Italian Pasta Co. v. New World Pasta Co., 371 F.3d 387 (8th Cir. 2004).

68 Pizza Hut, Inc. v. Papa John’s Intern., Inc., 227 F.3d 489, 497 (5th Cir. 2000). (“Puffery is a general claim of superiority over comparable products that is so vague that it can be understood as nothing more than a mere expression of opinion”).

69 Id. (“Puffery is an exaggerated, blustering, and boasting statement upon which no reasonable buyer would be justified in relying”).

70 Am. Italian Pasta, 371 F.3d at 393.

71 Id. at 524.

72 Id.

73 497 F.3d at 160.

74 Id. at 148.

75 227 F.3d 489.
Pizza Hut on this issue. The Fifth Circuit overruled the trial court’s denial of Papa John’s motion for judgment as a matter of law and held that absent evidence that the message conveyed by the slogan was material to the purchasing decisions of the consumers to which the slogan was directed Papa John’s slogan was an exaggeration typical of non-actionable puffery. The court also found that the evidence offered by Pizza Hut in this respect was inadequate. Although surveys relied on by Pizza Hut showed almost 50% of respondents believed that “Papa John’s has better ingredients than other national pizza chains,” the study failed to indicate whether the conclusions resulted from the advertisements at issue or from personal eating experiences. As a result, the study was deemed unreliable as a test of the slogan’s materiality, and therefore, the slogan did not constitute a false or misleading statement of fact under §43(a) of the Lanham Act.

Like in Pizza Hut, the court in American Italian Pasta considered the results of a consumer survey conducted by the defendant New World, the plaintiff’s competitor, to test whether the phrase “America’s Favorite Pasta” conveyed to consumers that plaintiff American Italian Pasta’s brand is “#1.” New World reported that thirty-three percent of those surveyed thought it did. The court concurred with the Seventh Circuit’s opinion in Mead Johnson & Co. v. Abbott Laboratories that allowing consumer surveys to dictate a claim’s meaning “would be a bad idea” because it could subject an advertiser or manufacturer to “unintended liability for a wholly unanticipated claim that the advertisement’s plain language would not support.” The court looked unfavorably upon allowing consumer surveys to decide a claim’s meaning because doing so may generate uncertainty that could “chill commercial speech.” The Seventh Circuit had noted that this view is in line with the Lanham Act’s purpose which is to protect against misleading and false statements, not misunderstood statements.

More recently, in Hall v. Bed Bath & Beyond, Inc., a manufacturer filed an action against its competitors, including Bed Bath and Beyond (“BBB”), alleging infringement of a design patent on a large towel and for unfair competition under the Lanham Act. The complaint alleged that BBB was selling a towel that violated the plaintiff’s patent rights and that the packaging used by BBB for its towel, in combination with the use of certain advertising phrases, amounted to false advertising in violation of the Lanham Act. BBB moved to dismiss plaintiff’s complaint for failure to state a claim, which the trial court granted. The U.S. Court of Appeals for the Federal Circuit reversed and held that the plaintiff had, indeed, plead a plausible false advertising claim based on BBB’s claim that its towel had “lasting” performance. The court

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76 Id. at 498.

77 Id. at 504.

78 Am. Italian Pasta, 371 F.3d at 393.

79 201 F.3d 883 (7th Cir. 2000).

80 Id. at 886.

81 Id.

82 Id.

83 705 F.3d 1357 (Fed. Cir. 2013).
found that BBB’s assertion was stated as a fact and not in a particularly exaggerated manner and therefore, it was not puffery.84

2. Opinion Versus Statements Of Fact

Statements of opinion are generally not actionable under the Lanham Act.85 On the other hand, a statement of fact that is specific, measurable and capable of being proved true or false is often actionable. In Coastal Abstract Services, Inc. v. First American Title Insurance Company, an escrow agent brought an action against a title insurance company and one of its officers based on several alleged false and misleading statements. The escrow agent alleged that the defendants made various statements which violated the Lanham Act, including: (a) that the escrow agent was “too small” to handle the mortgage company’s business, (b) that the escrow agent was “not licensed in California” to refinance property as required by California Financial Code §17200, and (c) that the escrow agent was “not paying its bills.”86 A jury ruled in favor of the escrow agent and awarded damages in the amount of $5,900,000. On appeal, the Ninth Circuit ruled that the first statement was not actionable under the Lanham Act because it was vague, not a statement of fact capable of being proved false and, thus, amounted to puffery.87 The court also concluded that the defendant’s statement that the escrow agent was “not licensed in California” to refinance property was an opinion because it was made by laypersons purporting to interpret the meaning of a statute or regulation and, thus, was not a statement of fact.88 The court reasoned that the parties did not know the correct application of §17200 at the time that the title insurance company made that statement because they were laypersons. However, the court held that the title insurance company’s statement that the escrow agent was “not paying its bills” was one of fact because it was capable of being proved true or false and, thus, was actionable under the Lanham Act, thereby justifying the jury’s damage award of $500,000 against the title insurance company’s officer and $1,700,000 against the title insurance company.

In PhotoMedex, Inc. v. Irwin, the Ninth Circuit reversed the entry of summary judgment in favor of the defendant in a case in which a medical device manufacturer of a dermatological laser (“PhotoMedex”) sued a competitor for violation of the Lanham Act89 based on allegations that the defendants misrepresented the anticipated date that their laser would be available for purchase, and an individual’s role as an inventor of PhotoMedex’s laser device. PhotoMedex alleged that in March, 2003, the defendants knowingly misrepresented that the laser would be available that summer, within just a few months. Defendants admitted they did not ship the first laser until September, 2004, more than a year later, but argued they were delayed in part by having to defend against PhotoMedex’s multiple lawsuits. Therefore, the court had to decide

84 705 F.3d at 1368.
86 Coastal Abstract Serv., Inc. v. First Am. Title Ins. Co., 173 F.3d 725, 725 (9th Cir. 1999).
87 Id. at 731.
89 PhotoMedex, Inc. v. Irwin, 601 F.3d 919 (9th Cir. 2010).
whether the subject representations were merely predictions as to future events or statements of existing fact.

The general rule regarding predictions as to future events is that they “are ordinarily non-actionable expressions of opinion under basic principles of the tort of fraudulent misrepresentation.” However, a well-established exception exists where the speaker of an opinion “has knowledge of facts” that contradict espousing that opinion. A statement one knows to be false or in which one lacks good faith belief in its veracity may be actionable. Therefore, in PhotoMedex, the defendants could be held liable for their statement if they knew the product could not be available until a much later date even though they claimed it would be available in August, 2003. PhotoMedex presented expert testimony for the purpose of establishing that in order to move a medical laser from the beginning of design Phase II to production would typically require 12 to 18 months. The court ruled that this was sufficient evidence to raise a genuine issue of material fact as to whether defendants intentionally misrepresented the laser’s release date. The court found that the defendants’ potential motivation for misleading prospective consumers was that, if they believed the product would be available for sale soon, they might hold off on purchasing PhotoMedex’s product to later purchase the defendant’s competing product.

PhotoMedex also claimed that the defendants made misleading statements in distributing a promotional brochure that described individual defendant Irwin as the sole, or at least the primary, inventor of PhotoMedex’s entire laser system. Irwin had actually only worked at PhotoMedex and served on the development team that worked on the laser system. Therefore, defendants’ depiction of Irwin as “the inventor” of the product was found to be actionable because it could mislead consumers into thinking that Irwin invented the product on his own or played a greater role in the development of the product than he actually did. The PhotoMedex court echoed the principle espoused in Cook, Perkiss & Liehe, Inv. V. Northern California Collection Services, Inc., that “a false advertising cause of action under the [Lanham] Act is not limited to literal falsehoods; it extends to false representations made by implication or

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92 Id.
93 601 F.3d at 931.
94 Id. at 932.
95 Id.
96 Id. at 922.
97 Id.
98 Id.
innuendo. Given that the evidence showed that Irwin designed only parts of the system and that patents rightfully credited other individuals with designing “the bulk” of it, the Ninth Circuit vacated summary judgment for those claims and remanded those claims for further proceedings.100

3. Standing Issues

The Lanham Act provides that a person engaged in false advertising “shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act.”101 However, the circuits are split as to what a plaintiff must prove to show one is “likely to be damaged.” The Third, Fifth, Eighth, and Eleventh Circuits rely on a five-factor test. The Seventh, Ninth, and Tenth Circuits use a categorical test. The Second and Sixth Circuits use a reasonable interest test.

a. The Five Factor Test

The five-factor test emulates well-established factors that govern standing under antitrust law. The five-factor test considers: (1) the nature of the plaintiff’s alleged injury and whether the injury is of a type that Congress sought to redress in providing a private remedy for violations of the Lanham Act, (2) the directness or indirectness of the asserted injury, (3) the proximity or remoteness of the party to the alleged injurious conduct, (4) the speculativeness of the damages claim, and (5) the risk of duplicative damages or complexity in apportioning damages.102 The five-factor test was first adopted in Phoenix of Broward, Inc. v. McDonald’s Corp., where a Burger King franchisee brought a false advertising class action against McDonald’s Corporation based on statements, which were rendered false by a third party’s embezzlement, that all promotional-game players had fair and equal chances to win high-value prizes.103 The Eleventh Circuit held that, as a matter of first impression, the five-factor test rather than the categorical test controlled the issue of standing in a Lanham Act false advertising claim. The court concluded that this five-factor test “provides appropriate flexibility in application to address factually disparate scenarios that may arise in the future, while at the same time supplying a principled means for addressing standing under” §43(a) of the Lanham Act.104 Based upon the application of this test, the Court found that the Burger King franchisee lacked standing to raise the Lanham Act claim because of: “(a) the attenuated link between the alleged injury and McDonald’s alleged misrepresentations, (b) the speculative nature of the claimed damages, (c) the potential complexity in apportioning damages, and (d) the significant risk of duplicative damages.”105

