INTELLECTUAL PROPERTY ISSUES IN COMPARATIVE ADVERTISING

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I. Introduction

When businesses undertake advertising campaigns, a number of intellectual property issues come into play. Even sophisticated companies have relied upon advertising agencies who have mistakenly copied photographs, text, graphics or other copyright materials, potentially subjecting their clients to copyright infringement liability. Others have subjected their clients to liability for right of publicity claims based on the use of photographs without proper model releases. In a recent case brought under the Lanham Act (Title 15 U.S.C. § 1051 *et seq.*) and a California law with similar provisions, *Russell Christoff v. Nestle USA Inc.*, No. EC036163 (Los Angeles Super. Ct. 2005), a jury awarded a model $15,600,000 for the use of his image in the marketing **Taster's Choice**® coffee beyond the scope of the contract which the plaintiff had signed at the time of the photo shoot. The jury determined that five percent of Nestle's profits from **Taster's Choice**® coffee were attributable to the use of the image, and combined that with an award of damages based on the amount that the plaintiff should have been paid for the use of the image.

One of the most significant areas of concern arises out of trademark law, and involves the use of a competitor's trademark, or other identifying indicia, in connection with comparative advertising. This paper will focus on those issues; specifically:

1. Under what circumstances would an advertisement be actionable based on the use of a competitor's name, mark, logo or likeness?

2. In light of current case law, are there general guidelines that businesses can follow in the creation, review and clearance of its advertising to minimize the likelihood of liability?

3. What organizations and resources can be used by businesses to avoid potentially costly and damaging litigation?

II. Comparative Advertising/ Use of Competitor's Trademark

Potential liability in connection with comparative advertising is governed by the overall law of false advertising and unfair competition. Under the principles of false advertising law, an advertisement may be actionable if it uses a competitor's name, mark, logo or likeness and contains disparaging, unfair, baseless, incomplete or false comments and comparisons of competitors' products, or if it makes a false or misleading claim about its own or a competitor's products, ratings, benefits, services, or other characteristics. Accordingly, companies should examine and pre-approve their proposed advertisements with close attention to any such statement or implication. Legal standards which govern false advertising are generally consistent throughout the United States, with no one jurisdiction standing out as particularly favorable or unfavorable in such actions.

The legal standards governing false advertising are found in the federal trademark statute, the Lanham Act, and in the Federal Trade Commission Statute (Title 15 U.S.C., Ch. 2). Under the federal trademark act, Section 43(a):

> (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, 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. **Lanham Act, 15 U.S.C. § 1125 (a)**

The damages that may be recovered under the Lanham Act [15 U.S.C. § 1117(a)] for false advertising potentially include the defendant's profits, the plaintiff's actual damages and the costs of the action. In exceptional cases, generally considered to be cases of intentional

infringement, the court may award reasonable attorneys' fees to the prevailing party. In cases in which the equities warrant enhanced damages, a court has the discretion to award up to three times the amount of actual damages

The Federal Trade Commission Act, at Section 52, also prohibits the dissemination of false advertisements:

> **§ Dissemination of false advertisements:** **(a)** Unlawfulness. It shall be unlawful for any person, partnership, or corporation to disseminate, or cause to be disseminated, any false advertisement – **(1)** By United States mails, or in or having an effect upon commerce, by any means, for the purpose of inducing, or which is likely to induce, directly or indirectly the purchase of food, drugs, devices, services, or cosmetics; or **(2)** By any means, for the purpose of inducing, or which is likely to induce, directly or indirectly, the purchase in or having an effect upon commerce, of food, drugs, devices, services, or cosmetics.
> **(b)** Unfair or deceptive act or practice. The dissemination or the causing to be disseminated of any false advertisement within the provisions of subsection (a) of this section shall be an unfair or deceptive act or practice in or affecting commerce within the meaning of section 45 of this title.

In addition to federal claims for false advertising, a competitor can challenge another's advertising by asserting various state law and common law claims. Such claims could include unfair competition, fraud, commercial disparagement or violation of right of publicity. Consumer protection laws that mirror the scope of the Federal Trade Commission Act may also allow state attorneys general and individual consumers to sue for false advertising.

A. False Advertising: Legal Standards and Case Law

In general, a plaintiff can establish a false advertising claim under the Lanham Act, 15 U.S.C. § 1125(a), by proving either that an advertisement is false on its face or that the advertisement is literally true or ambiguous but likely to mislead and confuse customers. *The Clorox Company Puerto Rico v. The Proctor & Gamble Commercial Company,* 228 F.3d 24 (1st Cir. 2000) citing to *Southland Sod Farms v. Stover Seed Co.,* 108 F.3d. 1134, 1139 (9th Cir. 1997).

