

Intellectual Property: Emerging Issues In False Advertising

**Bruce W. Baber
Christina E. Eisenhard
Courtland L. Reichman
Keith E. Sharkin**

Tuesday, March 21, 2006
12:30 – 1:30 p.m. Eastern time

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Speaker Biographies



Bruce W. Baber
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Bruce Baber is a partner and senior member of King & Spalding's Intellectual Property Practice Group. Active in all aspects of the firm's IP practice, Mr. Baber's emphasis is in litigation matters. He participates actively on behalf of a wide variety of domestic and foreign clients in both jury and bench trials of numerous patent, trademark, trade dress and copyright infringement cases, as well as adversarial patent and trademark proceedings before the International Trade Commission in Washington, D.C. and the United States Patent and Trademark Office. He has handled several dozen trademark counterfeiting matters and a wide variety of false advertising and related matters for a number of nationally-known companies. He was actively involved in the creation, implementation and management of the extensive and effective anti-counterfeiting and anti-ambush marketing programs for the 1996 Summer Olympic Games.

Mr. Baber has substantial experience in the protection of trademarks, copyrights and other forms of intellectual property, including the prosecution of applications for registration of such properties and the development and implementation of worldwide protection strategies. He is involved in numerous major licensing and other intellectual property related corporate transactions. He has recently been selected by *Chambers USA* as a leading lawyer in his practice area and has been included in *The Best Lawyers in America*.

Mr. Baber graduated with distinction from Princeton University in 1976 and received his law degree with honors from the Duke University School of Law in 1979. He is a frequent speaker on intellectual property issues and has authored articles on trademark matters focusing primarily on the misuse and protection of Olympic symbols.

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Chrissy Eisenhard is an associate in the Intellectual Property Practice Group in the Atlanta office of King & Spalding. She handles a wide variety of complex litigation and arbitration, including disputes arising under patent, trademark, false advertising, and trade secret law. Ms. Eisenhard also has considerable experience handling disputes arising under contract law, largely in the software development and implementation context. In addition to litigation, Ms. Eisenhard regularly counsels clients on a broad spectrum of intellectual property related issues, including the protection of trade secrets and other confidential information and the review and approval of television, radio and print copy utilized in national advertising.

Ms. Eisenhard graduated from the University of Virginia School of Law in 2000, and from Cornell University in 1994. She is admitted to the state courts of Georgia, the United States District Courts for the Northern and Southern Districts of Georgia, and the United States Courts of Appeals for the Eleventh Circuit and Federal Circuit. Ms. Eisenhard is a member of the American Bar Association, the Atlanta Bar Association and the State Bar of Georgia (intellectual property, litigation, and technology sections).

In addition, Ms. Eisenhard is active in the community and serves as President of the board of directors for the Atlanta Community Toolbank, a non-profit organization. Ms. Eisenhard also volunteers with the United Way of Atlanta in connection with its Regional Investment Program and Commission On Homelessness and for the University of Virginia Law Foundation.

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Courland Reichman is the leader of King & Spalding's Intellectual Property Practice Group.

Mr. Reichman handles a wide variety of intellectual property matters such as false advertising, trademark, copyright, patent and software licensing and development claims. He has authored numerous articles on intellectual property issues, including false advertising. Mr. Reichman practices in state and federal courts, and routinely handles discovery and trial practice as well as requests for emergency injunctive relief. Mr. Reichman has an active appellate practice, including numerous arguments before federal appellate courts and the U.S. Supreme Court.

Mr. Reichman graduated, with honors, from Swarthmore College in 1990 with a degree in economics, after which he worked as an Associate Economist at the RAND Corporation where he published a number of articles and a book involving labor economics. In 1995, he graduated Order of the Coif from Emory University School of Law where he was Managing Editor of the *Emory Law Journal*. From 1995 to 1996, Mr. Reichman served as a Law Clerk to The Honorable R. Lanier Anderson III on the Eleventh Circuit Court of Appeals. He has been named by *National Law Journal* to its elite list of "40 Under 40" lawyers in the U.S., recognized as a "Rising Star" by *Georgia Superlawyers Magazine*, and recognized by *Georgia Trend* magazine as one of Georgia's "Legal Elite."