100 PhotoMedex, 601 F.3d at 922.
102 Phoenix, 489 F.3d at 1164.
103 Phoenix of Broward, Inc. v. McDonald’s Corp., 489 F.3d 1156 (11th Cir. 2007).
104 Phoenix, 489 F.3d at 1167.
105 Id. at 1173.
The court in *Harold H. Huggins Realty, Inc. v. FNC, Inc.* also employed the five-factor test sustaining the Lanham claims of residential real-estate appraisers against a software company for allegedly appropriating the appraisers’ information transmitted to lending institutions via the defendant’s software, which was then used to develop an electronic real estate valuation service.106 The Fifth Circuit relied on the five-factor test to decide the standing issue stating that the five-factor test was a “valuable heuristic” because “each turn of the prism illuminates a slightly different facet of a single underlying question.”107 It was this wholistic approach that allowed the court to reach its conclusion that, despite the second factor (i.e., indirectness of the asserted injury) weighing against standing, the “combined effect” of the rest of the factors weighed in favor of standing.108 The court stated that the flexible use of the five-factor approach was consistent with the two underlying purposes of the Lanham Act which are to unearth unfair competition methods and to protect business from the unjust erosion of their good will and reputation.109

b. The Categorical Test

In order to bring a claim for false advertising against a company under the categorical test the claimant must be a direct competitor of that company. In *Stanfield v. Osborne Industries, Inc.*, the inventor of an agricultural product who had entered into a license agreement with a manufacturer alleged a false advertising claim under the Lanham Act arising from the manufacturer’s use of the inventor’s marks without authorization.110 The manufacturer contended that the marks were not protected and that the inventor no longer possessed the right to enforce his marks. The district court entered summary judgment in favor of the manufacturer. The Tenth Circuit affirmed the decision and held that the inventor did not have standing to bring the false advertising claim under the Lanham Act because he did not allege a competitive injury. The court reasoned that because a false advertising claim under the Lanham Act implicates the purpose of preventing unfair competition, the plaintiff must be a competitor of the defendant and allege a competitive injury to have standing. Therefore, the plaintiff, who invented the product but did not sell it, lacked standing because he was never in competition with the defendants.111

In *L.S. Heath & Son, Inc. v. AT&T Information Systems, Inc.*, a chocolate manufacturer (“Heath”) purchased a computer system from AT&T, which ultimately did function properly and resulted in a suit being filed in state court alleging that, *inter alia*, AT&T had engaged in false advertising when it ran an advertisement which read, “Once Heath chose AT&T, all the ingredients came together.” AT&T removed the case to federal court. Heath alleged that the

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106 634 F.3d 787 (5th Cir. 2011).
107 Id. at 797.
108 Id.
109 Id. at 806.
110 52 F.3d 867, 867 (10th Cir. 1995).
111 52 F.3d at 873.
publication of the advertisement misrepresented the system acquired from AT&T and portrayed Heath in a false light because the system that Heath purchased never functioned to Heath’s satisfaction and, as such, Heath did not wish to be associated with this computer system. \(^{112}\) The trial court found that the advertisement was not false during the period it was aired because Heath had approved the advertisement. The Seventh Circuit agreed and held that Heath had no standing to allege a false advertising claim because it had not established a discernible competitive injury and because it could not call itself a competitor of AT&T given that it was not involved in the computer business.

c. The Reasonable Interest Test

By contrast, the reasonable interest test only requires that claimants show that the false advertising likely caused them to suffer an injury. This test, however, does not require a showing of actual losses as a result of the allegedly false advertising. In *Frisch’s Restaurant, Inc. v. Elby’s Big Boy of Steubenville, Inc.*, an exclusive licensee of the “Big Boy®” trademark and service mark brought suit for infringement against a terminated Big Boy licensee who continued to use the marks after termination.\(^{113}\) The trial court issued an injunction prohibiting continued use of the marks. On appeal, the Sixth Circuit affirmed the trial court’s injunction and held that a “likelihood of confusion” existed warranting injunctive relief against defendant’s advertisements without the need for the plaintiff to show an actual loss of business.

The Supreme Court has agreed to review the standing requirements to pursue a false advertising claim under the Lanham Act in the case involving *Static Control Components, Inc. v. Lexmark Intern., Inc.*\(^{114}\) In *Lexmark*, a toner cartridge supplier brought an action against a laser printer and cartridge manufacturer seeking a declaration that the supplier’s redesigned toner cartridge microchips did not infringe upon the manufacturer’s patents. The *Lexmark* case arises out of efforts by Lexmark to restrict the ability of re-manufacturers to re-sell Lexmark toner cartridges for its printers. Lexmark developed microchips for toner cartridges and printers so that Lexmark printers would reject any toner cartridges not containing a matching microchip, and over time Lexmark patented certain aspects of the cartridges. Static Control replicated the cartridge microchips and sold the microchips to re-manufacturers along with other parts to facilitate the repair and resale of Lexmark toner cartridges. Lexmark sued for intellectual property violations and Static Control counterclaimed for, *inter alia*, false advertising. Static Control alleged that Lexmark falsely informed customers that Static Control’s products infringed Lexmark’s purported intellectual property and misled Static Control customers into believing that Static Control was engaging in illegal conduct because license agreements prohibited re-manufacturing Lexmark toner cartridges.

The district court dismissed the Lanham Act claim for lack of standing. The Sixth Circuit reversed, employing the Second Circuit’s “reasonable interest” approach and finding that the claimant could demonstrate: (1) a reasonable interest to be protected against the alleged false advertising; and (2) a reasonable basis for believing that the interest is likely to be damaged by

\(^{112}\) 9 F.3d 561, 561 (7th Cir.1993).

\(^{113}\) 670 F.2d 642 (6th Cir. 1982).

\(^{114}\) 697 F.3d 387 (6th Cir. 2012).
the alleged false advertising.\textsuperscript{115} The Sixth Circuit concurred with the Second Circuit’s recent rejection of applying a blend of the reasonable interest test with the five-factor approach.

In Lexmark’s petition to the U.S. Supreme Court, Lexmark has asked the Court whether the appropriate analytic framework for determining a party’s standing to maintain an action for false advertising under the Lanham Act is (1) the five-factor test, (2) the categorical test, or (3) the reasonable interest test. The Supreme Court’s decision is highly anticipated to clarify which framework is ultimately the best-suited approach.\textsuperscript{116}

4. Whether Statement Is Part Of Commercial Advertising Or Promotion

Statements made as part of commercial advertising or promotion can have the potential of significantly impacting markets. In order for a statement to be considered advertising or promotion, a plaintiff must demonstrate that the challenged statement is not an isolated, informal, or personal communication. Rather, the statement must be made with the intent to induce a sale and be sufficiently disseminated to the target market. A statement made as part of an organized campaign contrived to induce a commercial transaction is likely to meet the threshold more easily. However, courts have often made it clear that the form of the advertising or promotion does not matter as long as the statement is made with the purpose of effectuating a commercial transaction. A single instance of commercial advertising or promotion such as a letter to a few businesspeople has been found to be sufficient.\textsuperscript{117}

Most courts use the four-part test set forth in Gordon and Breach Science Publishers S.A., STBS, Ltd. and Harwood Academic Publishers GMBH v. American Institute Of Physics and American Physical Society\textsuperscript{118} to determine whether representations qualify as “commercial advertising or promotion.” Under the four-part test, to qualify as “commercial advertising or promotion,” the contested representations must be “(1) commercial speech; (2) by a defendant who is in commercial competition with plaintiff; (3) for the purpose of influencing consumers to buy defendant’s goods or services”; and, (4) although representations less formal than those made as part of a classic advertising campaign may suffice, they must be disseminated sufficiently to the relevant purchasing public.

In Seven-Up Co. v. Coca-Cola Co., the court rejected Seven-Up’s Lanham Act false advertising action which alleged that Coca-Cola made false and misleading commercial sales presentations to convince independent bottlers to switch brands because of insufficient evidence that Seven-Up suffered an injury.\textsuperscript{119} Seven-Up alleged that Coca-Cola’s presentation

\begin{footnotes}
\item[115] Id. at 410 (citing Famous Horse, Inc. v. 5th Ave. Photo Inc., 624 F.3d 106, 113 (2d Cir. 2010)).
\item[118] 859 F.Supp. at 1535-36.
\item[119] 86 F.3d 1379 (5th Cir. 1996).
\end{footnotes}
materials were specifically developed and designed by Coca-Cola to target independent bottlers and convince them, based on comparative sales statistics, to switch from Seven-Up® to Sprite®. The promotional presentation that was finally developed, “The Future Belongs to Sprite,” was comprised of, inter alia, visual aids such as charts, graphs, and overhead projections which were shown in their entirety to at least two bottlers. During the jury trial, one bottling company’s director testified that the bottling company did not rely on the presentation in deciding to introduce Sprite into its market. Another board member testified that the bottling company had been considering distributing Sprite and selling the Seven-Up distributorship for years, but that it had decided against selling it for tax reasons. At the conclusion of the evidence, the trial court granted Coca-Cola’s motion for judgment as a matter of law as to Seven-Up’s claims on the grounds that Seven-Up had failed to present sufficient evidence on the issue of causation.