1. Literal Falsity

In the *Clorox* case, *Id.*, Proctor & Gamble published advertisements and ran commercials for a detergent sold in Puerto Rico, which claimed "whiter is not possible." Clorox sued, alleging that the advertisements were false and misleading in violation of Section 43(a) of the Lanham Act, because tests proved that chlorine bleach whitens better than detergent used alone. Proctor & Gamble claimed that the ads were mere puffery and not likely to be taken literally by the

public and the trial court agreed. On appeal, the First Circuit found that it would be reasonable to interpret the ads as making a claim of superiority over chlorine bleach and that such a claim was false on its face. A patently false claim cannot be considered mere puffing, and the trial court erred in dismissing Clorox's claim on that basis.

Literal falsity was also found in *Avon Products, Inc. v. S.C. Johnson & Son, Inc.*, 1997 U.S. Dist. LEXIS 7950 (S.D.N.Y. 1994). Avon sued S.C. Johnson for a preliminary injunction against print advertisements and television commercials. The Court issued a preliminary injunction against the print ad, which stated "Avon Skin-So-Soft…is not registered with the E.P.A. as an insect repellant". The Court found that the ad was literally false because the product was in fact registered with the E.P.A. However, in this case, the Court held that the claim that the S.C. Johnson brand is "100 times better" amounted to mere puffery and was not actionable because the claim was exaggerated to such an extent that it simply could not be deemed to suggest to consumers the existence of quantitative or other substantial support.

If a plaintiff proves that the challenged commercial claims are "literally false," a court may grant relief without considering whether the buying public was actually misled. *Novartis Consumer Health, Inc. v. Johnson & Johnson-Merck Consumer Pharmaceuticals Co*., 290 F.3d 578 (3d Cir. 2002). In analyzing whether an advertisement or product name is literally false, a court must first determine the unambiguous claims made by the advertisement or product name, and second, whether those claims are false. *Id.* citing to *Clorox Co. v. Proctor & Gamble Commerical Co*., 228 F.3d 24, 34 (1st Cir. 2000). A "literally false" message may be either explicit or "conveyed by necessary implication when, considering the advertisement in its entirety, the audience would recognize the claim as readily as if it had been explicitly stated." Regardless, only an unambiguous message can be literally false. "The greater the degree to which a message relies upon the viewer or consumer to integrate its components and draw the apparent conclusion, however, the less likely it is that a finding of literal falsity will be supported." *Id.* citing to *United Indus. Corp. v. Clorox Co.*, 140 F.3d 1175, 1181 (8th Cir. 1998); see *Warner-Lambert Co. v. BreathAsure, Inc*., 204 F.3d 87, 96 (3d Cir. 2000); *Castrol*, 987 F.2d at 946.

Unsubstantiated advertising claims are also considered by courts to be literally false. This was the situation in *Novartis Consumer Health, Inc. v. Johnson & Johnson-Merck Consumer Pharmaceuticals Co*., 290 F.3d 578 (3d Cir. 2002). Johnson & Johnson distributed a television commercial claiming that the product Mylanta Night Time Strength was "made just for" nighttime heartburn, that it was "the strongest antacid you can get" and that it was

"something strong enough to get rid of even your toughest nighttime heartburn". Novartis alleged that the product name and advertisements were either explicitly or implicitly false or misleading by claiming the product was "specially formulated" and therefore better than other antacids at relieving nighttime heartburn and that the product provides heartburn relief throughout the night. Since Johnson & Johnson did not argue or present any evidence to support the truth of the challenged claim that its product was specially formulated for nighttime relief from heartburn, the Court concluded that the advertising was "a completely unsubstantiated advertising claim" that could be found false on that ground alone.

Another example of a baseless claim ruled literally false is found in *Pharmacia Corporation v. GlaxoSmithKline Consumer Healthcare, L.P.*, 292 F.Supp. 2d 611 (D.N.J. 2003). Pharmacia filed suit against Glaxo seeking a preliminary injunction to prevent a commercial about nicotine patches from broadcasting. The commercial showed a person wearing a nicotine patch having trouble sleeping. The announcer states "Trying to beat cigarettes? Having trouble sleeping? You're probably using NicoDerm. Just read their label. (Shows and reads label, then shows the Nicotrol box.) The new step-down patch from Nicotrol was designed to let you sleep." Glaxo argued that the commercial made a literally false claim that Nicotrol had an advantage over NicoDerm with regard to sleep disturbances. The Court agreed with Glaxo and further found that Pharmacia had no basis for its claim that Nicotrol is better than NicoDerm with regard to sleep disturbances, therefore, the claim was per se false. The Lanham Act forbids completely baseless claims as well as demonstrably false ones. The Court also found that the commercial unambiguously claimed that people who experience sleep disturbances while trying to quit smoking are more likely than not using NicoDerm. The Court held that this statement was false and Glaxo would likely be able to prove a claim for false advertising.