Mr. Reichman devotes a substantial portion of his practice to public interest matters. He has represented clients in *pro bono* litigation involving civil rights, criminal defense, special appeals and the death penalty. Mr. Reichman founded the firm's Indigent Defense Project, through which firm attorneys represent impoverished felony defendants in rural Georgia counties. Mr. Reichman has led the firm's *pro bono* representation of the Mayor's Commission on Homelessness. In 2001 Mr. Reichman received the Anti-Defamation League's Young Lawyers Award for his commitment to secure justice and fair treatment for all people. He is President of the Board of Directors of the Living Room, a member of the Board of Directors of the Southern Center for Human Rights, and a member of the Board of the New South Project. He previously served as an Elder at Morningside Presbyterian Church.

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Keith Sharkin is a partner in the Intellectual Property Practice Group in the New York office. He represents a wide range of clients in all aspects of trademark, unfair competition and copyright law.

Mr. Sharkin has handled numerous litigation matters in federal courts throughout the country and at the appellate level. He has litigated cases for trademark infringement, unfair competition, false advertising, counterfeiting, dilution, cybersquatting, copyright infringement, and trade dress infringement. His practice also includes prosecution of trademark applications at the U.S. Patent and Trademark Office and handling opposition and cancellation proceedings before the Trademark Trial and Appeal Board. He also supervises international trademark matters for his clients, including review of foreign searches and opinions, due diligence, counseling and litigation.

Mr. Sharkin received his J.D. from Creighton University and his B.A., *cum laude*, from Fairleigh Dickinson University. He is a member of the American Bar Association, the New York State Bar Association, the Association of the Bar of the City of New York, the New Jersey State Bar Association and the International Trademark Association.

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Ad Clearance – Minimizing Your Risk of Liability

- **Pre-clearance is essential to minimize liability.**
- **Have all advertisements reviewed and approved by the legal department before they are disseminated.**
- **Substantiate any claims before they are used.**
- **Issues to consider include more than just false advertising**
 - Use of trademarks
 - Use of individual name and/or likeness
 - Ownership of materials
 - Contractual issues

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What is Considered Advertising?

- Packaging
- Brochures
- Labels
- Internet
- Print advertising
- Scripts
- Sales presentations
- Television and radio commercials
- Oral representations
- Sales materials
- Videos/DVDs

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False Advertising in Context

- Evaluate claims in the full context of the advertisement.
- What is the message of the advertisement from the text, sound and visuals when viewed together?
- No substitute for a close and ongoing attorney-client relationship and process.
- Wear your consumer or target audience hat
- Focus on statements of fact

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Types of False Advertising

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Types of False Advertising

- **False Statements**
 - Literally false
 - False by necessary implication
 - Implied falsity
- **Opinion and Puffery**
- **Comparative Claims**
 - Superiority claims
 - Tests prove claims
- **Use of a Competitor's Mark or Logo**

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Literally False Claims

- **Definition:** A claim that is not true.
- **Query:** Is the claim a statement of fact?
- **Query:** Can the claim be proven true or false?

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False by Necessary Implication

- **Definition:** A claim is false by necessary implication when, considering the advertisement as a whole, the audience would only interpret the claim as false.
- **Query:** When looking at the advertisement as a whole, does it imply a false message?

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False by Necessary Implication

- **Claim:** Mylanta Nighttime Strength
- **Problem:** The name necessarily implies that the product was specially formulated to relieve nighttime heartburn, which it was not.
- **When a claim is literally false or false by necessary implication, courts do not require evidence that customers were actually deceived.**

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Implied Falsity (Misleading) Claims

- **Definition:** A claim that is literally true or ambiguous, but conveys a message that is false.
- **Query:** Is the claim ambiguous? Could it be interpreted in more than one way?
- **If so, then the interpretations that can be drawn must not be false or misleading.**

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Implied Falsity Claims

- **Claim:** Label on packaging says sunglasses inside are not “exact copies” of Cartier sunglasses.
- **Problem:** This was literally true, but misleading because it implied that the sunglasses were similar to Cartier’s, which they were not.

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Opinion and Puffery Are Allowed

- **Definition:** A subjective, boastful claim that is so exaggerated or vague that a reasonable consumer would not take it seriously.
- **Query:** Can this claim be proven true or false?
- **Query:** Is it so vague that no one will take it as fact?

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Examples of Puffery

- “You’re in Good Hands with Allstate”
- “Better Ingredients, Better Pizza”
- “America’s Favorite Pasta”

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Problematic Puffery

- Context is important!
- When a slogan that is puffery appears in advertising comparing aspects with those of competitors, the advertisement can be transformed from puffery into a factually-based claim.
- When Papa John’s slogan “Better Ingredients, Better Pizza” was shown comparing specific ingredients with those of competitors, it had objective, quantifiable and fact-specific meaning.