The Fifth Circuit found that Coca-Cola’s use of part or all of the presentation materials during negotiations with representatives of the eleven “cross-franchise” bottlers did not constitute merely isolated, individual statements of opinion by a single sales representative to a single customer. The court found that the Coca-Cola presentation was specifically intended to influence consumers to buy its product and that it was disseminated sufficiently to the relevant purchasing public, i.e., the bottlers, to constitute “advertising” or “promotion.” Therefore, the court found that Seven-Up had properly stated a claim under the Lanham Act that was consistent with the pro-competitive and broad remedial goals of the Lanham Act. Nevertheless, the Fifth Circuit affirmed the lower court’s granting of Coca-Cola’s motion for judgment as a matter of law on the grounds that although the sales presentation did meet the definition of “commercial advertising or promotion” under Lanham Act’s false advertising provision, (1) evidence was insufficient to establish that two bottlers switched brands because of the presentation; (2) Seven-Up failed to show that it would suffer irreparable harm if Coca-Cola was not permanently enjoined from using the allegedly misleading sales presentation; and (3) Coca-Cola’s use of allegedly false and misleading statistical data did not make the case “exceptional,” as required to support award of attorney fees.

In Fashion Boutique of Short Hills, Inc. v. Fendi USA, Inc., the court rejected plaintiff Fashion Boutique’s Lanham Act false advertising claims for failure to prove that the alleged misrepresentations about plaintiff’s products were widely disseminated. Because the marketplace for that business contained thousands of customers, the court found that evidence that Fendi’s salespeople made 27 oral statements to customers and undercover investigators about Fashion Boutique’s products was insufficient to show that the alleged misrepresentations were widely disseminated. The Second Circuit affirmed the district court’s findings supporting the granting of Fendi’s motion for summary judgment that: (1) the statements suggesting that Fashion Boutique sold a “different” line were not disparaging because “different” does not impugn the quality of the product; (2) the declarations by customers alleging to have “heard rumors” that Fashion Boutique sold fake items was inadmissible hearsay and thus could not be considered on a motion for summary judgment; and (3) disparaging remarks made after Fashion Boutique closed were not actionable under the Lanham Act and, because plaintiff and

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120 Id.
121 Id. at 1390.
122 314 F.3d 48 (2d Cir. 2002).
defendants were no longer competitors, were not relevant. Furthermore, the Second Circuit agreed with the district court that because any disparaging remarks that were made occurred only after the customers initiated a discussion about Fashion Boutique, the district court concluded that the communications were reactive and not proactive.

In *Sports Unlimited, Inc. v. Lankford Enterprises, Inc.*, the Tenth Circuit affirmed the trial court’s grant of summary judgment in favor of the defendant on the grounds that the defendant’s statements about the plaintiff were not widely disseminated and, therefore, did not violate the Lanham Act.\(^{123}\) The court held that the claims of a supplier of gymnasium floors were not “commercial advertising or promotion” within the meaning of the Lanham Act’s proscription of unfair competition because the evidence showed only that the competitor had distributed the alleged statements to the contractor and architect on one project for which the plaintiff actually was retained.

The sophistication of the target audience was a factor in the court’s holding in *Suntree Technologies, Inc. v. EcoSense International, Inc.*, wherein Suntree asserted that a maintenance presentation and product brochure created by defendant EcoSense which contained pictures of Suntree’s baffle boxes constituted commercial advertising or promotion and violated the Lanham Act. The trial court considered whether EcoSense’s product brochure and maintenance presentation was used for the purpose of influencing consumers to buy EcoSense’s goods or services and whether they were disseminated sufficiently to the relevant purchasing public to constitute advertising or promotion within that industry. The trial court determined that summary judgment in favor of EcoSense was warranted given that EcoSense’s placement of pictures of Suntree’s baffle boxes in its maintenance presentation did not amount to false advertising because: (a) the purpose of the maintenance presentation was not to influence consumers to purchase the competitor’s baffle boxes, but rather to provide training to those who had already done so, (b) the presentation, which was provided only to two cities and was on competitor’s website for a month or less, was not sufficiently disseminated to the relevant purchasing public, and (c) the use of the pictures was not a literally false and material statement.\(^{124}\) Accordingly, the court held that the maintenance presentation did not constitute advertising or promotion under the Lanham Act.

5. **No Evidence Of Injury**

Defendants may be able to defend against a Lanham Act false advertising claim if they can demonstrate that a plaintiff cannot prove actual or probable injury. In *Brosnan v. Tradeline Solutions, Inc.*, a foreclosure consultant brought an action against a vendor alleging unfair business practices under federal and state law. The defendant (“Tradeline”) argued that there was no evidence of any competitive injury to the plaintiff (“Brosnan”) because, *inter alia*, (a) Brosnan and Tradeline were not in competition with one another and, indeed, provided entirely different products and services to their respective customers, and (b) Brosnan had not suffered any actual damages or injury as a result of Tradeline’s actions.\(^{125}\) The evidence demonstrated that unlike Brosnan, Tradeline did not offer its customers foreclosure consulting, did not assist

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\(^{123}\) 275 F.3d 996 (10th Cir. 2002).

\(^{124}\) 802 F.Supp.2d 1273 (M.D. Fla. 2011).

\(^{125}\) 681 F.Supp.2d 1094, 1100 (N.D. Cal. 2010).
people by reviewing loan default papers, did not review customers’ credit reports to determine if such reports contained erroneous information, and did not contact credit bureaus to help correct customers’ credit histories. Rather, Tradeline engaged its customers in its only two products which were “credit piggybacking” and “seasoned primary accounts.”126 As such, because Brosnan and Tradeline were not competitors, thus resulting in a lack of evidence of competitive injury, the court granted Tradeline’s motion for summary judgment on the Lanham Act claim.127

In Ortho Pharmaceutical Corp. v. Cosprophar, Inc.,128 a pharmaceutical company sought to enjoin Cosprophar, the manufacturer of two products effective for treating skin aged by exposure to the sun, from advertising that its cosmetics had an “anti-aging effect” or were otherwise effective at diminishing wrinkles and other signs of sun damage. The pharmaceutical company, Ortho, manufactured a product known as RETIN-A, which was classified by the FDA as a drug and approved only for the treatment of acne. However, studies reflected that RETIN-A also was effective in treating photodamaged skin, which resulted in a substantial increase in the sale of RETIN-A, despite that use of RETIN-A to treat photodamaged skin was not expressly permitted by the FDA. Capitalizing on the increased interest in RETIN-A, Cosprophar, an Italian-based corporation organized under the laws of New York, introduced its products into the U.S. market through a series of advertisements that discussed the usefulness of transretinoic acid in treating photodamaged skin. Unlike Ortho’s product, RETIN-A, which was considered a drug, Cosprophar’s product was designated as a cosmetic, and thus was subject to far less restrictions as to how the product could be advertised and used. The advertisements stated that Cosprophar’s anti-aging cosmetics contained “retinol” a chemical similar to transretinoic acid that was similarly effective in reducing wrinkles. They also indicated that the main distinction between retinol and transretinoic acid was that “retinol is used as a drug and can cause reddening and irritation,” something not found in transretinoic acid. Unlike Ortho, Cosprophar sold its products only through pharmacies, and thereafter provided training to the pharmacy sales staff about its products and provided them with bulletins containing technical and marketing information.

Ortho alleged that the Cosprophar’s advertisements were false and misleading, and thus in violation of the Lanham Act, because it unfairly compared RETIN-A with Cosprophar’s products without advising the consuming public of the material distinctions between the products. Ortho sought an injunction barring Cosprophar from selling cosmetics under any of the anti-age names and from distributing advertisements stating that the anti-age products (1) contain retinol or “super retinol,” (2) had an “anti-aging effect,” (3) were effective for diminishing wrinkles or other effects of photoaging, and (4) had been proven reliable by scientific evidence for diminishing wrinkles or other effects of photoaging. The trial court denied the request for the injunction and dismissed the complaint. The trial court ruled that Ortho lacked standing because it failed to establish (a) that it had a protectable interest in either its off-label sales of RETIN-A or its future sales of other similar products, and (b) that there was insufficient proof that Cosprophar was causing or would likely cause it injury. Importantly, the court found that Ortho had failed to present evidence, such as through consumer surveys or consumer witnesses, that Cosprophar’s advertising would cause consumers to view Cosprophar’s cosmetics as

126 Id.

127 Id. at 1101.

128 32 F.3d 690, 690 (2d Cir. 1994).
substitutes for Ortho’s drugs. The Second Circuit affirmed the dismissal and held that a plaintiff must show more than a “subjective belief” that it will be damaged in order to recover damages.