If an advertisement is literally false, the court may grant relief without considering evidence of consumer reaction. *Id.* citing to *United Indus. Corp. v. Clorox Co.,* 140 F.3d 1175, 1180 (8th Cir. 1998). In the absence of such literal falsity, an additional burden is placed upon the plaintiff to show that the advertisement, though explicitly true, nonetheless conveys a misleading message to the viewing public. *Id.* To satisfy this burden, the plaintiff must show how consumers have actually reacted to the challenged advertisement rather than merely demonstrating how they could have reacted. *Id.*

2. False Implication

In other cases, a violation of Sec. 43(a) has been found in statements that may be literally true, but are false "by implication." *Gillette Co. v. Wilkinson Sword, Inc.*, 1992 WL 30938 (S.D.N.Y. Jan. 31, 1992). In this case, the court found a false statement in advertising that implied that a new razor will give a smoother shave when, in fact, only the "strip" on the razor that helps prevent irritation is smoother. Wilkinson Sword claimed that its new blue-colored strip was six times smoother than Gillette's white strip. The visuals in the commercial, though, focused on the smoothness of the shave, as opposed to the strip, and a consumer survey confirmed that the message was received by consumers: 84 % thought the commercial meant that Wilkinson's shave was better. Because Gillette could prove that Wilkinson did not provide a smoother shave, Gillette won both an injunction against the ad and an award of $953,000 in damages.

Some courts have added a further requirement of "materiality," ruling that, in order to establish a case for false advertising under Section 43 (a) of the Lanham Act, the proponent must demonstrate that the statement in the challenged advertisement is false, either by proving that: (1) the advertisement is literally false as a factual matter, or (2) although the advertisement is literally true, it is likely to mislead or confuse customers and that, in addition to proving falsity, the proponent must also show the opponents misrepresented an "inherent quality or characteristic" of the product. *Smithkline Beecham Consumer Healthcare, L.P, v. Johnson & Johnson-Merck Consumer Pharmaceuticals, Co.*, 2001 U.S. Dist. LEXIS 7061 (S.D.N.Y. 2001) citing to *Johnson & Johnson Merck v. Smithkline Beecham*, 960 F.2d 294, 297 (2d Cir. 1992).

Courts in a number of circuits, including the Fifth, Sixth, Eighth and Eleventh Circuits have gone even further still, holding that a prima facie case of false advertising under section 43 (a) requires the plaintiff to establish: (1) a false or misleading statement of fact about a product; (2) such statement either deceived, or had the capacity to deceive a substantial segment of potential consumers; (3) the deception is material, in that it is likely to influence the consumer's purchasing decision; (4) the product is in interstate commerce; and (5) the plaintiff has been or is likely to be injured as a result of the statement at issue. *Pizza Hut, Inc. v. Papa John's International, Inc.*, 227 F.3d 489, 56 U.S.P.Q.2d 1246 (5th Cir. 2000), cert. denied, 121 S. Ct. 1355, 149 L. Ed. 2d 285 (U.S. 2001), citing to *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1500 (5th Cir. 1990). *Federal Express Corporation v. United States Postal Service*, 40 F. Supp. 2d 943 (W.D. Tenn. 1999) citing to *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134, 1139 (9th Cir. 1997); *United Industries Corp. v. Clorox Co.*, 140 F.3d 1175 (8th Cir. 1998)

citing to *Southland Sod Farms v. Stover Seed Co., Supra*.; *Hickson Corporation v. Northern Crossarm Co.*, 357 F.3d 1256 (11th Cir. 2004) citing to *Johnson & Johnson Vision Care, Inc. v. 1-800 Contacts, Inc.*, 299 F.3d 1242, 1247 (11th Cir. 2002). A plaintiff attempting to establish the second kind of falsehood, that an advertisement is literally true but misleading, must generally present evidence of deception in the form of consumer surveys, market research, expert testimony, or other evidence. *Hickson*, 357 F.3d 1256 (11th Cir. 2004) citing to *1-800 Contacts*, 299 F.3d at 1247.

In the *Pizza Hut* case, *Supra*., Pizza Hut sued Papa John's over Papa John's advertising slogan "Better Ingredients. Better Pizza." The Court concluded that the slogan, standing alone, was not an objectifiable statement of fact upon which consumers would be justified in relying, and thus not actionable under section 43 (a). When the slogan was considered in connection with earlier comparative advertising, however, in which the specific ingredients of Pappa John's sauce and dough were compared with competitors' ingredients, it conveyed objectifiable and misleading facts. Fortunately for Papa John's Pizza Hut failed to establish the additional element that the facts conveyed by the slogan were material to the purchasing decisions of the consumers to whom the slogan was directed.

A similar result occurred in the Sixth Circuit when furniture maker, Herman Miller, Inc. sued Palazzetti Imports for false advertising based on advertisements for a lounge chair and ottoman which imitated a lounge chair and ottoman originally designed by Eames for Herman Miller. *Herman Miller, Inc. v. Palazzetti Imports and Exports, Inc*., 270 F.3d 298 (6th Cir. 2001). Although Palazzetti's advertising was literally true, Herman Miller claimed it had the potential to mislead customers by giving the impression that Palazzetti was offering original pieces of Eames-designed furniture. However, Herman Miller did not provide any consumer surveys to support its false advertising claims. The Court found that advertising that may have implied, but did not literally state, that defendant's imitation chairs were genuine Eames-designed chairs, was not a violation, where Herman Miller failed to prove that customers perceived the advertising as deceptive.

Federal Express ("FedEx") sued the United States Postal Service for false and misleading advertising concerning the advertised characteristics of its priority mail. FedEx alleged that the Postal Service: 1) falsely represented its delivery services as comparable to an express service offered by FedEx, 2) misrepresented the price of FedEx two day delivery, and 3) falsely advertised itself as a private commercial entity which offers delivery service around the world. *Federal Express Corporation v. United States Postal Service*, 40 F. Supp. 2d 943 (W.D. Tenn.

1999). The Court denied the defendant's motion to dismiss FedEx's claims on the grounds that FedEx's allegations may be material to purchaser's decisions and the Court needed to determine the message conveyed to the public before it could decide if the message was truthful or false. Additionally, the Court found that the United States Postal Service's representation of itself as a company in an advertisement was a specific description of a characteristic allegedly possessed by Defendant and should not be characterized as puffery.

However, even in the courts that require the additional elements of deception, materiality and damage, once a plaintiff establishes literally false statements, it will not have the burden to prove that the defendant misled its customers or that the advertising affected the purchasing decisions of customers. *Logan v. Burgers Ozark Country Cured Hams Inc. and Original Honey Baked Ham Company of Georgia*, 263 F.3d 447 (5th Cir. 2001). Original Honey Baked produced advertisements that showed meat which was spirally sliced, using a method that was patented by Logan. Logan brought a false advertising claim against Original Honey Baked, claiming that its statements were literally false. The court found that Honey Baked had made false statements of fact about continuing to use the spiral slicing on its product. Because Logan established that Honey Baked made literally false statements, it had no burden to prove that Honey Baked misled its customers or that the advertising affected the purchasing decisions of customers. Quoting *Pizza Hut, Inc. v. Papa John's Int'l, Supra*, at 497, the court said:

> …when the statements of fact at issue are shown to be literally false, the plaintiff need not introduce evidence on the issue of the impact the statements had on consumers…In such a circumstance, the court will assume that the statements actually mislead consumers.

See also: *Nordictrack, Inc. v. Soloflex, Inc.*, 1994 U.S. Dist. LEXIS 16172 (D.Or. 1994) citing to *Castrol, Inc. v. Pennzoil Co.*, 987 F.2d 939, 943 (3d Cir. 1993). Though a court need not consider evidence of consumer perception concerning statements that are false on their face, when advertising claims are ambiguous, plaintiffs must produce evidence of consumer perception, *Id.*

In *Nordictrack, Inc. v. Soloflex, Inc.*, 1994 U.S. Dist. LEXIS 16172 (D.Or. 1994), Soloflex claimed in advertising materials that: (1) "An exercise with only positive resistance is isokinetic and will not build muscle;" (2) "Only the negative, or return, portion of the exercise will make muscles grow;" and (3) "Without negative resistance your muscles won't grow, no matter how hard you work out." Nordictrack, whose exercise machines lacked negative or eccentric resistance, sued on the basis that the statements were false and damaging to its

reputation, and submitted material that clearly established that "positive-only" exercise will produce scientifically verifiable muscle growth. Nevertheless, the court denied Nordictrack's motion for partial summary judgment, ruling that material issues of fact remained concerning the context of the statements, how they would be interpreted by consumers, whether the statements constituted puffery and whether Nordictrack could establish it was injured by the statements.

3. Defenses to use of Another's Mark or Name

a. Truth

Of course, if a statement is literally true, there is no cause of action for false advertising. In *Johnson & Johnson Vision Care, Inc. v. 1-800 Contacts, Inc.,* 299 F.3d 1242, 1247 (11th Cir. 2002), there were three advertisements at issue. The first was a letter sent by 1-800 to its customers recommending a CIBA lens over J&J's lens. The letter cited a study which identified a five-to-one consumer preference for CIBA over J&J's lens. The second ad was also a letter sent by 1-800 to its customers who had requested J&J lenses. The letter explained that the inability to send the lenses was due to J&J's policy of distributing contacts exclusively to eye doctors. The third ad was a pamphlet that cited to the quality of the lens against those of "competing lenses". The Court found that the ads were true and therefore, not actionable as false advertising.