III. SPECIAL FALSE ADVERTISING ISSUES FOR FRANCHISING

Courts have imposed liability for false advertising on franchisors under two branches of the agency theory: actual agency and apparent agency. First, under actual agency, a franchisor may be held liable for exerting day-to-day control over the franchisee. Jurisdictions differ in the level of control a franchisor must exercise on a franchisee over day-to-day operations in order to assign liability. However, where the franchisor exerts control over a franchisee exclusively to protect trademarks and the quality of its product, courts have been very hesitant to impose liability on the franchisor. Second, courts can find that a franchisor has created an apparent agency relationship with a franchisee where a plaintiff reasonably and justifiably believes that the franchisor controls the franchisee’s business operations and detrimentally relies on that belief. In order to succeed on the claim, the plaintiff must establish that what drove him to select the franchisee’s business was precisely the expectation of quality from the franchisor’s reputation.129

In cases where plaintiffs seek to impose liability under the theory of actual agency, courts construe the day-to-day operations test narrowly. Franchisors’ efforts to protect their trademarks do not create an agency relationship. Therefore, general policies and procedures to conserve the uniformity of products and experiences will not create an agency relationship. However, courts have found liability where franchisors mandate very detailed instructions under which franchisees must conduct their business operations. In Theos & Sons, Inc. v. Mack Trucks, Inc., Mack Trucks’ insistence that its dealers use only parts supplied by it or a company that it recommended did not demonstrate control, but rather reflected “the ordinary desire of its trademark that it is allowing another to display.”130

In addition, a franchisor may issue guidelines designed to control the quality of its products without incurring liability as long as the franchisee retains sufficient authority to execute those standards. For instance, in Hong Wu v. Dunkin’ Donuts, Inc., the court did not find Dunkin’ Donuts liable for a late-night robbery and battery at a franchisee’s store because the franchisor did not mandate how the franchisee should secure the store.131 Therefore, the court found the franchisor had no control over the instrumentality that caused the tort.

Plaintiffs can also operate under the theory of apparent agency in cases where the franchisor does not control the franchisee’s day-to-day operations. In these cases, the plaintiff is required to show a justifiable belief that the franchisor has certain control over the franchisee and the plaintiff detrimentally has relied on this belief. The most challenging part of prevailing under an apparent agency theory for a plaintiff is proving detrimental reliance. In Wood v. Shell Oil, the court denied the plaintiff’s claim that a local franchisee had an apparent agency relationship with Shell Oil because there was no evidence that the plaintiff chose to do business


131 105 F.Supp.2d 83 (E.D.N.Y. 2000).
with Shell Oil because of his belief that Shell Oil was a more responsible party than its competitors. In contrast, plaintiffs have been successful in raising apparent agency claims where they can demonstrate sufficient reliance on the franchisor’s reputation. For example, in Crinkley v. Holiday Inn, a guest who was assaulted and robbed during her stay at the hotel that testified she chose the hotel based on her previous positive experiences with the hotel chain established a sufficient level of reliance on the national reputation of the brand to send the case to the jury.

A. Consumer Class Actions For False Advertising

False advertising claims brought on behalf of a purported class of consumers have typically not fared well given the difficulty in meeting the requirements of Rule 23 of the Federal Rules of Civil Procedure governing a class action. In Pelman v. McDonald’s Corp., the plaintiffs, parents, on behalf of minor children, brought state-court action against McDonald’s, claiming that McDonald’s violated N.Y. GEN. BUS. LAW §349 by misleading consumers into falsely believing that its food products could be consumed on a daily basis without incurring any adverse health effects. The plaintiffs asserted that, as a result of McDonald’s allegedly deceptive marketing scheme, the plaintiffs and putative class members suffered injury in the form of the development of certain adverse medical conditions. The court denied certification because the plaintiffs failed to satisfy Rule 23(a)’s numerosity requirement, Rule 23(b)(3)’s predominance requirement, and Rule 23(c)(4). The Rule 23(a) numerosity requirement was not satisfied because “[p]laintiffs have not yet established that there are any other persons within the relevant age group who were exposed to the nutritional marketing at issue, then regularly ate at McDonald’s, and subsequently developed the same medical injuries as those allegedly suffered by [p]laintiffs.” Regarding Rule 23(b)(3), individualized inquiries predominated regarding: (1) the causal connection between the consumption of products of a certain nutritional make-up and the development of certain physical or medical conditions in particular plaintiffs; (2) the extent to which McDonald’s establishments were the primary source of these types of products for each particular plaintiff; and (3) the causal connection between each plaintiff’s exposure to the allegedly misleading aspects of McDonald’s advertising scheme and each plaintiff’s subsequent consumption of the allegedly injurious products. Finally, the court denied plaintiffs’ motion for certification of an issue class under Rule 23(c)(4) because the plaintiffs failed to satisfy all of the requirements of Rules 23(a) and (b)(3).

B. “Green” Advertising Claims

Claims as to a product or services’ environmental status is another area that is potentially prone to false or misleading advertising. Franchised businesses should be mindful of the Federal Trade Commission’s “Green Guide” for making environmental claims. The guidelines are designed to help marketers ensure that the environmental claims they make regarding their products are truthful and non-deceptive. The guidelines were first issued in 1992. On October, 2012, the FTC issued revised “Green Guides.” Some helpful suggestions include:

132 495 So.2d 1034 (Ala. 1986).

133 844 F.2d 156 (4th Cir. 1988).


135 Id. at 99.
➢ Do not make broad, unqualified general claims such as “green” or “eco-friendly” because they are difficult to substantiate.

➢ It is important to qualify general claims with clear, prominent, and specific environmental benefits.

➢ Have competent and reliable scientific evidence to support carbon offset claims, including the use of appropriate accounting methods to measure emission reduction properly.

➢ Obtain competent and reliable scientific evidence that a product is safe for both people and the environment before claiming a product is “non-toxic.”

➢ Remember that it is deceptive to misrepresent a product as “ozone-friendly” or as safe for the ozone layer or atmosphere.

➢ Qualify recyclable claims when recycling facilities are not available to at least 60 percent of the consumers or communities where a product is sold.\(^\text{136}\)

C. Food Advertising

Much like “green” advertising, the advertising of food products, especially from the standpoint of what is considered to be “healthy,” is “ripe” for false or misleading claims. For example, in *Sensible Foods, LLC v. World Gourmet, Inc.*, the plaintiff and the defendants, competitors in the healthy snack food business, both used, or sought to use, trademarks that prominently featured the word “sensible” in their respective products.\(^\text{137}\) After the court had dismissed the plaintiff’s false advertising claims in the initial Complaint because they identified no false statements of fact, the plaintiff filed an amended complaint which alleged that the defendants made false statements in the advertising of their products by: (1) using the word “veggie” in the name of its Veggie Straws, Veggie Chips, and Veggie Crisps products when in fact those products are “primarily potato product[s],”; (2) using the word “apple” in the name of its Apple Straws product when in fact that product is a “primarily potato product,”; (3) making various health-related claims - for example, that the defendants’ products are “the next generation in unique and better-for-you snacks” - that mislead the public into thinking defendant’s products are healthy; and (4) on the defendant’s logo, positioning the trademark “Sensible Portions” partially in front of a heart-shaped design, in a manner that mislead the public into thinking defendants’ products were healthy.

The court, when faced with defendants’ motion to dismiss under Rule 12(b)(6) found that the plaintiff’s claims did not meet plausibility requirement set forth in *Ashcroft v. Iqbal*.\(^\text{138}\) The court found it strained the boundaries of the English language to say that defendants’ products, made primarily from potatoes, were not of “veggies.” Similarly, the court found that plaintiff’s


\(^{137}\) 2012 WL 566304 (2012).

complaint of the use of the word “apple” in the name of the Apple Straws products, all the while alleging that the product contained pureed apples, was not actionable. The court disagreed with plaintiff’s claim that defendants made actionably false health claims and determined that the plaintiff could not credibly claim that the words “veggie” and “apple,” when used to describe products containing veggies and apples, were literal falsities. In support, the court cited the proposition set forth in Coastal Abstract Services, Inc. v. First American Title Insurance Co. that actionable statements are “capable of being proved false or of being reasonably interpreted as a statement of objective fact.” Accordingly, the court found that the statements identified by plaintiffs constituted puffery. For instance, the statement that defendants’ products contained the “right” ingredients was not a factual statement capable of being proved false. Similarly, the court opined that a consumer could not reasonably take defendants’ claim that its products were “guilt free” as a statement of objective fact. Plaintiff’s last argument was that the Sensible Portions® logo itself formed the basis of a false advertising claim because it included a heart symbol was disregarded by the court on the grounds that a heart symbol was not a statement that was “capable of being proved false or of being reasonably interpreted as a statement of objective fact.” As a result, the court concluded that plaintiff’s false advertising claims failed as a matter of law and granted defendants’ motion to dismiss the Lanham Act claims with prejudice.

D. Social Media Risks And Implications

When advertisements are widely disseminated via social media, at least one court held that the plaintiff was not required to show an actual injury to obtain injunction relief. In Northern Star Industries, Inc. v. Douglas Dynamics LLC, a snowplow manufacturer (“Northern Star”) brought action, and sought an injunction, against a competitor (“Douglas”) alleging false and misleading advertising in violation of the Lanham Act. Northern Star had designed, manufactured, and sold snowplows under the “Boss” brand for over 20 years and had acquired a reputation for durability, reliability, service, quality construction, and safety. Douglas manufactured and sold its products under two brands “Fisher®” and “Western®,” which were in direct competition with the plaintiff’s “Boss®” brand. Both companies manufactured trip-blade and trip-edge plows with distinct advantages and disadvantages.