Similarly, truth was found to be a complete defense in *United Industries Corp. v. Clorox Co.*, 140 F.3d 1175 (8th Cir. 1998). United Industries sued Clorox seeking a declaratory judgment that the packaging of United Industries' **Maxattrax**® product, which prominently asserted that it "Kills Roaches in 24 Hours," did not constitute false advertising or unfair competition under the Lanham Act. The ad was a commercial, which compared the **Maxattrax**® product with an unidentified product that vaguely resembled the Clorox product. The commercial depicted the competitor's product in a kitchen that was overrun with roaches, while there were no roaches in the kitchen with the **Maxattrax**® product. Clorox contended that a consumer might be misled to construe the ad as a claim that **Maxattrax**® will completely control an infestation by killing all of the roaches in a home within 24 hours, while its competitor's product will fail to do the same. The Eighth Circuit affirmed the district court's finding that the message that defendant's product killed roaches in twenty-four hours was explicit and was literally true, therefore the commercial did not amount to false advertising.

b. Puffing

"Puffing" comes in two forms: (1) exaggerated blustering and boasting upon which no reasonable buyer would rely; and (2) a general claim of superiority over comparable goods that is so vague that it will be understood as merely the seller's expression of opinion. *Pizza Hut, Inc. v. Papa John's Int'l., Inc*., *Supra.* Examples of "exaggerated blustering and boasting upon which no reasonable buyer would rely" appear in *Tobin Wolf & Schaper Mfg. Co. v. Louis Marx & Co*., 203 U.S.P.Q. 856 (S.D.N.Y. 1978), in which the court held that advertising that the defendant's product was "new and novel" constituted mere puffing and did not imply that the defendant did not steal the plaintiff's design; *Castrol, Inc. v. Pennzoil Co*., 987 F.2d 939, 25 U.S.P.Q.2d 1666, 1671 (3d Cir. 1993), holding that "puffery is an exaggeration or overstatement expressed in broad, vague and commendatory language" and finding no puffing on the facts; *Southland Sod Farms v. Stover Seed Co., Supra.*

The second form of puffing, a general claim of superiority over a comparative product that is so vague it will be understood as a mere expression of opinion is discussed in Prosser & Keeton, Handbook on the Law of Torts 756-57 (5th ed.), quoted in *Castrol, Inc. v. Pennzoil Co.*, 987 F.2d 939, 25 U.S.P.Q.2d 1666, 1671 (3d Cir. 1993). When claims are subjective statements about a product, that cannot be proven either true nor false, they are puffing, and are not actionable under the Lanham Act. "Nonactionable puffery includes representations of product superiority that are vague or highly subjective." *United Industries Corp. v. Clorox Co*., *Supra.*; See also, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 27:38. Advertising claims that fall in the category of "puffing" are considered not to constitute false advertising and are not in violation of the Lanham Act.

On the other hand, a specific and measurable advertising claim of product superiority based on product testing is not puffery. For example, in *Southland Sod Farms v. Stover Seed Co., Supra.,* Stover advertised its grass seed with the slogan, "Less is More." This was considered non-actionable puffery because it is the kind of generalized boasting upon which no reasonable buyer would rely. However, a specific, measurable claim of superiority is not considered puffing. Stover also claimed that its grass required "50% Less Mowing." This claim was not excused as puffery, because it was a specific and measurable claim of superiority based on product testing. Similarly, the Court in *Clorox Co. Puerto Rico v. Proctor & Gamble Commercial Co., Supra.,* discussed above, found that an advertising claim that conveys the message that the advertiser's detergent gets clothes whiter than chlorine bleach is "specific and measurable, not the kind of vague or subjective state that characterizes puffery." The Court in

Federal Express Corporation v. United States Postal Service, Supra, found that the United States Postal Service's representation of itself as a company in an advertisement was a specific description of a characteristic allegedly possessed by Defendant, and should not be characterized as puffery.

Subjective claims about a product that cannot be proven either true or false are puffing, which is not actionable under the Lanham Act. For example, the Court in *Ellison Educ. Equip. v. Tekservices, Inc.,* 903 F.Supp. 1350 (D.Neb. 1995) held that advertising claims that defendant's letter cutting machine was the "finest" and "most flexible" and "most versatile die cutting system available today" were not actionable under § 43(a) because they constitute mere puffing. The Court in *U.S. Healthcare, Inc. v. Blue Cross of Greater Phila.,* 898 F.2d 914 (3d Cir. 1990) found that a claim that Blue Cross/Blue Shield is "better than" a health maintenance organization was the most innocuous kind of puffing. The Court summarized puffing as advertising that is not deceptive because no one would rely upon its exaggerated claims.

c. Nominative Use

Under the Lanham Act, and at common law, trademark infringement occurs when another adopts and makes use of a mark in such a way as to cause a likelihood of confusion, mistake or deception of the public as to the source, origin or sponsorship of goods or services. The essence of such a claim is likelihood of confusion. When a company uses a mark to represent the goods or services of the owner of the mark, there is a lack of likelihood of confusion. Under the principles of "nominative fair use," when one uses the mark or name of another to designate the trademark owner rather than the one using the trademark, no trademark infringement occurs because there is no likelihood of confusion. The owner of a mark does not have the right to prevent all uses of its mark, only those uses which are infringing by virtue of causing a likelihood of confusion. MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, §23:11.

In order to establish nominative fair use, the use of another's mark must be to designate the mark owner rather than the one using the mark; the product or services in question must be not readily identifiable without use of the trademark; the use must be only so much of the mark as necessary to designate the mark owner; and there must be no suggestion of sponsorship or endorsement by the trademark owner. *New Kids on the Block v. New Am. Publ'g, Inc., 971 F.2d*

302, 23 U.S.P.Q. 2d 1534 (9th Cir. 1992); *Brother Records, Inc. v. Alan Jardine*, 318 F.3d 900 (9th Cir. 2003).

The same principles apply to the use of another's mark under Section 43(a) of the Lanham Act. To be actionable under Section 43(a), or under theories of common law unfair competition, there must be a misrepresentation that is likely to cause confusion, mistake or deception as to affiliation, connection or association or as to origin, sponsorship or approval of the goods or services of the user. As with trademark infringement, the principles of nominative fair use apply to claims of unfair competition, even in jurisdictions in which the defense is not recognized by name. *Waco Int'l Inc. v. KHK Scaffolding Houston Inc.*, 278 F.3d 523, 61 USPQ 2d 1460 (5th Cir. 2002).

Ownership of a trademark does not preclude another from using the mark to designate the trademark owner, even in situations in which the owner is reflected in a less than flattering light. For example, complaints about companies posted on websites, so long as made in good faith and not deceptive of consumers, are not considered infringing use because the complaints are clearly not endorsed or sponsored by the "target" company.

III. Guidelines for creation, review and clearance of Advertising Campaigns

Based upon the statutory legal standards and case law relating to false advertising, and taking into account the defenses of nominative fair use and puffery, certain guidelines can be developed for preliminary review and clearance of a company's advertising.

Businesses should establish an advertising review and clearance system by which advertising claims can be quickly reviewed for compliance and substantiation and specific recommendations can be made for any necessary change. It is essential that sufficient time be built into the review and clearance process for legal review of advertising. The advertising timetable should allow for the possibility that any advertisement might require modification and re-submission in addition to outside counsel's review if the advertisement poses unique or specialized problems. An excellent and comprehensive article on advertising review practices, titled Advertising Review, Clearance and Challenges, has been written by Louise M. Parent, Ronald A. Gray and David H. Bernstein.

A. General Guidelines for Review of Advertisements:

1. Review Process

a. Does the company have an advertising review and clearance process?

If a company's advertising program is extensive and/or ongoing, and particularly if the company specifically focuses on comparative advertising, superiority claims, consumer surveys, test results or other subjects that frequently give rise to false advertising claims, it may be helpful to create an advertisement clearance request form that would be used to input and track advertisements, revisions, legal comments and documents related to the substantiation of claims. This form could also explain the preferred review process.

b. What materials will the company review?

The scope of review should cover advertising in print, broadcast media, websites, direct mail, promotional materials, signage and press releases. As a corollary to the advertising review process, a similar process should be undertaken at any time a company considers a new trademark, service mark, slogan, logo, trade dress, packaging, etc. They should be examined, searched and "cleared" to make certain that their use will not give rise to liability for trademark or copyright infringement as well as for false advertising or false designation of origin.

c. Who will manage the review?

Depending upon the company's available resources, the company may rely on one reviewer or a whole team of reviewers. Either way, it is important for the reviewer(s) to work closely with counsel as well as with the marketing team, not only to assist with the review process, but to educate the marketing team on important advertising laws.

2. Identity of Competitor:

a. Does the advertisement directly name a competitor, use a competitor's mark, logo or likeness, or imply a particular competitor?

Naming or implying a particular competitor opens the door for that competitor to allege a claim of false advertising or unfair competition. It should at the very least raise a red flag and give rise to further scrutiny.

b. How does the advertisement show or discuss the competitor?

The defense of nominative fair use may be available when the trademark of another is used to designate the trademark owner, when only so much of the trademark as is necessary to designate the trademark owner is used and when the use is so as not to cause a likelihood of consumer mistake or deception.

3. Misrepresentation

a. Are the nature, characteristics or qualities of the company's or a competitor's goods, services or commercial activities misrepresented?

A misrepresentation of the nature, characteristics or qualities of the company's own, or a competitor's goods, services or commercial activities gives the competitor a valid cause of action under the Lanham Act.

b. Is the geographic origin of the company's or a competitor's goods, services or commercial activities misrepresented?