This action was spurred by a comparative advertising campaign that Douglas implemented involving print advertisements, websites, videos and social media such as Facebook. Northern Star contended that Douglas made advertising claims that were literally false, and even if they were not literally false, they were misleading. First, Northern Star argued that Douglas’ print and video advertisements falsely stated that Northern Star’s trip-blade v-plows “can’t” or “cannot trip” when positioned in “V” or “scoop” mode. Northern Star also maintained that Douglas’ advertising campaign falsely claimed that users of its product would be physically injured, but users of Douglas’ product would not. Importantly, the advertising videos were spread via Facebook. As such, when an individual visited Douglas’ website and posted that he or she “liked” the video, that “like” became visible to their network of friends. Northern Star’s marketing director described Douglas’ campaign “a fear campaign which is tied to safety” and complained that “there is no more powerful motivator than a fear campaign.”

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139 173 F.3d 735, 731 (9th Cir. 1999).


141 Id. at 938.
market research indicated that safety was a key concern of snowplow dealers, operators, and customers.

During the injunction hearing, the court found that Douglas' evidence to support its advertisements as to the potential for injury sustained through use of Northern Star's product lacked sufficient reliability. As a result, Northern Star was not required to present actual evidence of consumer confusion arising from that advertisement. Northern Star did not present any evidence of direct diversion of sales from itself to Douglas, but instead relied upon credible testimony to establish injury through the loss of goodwill because of the false statements relating to the potential for injury of a consumer. The court ultimately issued the injunction requested by Northern Star on the grounds that Northern Star was likely to succeed in proving that the two claims promoted by Douglas' campaign were false.

IV. BEST PRACTICES TO AVOID FALSE ADVERTISING CLAIMS

This section discussed some practical issues to consider in evaluating proposed advertising and describes "best practices" for minimizing exposure for a false advertising claim. It concludes with a practical checklist for reviewing proposed advertising to identify and avoid potential problems.

A. Consider The “Reasonable Consumer” Standard

Courts and the FTC apply a “reasonable consumer” standard in evaluating whether an advertisement is deceptive or likely to deceive. The FTC's “Policy Statement On Deception” is instructive regarding the meaning of the "reasonable consumer" standard:

The test is whether the consumer’s interpretation or reaction is reasonable. When representations or sales practices are targeted to a specific audience, the Commission determines the effect of the practice on a reasonable member of that group. . . . In evaluating a particular practice, the Commission considers the totality of the practice in determining how reasonable consumers are likely to respond.

A company is not liable for every interpretation or action by a consumer. . . . To be considered reasonable, the interpretation or reaction does not have to be the only one. When a seller’s representation conveys more than one meaning to reasonable consumers, one of which is false, the seller is liable for the misleading interpretation.142

The interpretation of a reasonable consumer will, of course, vary according to the nature of the product and the context of the advertisement. Ads targeted to children will be interpreted from the perspective of a child. Ads for expensive business equipment will be viewed from the perspective of a more sophisticated purchaser who would be expected to take time and exercise greater care in the purchasing decision, as opposed to an ad for a less expensive consumer product directed to individuals.

There is no bright line test for what percentage of consumers must be deceived in order to report a false advertising claim. Courts tend to describe the standard in terms of a

142 Available at http://www.ftc.gov/bcp/policystmt/ad-decept.htm.
“substantial portion of the intended audience.” In terms of numbers, courts have held that levels of 3% and 7.5% were not sufficient to support liability. On the other hand, courts have held that evidence showing that 15%-20% of effected customers were misled would be sufficient to establish likelihood of deception among a significant portion of consumers.

B. Analyze The Entire Context Of The Ad And Consider Implied Claims

Words of an advertisement might be literally true standing alone, but the context of the statement can render the ad false or misleading and therefore actionable under the Lanham Act. The Pizza Hut Inc. v. Papa John's International Inc. case, discussed in Section I.A., above, is an example of how the context of an advertisement can turn an otherwise innocuous statement into an actionable false advertisement claim. Papa John's statement "Better Ingredients. Better Pizza." by itself was merely puffery, but when that statement appeared in an advertisement comparing Papa John's pizza dough and sauce to that of its competitors, the Fifth Circuit held that the context in which that wording appeared could support a false advertising claim.

As reflected in the Pizza Hut case, visual images included as part of the advertisement can change the consumer perception of the ad's message or convey additional messages beyond the words used. For example, a television ad depicting a competitor's plastic food storage bag leaking liquids faster than the advertiser’s bag could be perceived as making a representation regarding the relative superiority or characteristics of the advertiser’s bag even if those issues were not the focus of the statements made in the ad.

Other cases illustrate examples where a competitor challenged implied claims allegedly arising from images used in advertisement. In Time Warner v. DirecTV, DirecTV ran certain television commercials and internet advertisements depicting extremely bad television reception for Time Warner's cable service. Time Warner sued claiming that the internet images showing a sharp, clear picture on the DirecTV side versus a highly pixelated image on the other side constituted an implied claim regarding Time Warner's HD picture quality, which was false. The district court agreed with Time Warner, and while the Second Circuit reversed that aspect of the district court's decision, this case is an example of the problems that can arise as a result of implied claims. The point is that using visual imagery can change the meaning or perception

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144 McCarthy on Trademarks §27:57, at 27-142 (collecting cases).

145 id.

146 See, e.g., Cashmere & Camelhair Mfrs. Institute v. Saks Fifth Avenue, 284 F.3d 302, 310 (1st Cir. 2002).

147 See Pizza Hut, Inc., 227 F.3d at 495.


149 497 F.3d 144 (2d Cir. 2007)

150 See also Scott Co. v. United Industrial Corp., 315 F.3d 264, 274-275 (4th Cir. 2002) (image of mature crabgrass in advertisement containing phrase "presents crabgrass up to four weeks after germination" challenged as being implied claim that defendants products killed preexisting mature crabgrass, although court ultimately denied claim).
of an ad, and the advertiser should take care to analyze and vet all potential messages that the 
ad could convey.

The context of an advertisement also must be considered from the perspective of the 
targeted audience. For example, in *Avis Rent a Car System Inc. v. The Hertz Corp.*, Avis 
challenged Hertz's advertisement stating: "Hertz has more new cars than Avis has cars." Avis 
claimed that Hertz's overall fleet was larger, but Hertz argued that it had more rental cars available than Avis did. The fact that Avis had more cars than Hertz 
seemingly rendered Hertz's statement false, and the district court so held. On appeal, however, 
the Second Circuit analyzed the context of the ad, including references to rentals in the 
advertisement, the reputations of the parties as car rental companies and the fact that the ad 
appeared in publications targeted to travelers, and on that basis held the advertisement, when 
read in full context, actually related to cars available for rental and thus was accurate.

C. Review The Basis For Establishment Or Comparative Claims

The primary purposes of advertising are to promote the capabilities or characteristics of 
one's product or service, and to show how one's product or service is better than the 
competition. But ads containing such establishment or comparative claims are generally 
scrutinized closely by competitors and are the types of advertisements most likely to draw legal 
fire if a competitor disputes the basis or propriety of such claims.

As discussed in Section II.A.3. above, establishment claims represent that tests or 
studies show that a product has certain measurable performance or characteristics. All 
establishment claims must have a reasonable basis to support the claim at the time the 
advertisement is issued.

The first step in analyzing an establishment claim is to identify and review the testing or 
scientific evidence on which the claim is based. The tests or studies must establish the 
proposition conveyed in the ad. In addition, the tests or studies must be sufficiently reliable to 
support the conclusions reached. To ensure reliability, companies should use recognized 
industry-standard test methods or protocols if they exist because failure to do so will at least 
raise a question about the validity of the substantiation. As a general rule, tests conducted by 
competent outside professionals are preferable to tests conducted internally because they are 
generally less susceptible to claims of bias or subjectivity. The testing should also replicate 
normal use conditions, as courts have held that tests conducted under "laboratory conditions" 
did not support an establishment claim based on how the product is normally used.

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151 782 F.2d 381 (2d Cir. 1986)

152 782 F.2d at 385.

153 See FTC Policy Statement Regarding Advertising Substantiation, available at http://ftc.gov/bcp/guides/ad3subst.htm. After-the-fact testing or other attempts to substantiate an advertisement will 
not do. See *Castrol Inc. v. Quaker State Corp.*, 977 F.2d 57, 62 (2d Cir. 1992).

154 See *Castrol*, 977 F.2d at 63.

155 Id.

defendant's testing for roach traps where test did not realistically compare "to how these products are applied in the
Comparative ads can be particularly sensitive because they name or at least imply the identity of a particular competitor’s product. A claim does not have to expressly identify the competitor’s product by name or even by company to constitute a comparative claim.\textsuperscript{157}

As with establishment claims, comparative or superiority claims should be based on appropriate evidence, usually in the form of test or study, supporting the advertiser’s assertions. A competitor may challenge a comparative claim either by presenting its own evidence showing that the ad claim is untrue or by showing that the advertiser’s purported basis does not support the claim.\textsuperscript{158}

One reviewing a comparative ad should analyze all arguably comparative claims, both expressly stated and implied by the context of the ad. Courts will analyze whether a substantial percentage of consumers interpret the advertisement in a certain way, even if the advertiser did not intend that particular message.\textsuperscript{159} A reviewer therefore must think broadly about how consumers – and especially competitors – will interpret an ad, and make sure that any reasonable interpretation is both accurate and supported.