A misrepresentation of the origin of goods creates potential liability for the advertiser under the Lanham Act.

c. Is the statement a specific and measurable advertising claim of product superiority?

If the statement is literally true, there will be no cause of action for false advertising. If it is not demonstrably true, and is a specific and measurable claim, the defense of puffery may not be available.

4. Claim or Statement Made

a. Does the advertisement make an express claim or statement?

Express claims are those that are stated literally in an ad and require no special interpretation to be understood. Express claims can be made verbally or visually and include claims such as: "consumers prefer," "tastes better," or "as good as." Express claims should be adequately substantiated.

b. Does the advertisement make an implied claim or statement?

Implied claims may exist in statements that are literally true, but nevertheless have a tendency to deceive or mislead. If the statement is literally true, but likely to mislead or confuse customers, the targeted competitor would have a valid cause of action against the company for false advertising. The competitor would be required to first demonstrate that consumers perceive the claim to be made (typically by a consumer survey) and, second, show the claim to be false. Therefore, when an advertisement contains an implied claim, the best practice is to conduct a survey to determine how consumers interpret the ad. If the ad is properly understood by consumers in such a way that the company can substantiate the claim made, the survey becomes the ad's substantiation and can be used, if necessary, in its defense.

c. Does the advertisement make an establishment claim?

Establishment claims are official-sounding pronouncements, for example, "tests prove" or "studies show". A challenger to such a claim need only prove that the tests did not establish the proposition for which they were cited or that the tests were not sufficiently reliable. The challenger does not need to prove the claim is false. The burden then shifts to the advertiser to defend the tests. Therefore, in order to use establishment claims in advertising, it is recommended that the tests and results be carefully selected.

d. Is the advertisement claim merely puffery?

As discussed above, "Puffing" may be in the form of exaggerated blustering and boasting upon which no reasonable buyer would rely, or a general claim of superiority over comparable goods that is so vague that it will be understood as merely the seller's expression of opinion, such as claims that a product is "new and novel." Puffing is not actionable as false advertising, but statements that are more pointed or specific should be carefully analyzed for possible problems.

5. False Statement or Implication

a. Is the statement literally false?

If a statement made in advertising is literally false, a competitor would have a valid cause of action against the company for false advertising, even without proving the public was misled.

b. Is the statement literally false and made expressly in the advertisement?

If a claim is expressly made on the face of the advertisement, and if that claim can be shown to be literally false, it may be enjoined without the need for the challenger to conduct a consumer survey or to produce other evidence of the effect of the statement on consumers or damage.

c. Is the statement literally true, but likely to mislead or confuse customers?

If a statement is literally true, but likely to mislead or confuse customers, the targeted competitor would have a valid cause of action against the company for false advertising. The competitor would need to demonstrate to a court that the public was in fact misled.

6. Substantiation

a. Can the company substantiate claims made in the advertisement?

Under FTC regulations, an advertiser should have substantiation available for every material claim in every advertisement. (However, a claim that consumers are likely to perceive as subjective opinion or sales "puffery" are not considered material claims and no substantiation is required.) In other words, advertisers must have a "reasonable basis" for any advertising claims and such a reasonable basis must have evidentiary support which was gathered *before* making the claim.

IV. Organizations and Resources Available

A. National Advertising Division of the Council of Better Business Bureaus

The National Advertising Division ("NAD") of the Council of Better Business Bureaus monitors advertising and consumer complaints and may institute its own inquiries or allow competitors to bring false advertising claims. As with other Better Business Bureau service, participation is purely voluntary, but many significant businesses opt to have advertising disputes resolved in this forum. Its proponents appreciate the efficiency and timeliness of decisions, the expertise of the presiding decision makers, the fairness of decisions and the relative low cost of obtaining a resolution of disputes. See: Advertising Review, Clearance and Challenges, by Louise M. Parent, Ronald A. Gray and David H. Bernstein, 2000. The reviewing attorneys at the NAD are expert in advertising law and their decisions carry substantial weight among advertising lawyers. Membership in the Council of Better Business Bureaus is for national

companies based in the United States who want to demonstrate their dedication to the principles of industry self-regulation and ethical business practices; both in the traditional marketplace and on the Internet. Membership provides access to NAD case reports, which have created a body of advertising jurisprudence, and an advertising legal treatise titled "Do's and Don'ts in Advertising". This treatise is a guide to advertising creation, review and approval, and can help to ensure that those in charge of advertising review programs, such as that discussed above, are up to date on recent case law and regulations concerning advertising practices. This legal treatise is designed to assist legal and advertising professionals produce advertising that is ethical and correct. The focus of the membership is to assist companies with self-regulation of their advertising.