In addition, a comparative ad must be fair and must involve generally comparable products. For example, an advertiser should not compare its “deluxe” product to a competitor’s basic level product where the competitor offers a more comparable product to the product being advertised. If there are material differences between the products being compared, the advertiser should disclose those differences in a conspicuous manner.

As with establishment claims, advertisements comparing products should reflect the normal conditions of use. For example, a comparative demonstration of the side-by-side performance of two products might be misleading if the conditions of the comparison do not replicate normal conditions of use.

Finally, a company must monitor its advertisements after they are released to make sure they remain valid in light of market developments. If a competitor updates its product or replaces it with a new version, advertisements focusing on the older product could be misleading. Similarly, tests or studies should always be conducted on the most current version a competitor’s product.

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\textsuperscript{157} See, e.g., \textit{Pizza Hut, Inc. v. Papa John’s Int’l, Inc.}, 227 F.3d 489 (5th Cir. 2000) (defendant’s ad with slogan “Better Ingredients. Better Pizza.” did not specifically refer to Pizza Hut’s product but nonetheless was deemed a comparative ad).

\textsuperscript{158} See \textit{Castrol}, 977 F.2d at 63; \textit{Castrol, Inc. v. Pennzoil Co.}, 987 F.2d 939, 943 (3d Cir. 1993) (advertisement by motor oil manufacturer held to be false because test on which ad was based was not designed to measure the particular product quality for which the ad claimed superiority).

D. Impact Of Disclaimers And Qualifiers

Disclaimers can be an effective way to prevent consumer misperceptions of a particular advertisement. But disclaimers are not a cure-all. They will not cure an expressly false statement. A company also should not assume that a disclaimer will necessarily insulate it from liability for an ad that is materially misleading.160

Courts have approved the use of disclaimers under certain circumstances. In an older case, the Fourth Circuit explained that “it is well settled that if the contested phrase is susceptible to two meanings so that an explanatory phrase will preclude deception, it is sufficient to acquire the addition of the explanation rather than prohibit using the ambiguous phrase.”161 Regarding testimonials and endorsements, however, the most recent FTC guidelines require more explicit disclosures in ads reporting atypical results from use of the advertiser’s products or services.162

To be effective, a disclaimer generally must be conspicuous enough to be seen or heard in the context of the overall advertisement. The small type in the bottom corner of a print ad, or quickly spoken words at the end of a television commercial, will not suffice.163 The disclaimer should disclose all material information necessary to clarify or correct any potential false impressions, including material details regarding the products tested or limitations on the testing performed. As with other areas of false advertising law, courts will look to the overall impression the ad presents to determine whether a disclaimer is effective in conveying the accurate message or in guarding against any false messages.

Another practical problem with the use of disclaimers is that it might appear that the advertiser is trying to defend what would otherwise be a misleading advertisement. Disclaimers can be an invitation to litigation, because there is almost always room to dispute the effectiveness of disclaimer language. Further, disclaimers can be expensive to defend because the advertiser likely will need to produce evidence, usually in the form of a consumer survey, to show that the disclaimer was effective and that the advertisement as a whole did not convey a false or misleading message to a substantial percentage of consumers. Thus, for both legal and practical reasons, disclaimers have a place but should be used sparingly.

E. Establishing A Process For Review of Proposed Advertising

All franchisors should have a process in place to review proposed advertising materials before they are finalized to minimize or avoid false advertising problems. An in-house attorney or by outside counsel knowledgeable about advertising law issues should perform such a review. Although businesses rarely build legal costs into an advertising budget, this is an area where “an ounce of prevention is worth a pound of cure.”164

160 See, e.g., Southland Sod Farms v. Stover Seed Co., 108 F.3d 1134 (9th Cir. 1997) (disclaimer explaining that test data was only for limited time period did not cure false representation in comparative ad implying that the product was more effective over a longer period of time).


162 See Section II.A.5., infra.

163 See, American Home Products Corp. v. Johnson & Johnson, 654 F.Supp. 568, 590 (S.D.N.Y. 1987) (disclaimer that is inconspicuously located or in such fine print that readers tend to overlook it will not remedy misleading nature of claims).
Issues that should be on any reviewer’s checklist include:

- Does the ad constitute an establishment claim, such that the company must have appropriate support at the time the claim is made?
- Does the ad constitute a comparative or superiority claim versus a competitor’s product, and if so, is there adequate support or verification for the claim?
- What is the overall message conveyed by the ad?
- Are there images in the ad that could change or impact the message received by the consumer?
- What is the target audience for the ad, and how does that audience’s sophistication or lack thereof effect how the ad will be construed?
- Does the ad contain specific, verifiable representations or mere “puffery”?
- Does the ad include any trademarks or names of another person or entity, particularly a competitor, and are they properly used?
- Are there specific legal requirements or guidelines covering the subject matter or intended audience, such as “green” claims or ads directed at children, and does the ad comply with any such applicable requirements?

V. LITIGATION CONSIDERATIONS

A. Consider Whether Litigation Is The Best Course

A common reaction when a business person sees a competitor’s ad that she believes is false is immediately to call the lawyers to prepare a lawsuit. Before doing that, however, it is worth considering whether litigation is the best course. There might be other alternatives that are more effective and more efficient.

First, litigation is expensive in general and false advertising litigation can be particularly so. A plaintiff must come into court armed with sufficient evidence to prove that the challenged advertisement is either literally false or materially misleading. Moreover, false advertising cases often involve requests for preliminary injunctive relief to try to halt immediately the allegedly offending advertisement before more damage is done. This usually means that a false advertising plaintiff must do a great deal of upfront work to develop persuasive evidence before filing a complaint, or at least much earlier in the case than is typical in other types of litigation. Consumer surveys are often required in false advertising cases, and such surveys regularly run into the tens of thousands of dollars (and often higher). Thus, a franchisor should give careful consideration to the likely costs of initiating a false advertising lawsuit before running to the courthouse.

Another relevant factor is that filing a lawsuit likely will draw more attention to the offending ads. False advertising lawsuits are often considered “sexy” cases for trade publications to report because they involve fights between competitors in a particular industry. An offended party should evaluate the real impact of the advertisements in question versus the additional publicity that might accompany a lawsuit challenging that advertising.
As discussed in Section I.D., above, the National Advertising Division of the Council of
Better Business Bureaus offers a quicker and generally less expensive alternative to traditional
federal court litigation. Although the process is voluntary and requires the consensual
participation of the responding party, companies should consider the NAD as an appropriate
alternative forum to resolve the particular advertising dispute.

Another option is to fight fire with fire – *i.e.*, respond with counter advertising rather than
litigation. A recent and very effective example of this strategy in an analogous context was
Taco Bell’s response to a class action lawsuit alleging that Taco Bell misled customers
regarding the content of the beef served in its tacos. A group of high-profile plaintiffs lawyers
sued Taco Bell alleging that it engaged in false advertising and labeling when it advertised that
its restaurants served “seasoned ground beef” or “seasoned beef” and that Taco Bell actually
was serving “taco meat filling” along with “extenders” and other non-meat substances. The
plaintiffs lawyers sought and received much publicity for their suit. Taco Bell responded with
advertisements of its own attacking the lawsuit claims. Taco Bell ran print ads stating:

Thank you for suing us. Here’s the truth about seasoned beef. The
claims made against Taco Bell and our seasoned beef are absolutely
false. The only reason we add anything to our beef is to give the meat
flavor and quality. So here are the REAL percentages. 88% Beef and
12% Secret Recipe.

Taco Bell also posted a YouTube video featuring its president responding to the lawsuit claims
in a similar manner.\(^{164}\)

Although Taco Bell was responding to lawsuit claims rather than competitor advertising
claims, the principle is the same. Where a company is extremely confident in the facts at issue
regarding its product or services, effective counter-advertising can rebut or refute the challenged
advertising more quickly, and often less expensively, than litigation.

**B. Obtaining And Defending Against Injunctive Relief**

1. **Legal Standard For Injunctive Relief After eBay**

Under the Lanham Act, courts have jurisdiction to provide injunctive relief to remedy
false advertising claims.\(^{165}\) To obtain injunctive relief, a plaintiff must satisfy a four factor test,
demonstrating "(1) that it has suffered an irreparable injury; (2) that remedies available at law,
such as monetary damages, are inadequate to compensate for that injury; (3) that, considering
the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted;
and (4) that the public interest would not be disserved by a permanent injunction."\(^{166}\)

Historically, courts have presumed the existence of irreparable harm in intellectual
property cases once the plaintiff has succeeded on the merits of its claim or, in the preliminary

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\(^{164}\) See Maureen Morrison, “Taco Bell Counters ‘Meat Filling’ Charges in Lawsuit with Full Print, Web Effort,” (January
lawsuit/1485521](http://www.adage.com/article/news/taco-bell-launches-ad-campaign-response-
lawsuit/1485521).


injunction context, established the likelihood of success. However, in 2006, the U.S. Supreme Court changed the legal landscape regarding the presumption of irreparable harm in intellectual property cases. In *eBay, Inc. v. MercExchange, LLC*, the Supreme Court reversed the prevailing rule in patent cases that once a plaintiff prevailed on the merits of an infringement claim, irreparable harm is presumed and an injunction ordinarily should issue. The Supreme Court rejected this presumption and held that, in a patent case, a party seeking an injunction must establish each prong of the traditional four-factor test for injunctive relief before a court may grant an injunction. Not surprisingly, in the years since *eBay*, there are many questions regarding whether courts will apply the *eBay* rationale beyond patent cases to other intellectual property cases, including false advertising cases.