Any person or legal entity, whether a member of NAD or not, may submit a complaint regarding national advertising, upon payment of a fee. NAD can refuse to hear a case, but unless it does so, the complaint is forwarded to the advertiser for response. The advertiser has 15 days to provide a written response to the complaint and the response should provide substantiation for any advertising claims or representations challenged. The challenger has 10 days to submit a reply. The advertiser then has a further 10 days to submit a final response. Within 15 days of the last document received by the NAD, the NAD will issue a decision, typically limited to truth and accuracy of the advertising. If NAD determines that the advertising claims are not substantiated, the advertiser shall, within 5 days, submit a statement either agreeing to discontinue or modify the ad or take the issues to appeal. When the advertiser does not agree to comply with NAD's decision, the advertiser may appeal to the National Advertising Review Board ("NARB"), discussed below.

Cases which have been determined by NAD include subjects such as Federal Express Corporation's challenge to the advertising of the United States Postal Service in 1997, a series of cases involving Visa USA, Inc., and its claims that **VISA**® is the "preferred lodging card" (in which the ads were found to be false because Visa's evidence that consumers *use* **VISA**® more did not prove that consumers *prefer* **VISA**®), and a series of cases based on the Visa advertising campaign that certain businesses "…Don't take **AMERICAN EXPRESS**."

B. The International Institute for Conflict Prevention & Resolution ("CPR")

The International Institute for Conflict Prevention & Resolution ("CPR") is a membership-based nonprofit organization that promotes excellence and innovation in public and

private dispute resolution, serving as a primary multinational resource for avoidance, management, and resolution of business-related disputes. It is not limited to advertising-related disputes, but focuses on the use of alternative dispute resolution ("ADR") in many different types of disputes. Its membership includes over 500 major corporations and law firms who consider themselves to be at the forefront of resolving business and public disputes through innovative ADR approaches. CPR's mission is to assist the law departments of corporations and firms to incorporate ADR into the mainstream of their practice. Membership cost is based upon the size of the corporation, ranging from approximately $3,000 a year for smaller corporations to $6,000 for major companies. The resources provided by CPR include educational tools to enhance legal departments' proficiency in ADR and to create in-house litigation management policies. CPR has established nationwide and international panels of expert neutrals in a number of different disciplines, including the Panel of Distinguished Neutrals for the Resolution of Trademark Disputes, and offers the option to seek CPR assistance in resolving a given matter. The CPR Panels Management Group can help parties select the right neutral, persuade their adversaries to engage in ADR and assist in other ways. Its members subscribe to the CPR Corporate Policy Statement on Alternatives to Litigation, which obliges them to seriously explore negotiation or alternative dispute resolution in cases with other signatories before pursing full-scale litigation.

C. National Advertising Review Council ("NARC")

Other organizations which might also be helpful in resolving advertising disputes include the Children's Advertising Review Unit of the Council of Better Business Bureaus, the Electronic Retailing Self-Regulation Program and the National Advertising Review Council. The National Advertising Review Board ("NARB") serves as the appeals board of the NARC. When an advertiser or challenger disagrees with the recommendation of one of the participating adjudicative bodies, it may appeal the decision to the NARB.

The National Advertising Review Council ("NARC") was created by the Association of National Advertisers (ANA), the American Association of Advertising Agencies (AAAA), and the American Advertising Federation (AAF) in alliance with the Council of Better Business Bureaus (CBBB). It is an independent self-regulatory body. To ensure the credibility and impartiality of the self-regulation system, the advertising review process operates under the administrative purview of the Council of Better Business Bureaus. NARC sets policy for the

National Advertising Review Board (NARB), the National Advertising Division (NAD), and the Electronic Retailing Self-Regulation Program (ERSP) to provide guidance and set standards of truth and accuracy for national advertisers. The National Advertising Review Board is made up of professionals from three different categories: national corporate advertisers, advertising agencies, and academics and former members of the public sector. NARB members are nominated for their stature and experience in their respective fields. Nominations are made by the National Advertising Review Council's supporting organizations: the CBBB, ANA, AAAA and AAF.

More information on each of these agencies and organizations may be obtained from their web sites:

Council of Better Business Bureaus www.cbbb.org

International Institute for Conflict Prevention & Resolution www.cpradr.org

National Advertising Review Board www.narbreview.org

National Advertising Review Council www.narcpartners.org

Association of National Advertisers www.ana.net

American Association of Advertising Agencies www.aaaa.org

American Advertising Federation www.aaf.org

V. Conclusion

Claims made in comparative advertising must be supported. Any claims made must be both literally true and must not make false implications. Support for such claims should be gathered by third parties prior to publishing the advertisement, either from unbiased studies or surveys. It is important to establish and follow guidelines based on the legal principles set out in statute and case law. The guidelines generally should evaluate advertising in advance and should identify statements made directly or by implication, the message perceived by the consumer and the substantiation for each such statement. There are a number of resources, articles, organizations and agencies that can

provide further help, information and education to companies who wish to explore this subject further.