Before *eBay*, most courts applied a presumption of irreparable harm in certain circumstances based on proof of the falsity of the challenged advertising. Certain courts applied a presumption of irreparable harm in all false advertising cases where the plaintiff has established that the challenged ad had a tendency to deceive. However, most courts limited the presumption only to cases involving false comparative advertising involving competitors.

Thus far, there is no federal circuit court authority deciding whether the holding in *eBay* should apply in false advertising cases. In *North American Medical Corp v. Axiom Worldwide, Inc.*, the Eleventh Circuit noted its pre-*eBay* precedent that irreparable harm is presumed when a statement is shown to be literally false and is made in the context of comparative advertising between the plaintiff’s and the defendant’s products. The Eleventh Circuit, however, did not need to reach the issue of whether that presumption still applied after *eBay* because the challenged advertisements in that case did not mention the plaintiff’s products by name or compare the defendant’s product to those of the plaintiff. The court vacated the preliminary injunction because the district court improperly applied the pre-*eBay* presumption standard of irreparable harm, and it remanded the case.

District court cases have gone both ways on this issue. The Southern District of New York, in a case decided in March of this year, cited to the *eBay* standard for proving irreparable harm for injunctive relief in a false advertising case.

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167 See Id.

168 See, e.g., *United Ind. Corp.*, 140 F.3d at 1183.

169 See, e.g., *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1227 (11th Cir. 2008) (“Proof of falsity is generally only sufficient to sustain a finding of irreparable injury when the false statement is made in the context of comparative advertising between the plaintiff’s and defendant’s products”); *Merck Eprova AG v. Brookstone Pharmaceuticals, LLC*, 09 CIV. 9684 RJS, 2013 WL 363382 (S.D.N.Y. Jan. 31, 2013) (“To show irreparable harm, a plaintiff must show two things: (i) that the parties are competitors in the relevant market, and (ii) that there is a logical causal connection between the alleged false advertising and its own sales position” (internal citations and quotation marks removed)); see also *Ortho Pharm. Corp. v. Cosoproh Inc.*, 32 F.3d 690, 696 (2d Cir. 1994); *Energy Four, Inc. v. Dornier Med. Sys., Inc.*, 765 F. Supp. 724, 734 (N.D. Ga. 1991).


171 *Fresh Del Monte Produce Inc. v. Del Monte Foods Co.*, 08 CIV. 8718 SHS, 2013 WL 1242374 (S.D.N.Y. Mar. 28, 2013) (“The court must actually consider the injury the plaintiff has suffer[ed] . . ., paying particular attention to whether the ‘remedies available at law, such as monetary damages, are inadequate to compensate for that injury.’ Harm might be irretrievable, or irreparable, for many reasons, including that a loss is difficult to replace or difficult to measure, or that it is a loss that one should not be expected to suffer.”) (internal citations omitted).
Other district courts, however, have continued to apply the presumption of irreparable harm in false advertising cases despite arguments to apply the eBay rationale. In a case decided by the Western District of North Carolina, after recognizing the standard for injunctive relief as set forth in eBay, the court applied a presumption of irreparable harm based on the jury’s finding of false advertising and trade dress infringement. The court noted and rejected the defendant’s argument that eBay eliminated any presumption of irreparable harm based upon a showing of false advertising or trade dress infringement, stating simply that “[c]ontrary to Worthington’s contention, however, eBay does not discuss, much less eliminate, the presumption of irreparable harm in this context.” The court gave no analysis supporting its refusal to apply eBay, and, in explaining the underpinnings for the presumption of irreparable harm in false advertising cases, it relied exclusively on pre-eBay decisions.

2. Practical Evidentiary Issues

Because there is no clear-cut answer to guide practitioners about whether courts will apply the eBay rationale beyond patent cases to include false advertising cases, parties to false advertising actions should be prepared to develop and present evidence of why the harm is or is not “irreparable,” and therefore can or cannot be remedied by a damage award. For example, evidence that the parties are competitors in a competitive market can be used by a plaintiff to prove the threat of lost market share and customer relationships, which is generally recognized to constitute irreparable harm.

Plaintiffs should also be prepared to develop and present evidence of potential harm to their industry as a whole from the improper conduct of the defendant. Customer confusion, loss of goodwill, or harm to reputation often can harm other parties within an industry, and such broader impact is more difficult to quantify – thus often being more likely to be "irreparable." Plaintiffs also should look for evidence that the defendant’s actions might encourage others to engage in similar misconduct.

Defendants, on the other hand, should be aware that other defenses and arguments may be used effectively to establish the absence of irreparable harm, regardless of the existence of a presumption. For example, a plaintiff’s delay in bringing an action can rebut a claim of irreparable harm. A defendant may also focus on different ways to quantify or calculate the value of any alleged lost business or competitive harm to refute that such harm is irreparable.

C. Obtaining And Defending Against Monetary Relief

In the case of a section 43(a) Lanham Act violation, a plaintiff is entitled “to recover (1) defendant’s profits, (2) any damages sustained by the plaintiff, and (3) the costs of the

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172 Irwin Industrial Tool Co. v. Worthington Cylinders Wisconsin, 747 F.Supp. 2d 568, 582 (W.D.N.C. 2010)

173 Id. at 581, n.4.

174 See, e.g., Time Warner Cable, Inc. v. DirecTV, Inc., 497 F.3d 144, 161–62 (2d Cir. 2007) (false advertising action between competitors).

action…\textsuperscript{176} The Lanham Act gives the court broad discretion to award, according to the circumstances of the case, up to three times the amount found as actual damages. Punitive damages are not allowed under the Act. Attorneys’ fees may be awarded in cases that are considered “exceptional.”

1. **Traditional Damages**

In order to award damages, courts often require proof of actual consumer deception but there is disagreement among the circuits. If consumers were deceived into buying the defendant’s product instead of the plaintiff’s product, the false advertising is usually considered to have caused monetary damages. However, in the case of deliberately false advertisement, no actual confusion may have to be shown.

In *Adidas America, Inc. v. Payless Shoesource, Inc.*, the court concluded that there was an adequate showing of likelihood of confusion and awarded $30.6 million in compensatory damages and $19.7 million in defendant’s profits based on Payless’ sale of footwear bearing two or four stripes, in comparison to Adidas’ use of three stripes.\textsuperscript{177} The jury found that Payless acted willfully and in reckless disregard of Adidas’ trademark. Although Adidas could not prove that it lost sales and the damages were based on theoretical harm, the court followed a “totality of the circumstances” approach in deciding the appropriate relief and recognized that “an inability to show actual damages does not alone preclude a recovery under section 117.”\textsuperscript{178} The Lanham Act provided the court with considerable “discretion to fashion relief.”\textsuperscript{179} The Ninth Circuit highlighted that, “[i]t is essential that the trial courts carefully fashion remedies which will take all the economic incentive out of trademark infringement.”\textsuperscript{180} Adidas sought a royalty that hinged on evidence of theoretical damage to the marks. The jury’s royalty figure was consistent with royalties between Adidas or Payless with third parties. The judge ultimately lowered a $137 million award because it appeared punitive, rather than compensatory, which violated the Lanham Act. The judge believed it was appropriate to lower it because Adidas overstated profits, failed to demonstrate that it lost sales, and the damages were mostly based on theoretical harm which was difficult to quantify.

2. **Defendant’s Profits**

The circuits disagree on whether defendant’s profits are available as a form of damage absent a lack of intentional misconduct. The Eighth and Ninth Circuits seem to require willful conduct. However, the Fifth, Seventh, Tenth, and Eleventh Circuits do not generally require intentional misconduct. Awarding defendant’s profits has been justified under the theory of unjust enrichment because it deprives the defendant of gaining from misconduct and serves as

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\textsuperscript{176} 15 U.S.C. §1117(a).
\textsuperscript{177} 2008 WL 4279812.
\textsuperscript{178} Id. at *9 (citing *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1411 (9th Cir.1993) (quoting *Bandag, Inc. v. Bolser’s Tire Stores*, 750 F.2d 903, 919 (Fed.Cir.1984)).
\textsuperscript{179} Id. (citing *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134, 1146 (9th Cir.1997)).
\textsuperscript{180} *Playboy Enterprises, Inc. v. Baccarat Clothing Co., Inc.*, 692 F. 2d 1272, 1275 (9th Cir.1982).
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a deterrent to future violations. The Seventh and Eleventh Circuits have opted for a more flexible approach. To recover on an unjust enrichment theory, the Seventh Circuit has held that actual confusion is not necessary. The Eleventh Circuit has held that to obtain an award of the defendant’s profits, a plaintiff does not need to demonstrate intentional misconduct. In *Burger King Corp. v. Mason*, the Eleventh Circuit cited the proposition that a plaintiff does not need to demonstrate actual damage to obtain an award reflecting an infringer’s profits under §43(a) of the Act.  

3. Recovering Attorneys’ Fees

Under the Lanham Act, a court may award the prevailing party reasonable attorneys’ fees “in exceptional cases.” The burden of establishing the exceptional nature of the case “by clear and convincing evidence” falls on the prevailing party. Attorneys’ fees are difficult to obtain unless the defendant’s deceitful conduct was intentional or a lack of cooperation is noted.

In *In re Gharbi*, the plaintiff franchisor, Century 21, brought suit against franchisee Gharbi for using the Century 21 marks after their agreement under which Gharbi had a limited right to use the mark was terminated. Under the Lanham Act, attorneys’ fees may be awarded in exceptional cases which are typically regarded as those “in which the defendant’s trademark infringement can be characterized as malicious, fraudulent, deliberate, or willful, and… it has been interpreted by courts to require a showing of a high degree of culpability.” In *In re Gharbi*, the court found that the $147,996 in attorneys’ fees requested was appropriately granted because the litigation was prolonged and hindered by the defendant’s failure to cooperate.

D. Corrective Advertising And Other Alternative Remedies

The plaintiff may recover compensation for corrective advertising efforts it engages in before the suit is resolved. Courts may also award damages for prospective corrective advertising expenditures. In order to recover purely prospective corrective advertising expenditures, a plaintiff must prove that such expenditures are corrective, a surrogate for measuring plaintiff’s actual damages, and that financially, the plaintiff is unable to undertake a corrective advertising campaign concurrently with the wrong a plaintiff seeks to redress in court. Under the Lanham Act, the plaintiff must establish a causal connection between the defendant’s acts and its advertising response.


182 855 F.2d 779 (11th Cir. 1988).

183 2012 WL 2839915.

184 *Rolex Watch v. Meece*, 158 F.3d 816, 824 (5th Cir. 1998).


186 *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1375 (10th Cir. 1977).

187 *United Indus. Corp. v. Clorox Corp.*, 140 F.3d 1175, 1180 (8th Cir. 1998).
In *Big O Tire Dealers v. Goodyear Tire & Rubber Co.*, the Tenth Circuit established that prospective corrective expenditures should be awarded to a plaintiff who is not financially capable of running its own corrective advertising campaign. In that case, the plaintiff had not taken on any expenses to clear consumer confusion. However, the Ninth Circuit held that prospective advertising expenditures should be awarded regardless of whether the plaintiff had the finances or not to conduct a corrective advertising campaign before trial. In addition, the court reduced the $2.8 million compensatory damage award and the $16.8 million punitive damage award to 25% of what Goodyear spent on its false advertising campaign against the plaintiff. The *Big O Tire Dealers* court cited to the Federal Trade Commission 25% rule that mirrors the agency's view that “a dollar-for-dollar expenditure for corrective advertising is unnecessary to dispel the effects of confusing and misleading advertising.”

While several courts have adopted the FTC rule, the Fourth Circuit has declined to apply it. Namely, in *PBM Products v. Mead Johnson & Johnson*, an infant formula manufacturer brought an action under the Lanham Act alleging that its competitor’s advertising campaign made false claims. PBM sought $80.3 million in prospective advertising damages. PBM had begun to engage in its own corrective advertising and engaged in a public relations campaign in which it spent $50,000 of the $200,000-$250,000 budgeted for corrective advertising before discontinuing it due to estimates that $80.3 million would be necessary in order to run an effective corrective campaign. The Court found that there was a genuine issue of material fact as to whether PBM could afford its own concurrent corrective advertising campaign which justified denying Mead’s motion for summary judgment on that ground.

### E. Use Of Surveys In False Advertising Litigation

The courts have favored proving the materiality of consumer deception via surveys. A plaintiff seeking to establish entitlement to damages under the Lanham Act usually has a greater burden than when it seeks to establish entitlement to injunctive relief. Actual consumer confusion or deception due to a violation is often proved through surveys. In order to substantiate a claim of a Lanham Act violation, the percentage of survey respondents who must be deceived depends on the context and the type of survey. Generally, 20% seems to prove materiality.

### VI. CONCLUSION

False advertising claims stake a distinctive place within franchising given the varying contexts in which such claims may arise. Competing franchisors may square off against one another as a result of such claims while, at the same time, franchisors and franchisees may find

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188 *Adray v. Adry-Mart, Inc.*, 76 F.3d 984, 988-89 (9th Cir. 1995).

189 561 F.2d at 1376.

190 639 F.3d 111 (4th Cir. 2011).

191 *PPX Enters., Inc. v. Audiofidelity Enters., Inc.*, 818 F.2d 266, 271 (2d Cir. 1987).

themselves wrestling over the legitimacy or accuracy of an advertising campaign. The circumstances surrounding the sale of a franchise or of a franchise’s product or service offers a ripe opportunity for advertisements which stretch the bounds of taste and reason. A company’s perceived competitive advantage may cross factual or legal thresholds, which will likely result in publicity that was both unintended and unwanted in the form of a lawsuit. Such false advertising claims, which are manifested through common law and statutory causes of action, involve both franchising and intellectual property laws. In addition, a franchisor’s right to advertise franchise sales in certain states may be revoked if it is determined that the franchisor has engaged in false advertising. As a result, franchisors need to be well versed as to the nature of the laws that regulate advertising in order to prosecute or defend against potential false advertising claims or, better yet, avoid them in the first place.
Ron Coleman is a litigation partner with Parker, Hudson, Rainer & Dobbs in Atlanta, Georgia. He focuses his practice on complex business litigation, particularly in the areas of franchise, intellectual property, and trade regulation litigation. Ron regularly represents franchise clients in a wide variety of matters, including cases involving breach of franchise agreements, good faith and fair dealing, fraud, RICO and antitrust claims, constitutional challenges to state statutes, enforcement of terminations, and intellectual property rights. He also has represented clients in numerous arbitrations, mediations, mini-trials, and other types of ADR processes.

Mr. Coleman has been selected as one of Georgia’s “Super Lawyers” in the area of business litigation by Law & Politics Media since its inception in 2004, based on a survey of other lawyers and evaluation by an independent panel. He also has been selected for Best Lawyers in America (2006-present) and The International Who’s Who of Business Lawyers (2004-present) in the franchise area. He has been recognized by Chambers USA since 2010 in the area of commercial litigation.

Mr. Coleman has written and spoken extensively on topics in the franchise, intellectual property, and general litigation areas. Mr. Coleman is a member of the American Bar Association’s Sections of Litigation and Intellectual Property Law, and the ABA’s Forum Committee on Franchising. He has served as a member of the Steering Committee of the Forum on Franchising’s Litigation and Dispute Resolution Division, as a member of the 2006 nominating committee for the Forum’s Board of Governors, and as an Associate Editor of the Franchise Law Journal.

Mr. Coleman received his A.B. degree, cum laude, from Duke University in 1983 and his J.D. degree, with honors, in 1986 from the Duke University School of Law, where he was a member of the Editorial Board of the Duke Law Journal. He served as a law clerk to the Honorable James C. Hill, United States Court of Appeals for the Eleventh Circuit in 1986-1987.
ALEJANDRO BRITO

Alejandro Brito is a partner at Zarco Einhorn Salkowski & Brito, P.A., a Miami based franchise law firm. The firm represents franchise and distribution clients in litigation and other forms of dispute resolution throughout the United States. The firm has represented franchisees from almost every major franchise system in the hotel, restaurant, and service industries. The firm has also represented franchise clients from Mexico, France, Holland, Germany, Australia, New Zealand and throughout the Caribbean.

Alex obtained his J.D. degree from the George Washington University in 1996. Alex graduated from Florida International University with a Bachelor of Arts degree in 1993. Currently, Alex litigates franchise, distribution and general commercial disputes in state and federal courts. In addition, Alex has handled numerous franchise disputes in arbitration proceedings throughout the country. Alex has also served as an arbitrator in actions between franchisees and franchisors. He is a member of the Florida Bar and is admitted to practice in United States District Courts for the Southern District of Florida, Middle District of Florida, Northern District of Illinois, and the Eastern District of Wisconsin, as well as the United States Court of Appeals for the Fifth Circuit, Sixth Circuit, Ninth Circuit, and Eleventh Circuit.

Alex has been listed in “The Best Lawyers in America” publication since 2006 and has received a Peer Review rating of “AV” by Martindale-Hubbell, indicating the highest level of legal ability and ethics. Alex has been recognized in the South Florida Legal Guide’s Top Lawyers and Florida Trend Magazine’s Legal Elite. In addition in 2010, Alex was a Finalist for the Most Effective Lawyer in Miami, as awarded by the Daily Business Review and was also named one of the “Top 20 Professionals Under 40” by Brickell Magazine.

Since joining Zarco Einhorn Salkowski & Brito, P.A., Alex has authored several articles discussing legal issues at the forefront of the franchise industry. In 2007, Alex was a co-presenter and co-author of "Rediscovering Subjectivity: Does the UCC's Open-Price Doctrine Offer New Theories for Reinforcing Discretion and Filling In Gaps In Franchise Contract Rights," which was presented at the annual ABA Franchise Forum. In 2010, Alex was, once again, asked to speak at the ABA Franchise Forum, wherein he was a co-presenter and Co-Author of "Litigating Incurable Defaults."

Alex is also a member of the Antitrust, Franchise & Trade Regulation Committee of the Business Law Section of the Florida Bar and previously served as its Vice-Chair (2007-08) and Chair (2008-09). Alex is currently the Vice-Chair of the Florida Bar Business Law Section's Diversity Committee. Alex has also had the privilege of serving as a Director and Lifetime Fellow of the Florida Bar Foundation, a 501(c)(3) public charity, and the only statewide organization that provides financial support for legal aid and promotes improvements in addressing the civil legal needs of the poor.