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Comparative Claims

- Two types: “better than” claims and “tests prove” claims
- An advertisement does not need to specifically name a competitor to be a comparative advertisement.
- Example: “50% less mowing” is comparative because it implies 50% less mowing than competitor’s sod.

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“Better Than” Claims

- Definition: A claim that a product or service is equal or superior to a competitor’s.
- Advertisements may be proven false by conducting independent tests or massaging the data in the advertiser’s tests (if any) to prove the services are equal or inferior.
- Remember: Competitors watch “better than” claims very closely. Be sure claims have been substantiated!

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“Tests Prove” Claims

- **Definition:** An advertiser directly or implicitly represents that “tests prove” or “studies show” that its product or service is superior.
- **Before making a “tests prove” claim, be sure that:**
 - The tests are scientifically reliable.
 - The tests actually establish what is claimed.

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“Tests Prove” Claims

- **Claim:** “Warning: Up to half of all engine wear can happen when you start your car. At this critical time, tests prove Quaker State 10W-30 protects better than any other leading 10W-30 motor oil.”
- **Problem:** Tests conducted on Quaker State oil did not show that it protected the car from engine wear at start-up.

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Use of a Competitor's Logo

- Do not modify, disparage or parody a competitor's logo or trademark.
- Do not use a competitor's logo in a manner that may cause confusion as to the source of the product.

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Remedies / Options

- Send letter and request substantiation of claims.
- File a lawsuit for false advertising under the Lanham Act and/or comparable state law claims
- Complaint to the Federal Trade Commission.
- File a complaint with an alternative dispute resolution body such as the National Advertising Division.

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Civil Action

- **Section 43(a) of the United States Trademark Act (also known as the Lanham Act), 15 U.S.C. § 1125(a), provides a cause of action for competitors to sue for false advertising.**
- **Most states also have unfair and deceptive trade practices acts, fair business practices acts and/or false advertising statutes or recognize a cause of action for false advertising under the common law of unfair competition.**

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False Advertising: Section 43(a)

- **Section 43(a) of the Lanham Act establishes a federal cause of action for, among other things, false advertising:**
 - (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—
 - (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

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False Advertising: Section 43(a) *(cont'd)*

(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.

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Elements of a Lanham Act False Advertising Claim

- To prove false advertising under the Lanham Act, a plaintiff must establish that:
- the advertising is false or misleading;
 - the advertising deceived or had the capacity to deceive consumers;
 - the deception had a material effect on purchasing decisions;
 - the misrepresented product or service affects interstate commerce; and
 - the plaintiff has been, or is likely to be, damaged as a result of the false advertising.

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Court Trends: Materiality

- Previously most circuits presumed the materiality element if the advertisement was literally false.
- Courts are moving away from the presumption and are now requiring that plaintiffs affirmatively prove materiality.

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Lanham Act Remedies

- **Injunctive Relief**
 - Preliminary and permanent injunction prohibiting the use of the false or misleading statements.
- **Monetary Damages**
 - Actual damages (lost sales)
 - Defendant's profits
 - Treble damages
 - No punitive damages
- **Corrective Advertising / Product Recall**
- **Attorneys' Fees and Costs**

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Use of Consumer Surveys

- Consumer surveys are frequently used to show consumers' understanding of meanings conveyed by advertisements.
- Surveys ask consumers, "What are the messages of this advertisement?"
- Courts have accepted as significant survey results showing 15% of consumers (or the target market) receiving a false message.

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Implied Falsity: Survey Says...

- **Claim:** An advertisement for a safety can opener shows a woman rolling the lid of a can down her arm.
- **Problem:** Though it did not contain any false statements, a survey showed that 20% of people who saw the ad took away the message that you will not cut yourself on the opened can edge, which is an implicitly false representation.

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Using the Lanham Act as a Vehicle to Gain Standing

- **Competitors have sought to use the Lanham Act to gain standing to enforce other statutes that do not confer a private cause of action such as the FDCA, FHSA or FIFRA.**
 - Particularly prevalent in the pharma industry regarding what is “generic”
 - Claims have generally proven unsuccessful unless the defendant has made affirmative misrepresentations
- **Competitors have also sought to use the Lanham Act to circumvent the ownership provision of the Copyright Act.**

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Dastar v. 20th Century Fox

- **2003 Supreme Court case addressing the Lanham Act’s “origin of goods” language.**
- **The Court held that failure to attribute authorship of certain works was not a violation of the Lanham Act.**
- **In arriving at this conclusion, the Supreme Court relied heavily on the notion that it did not want to expand the Lanham Act to cover the realm of copyright or patent protection.**

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False Advertising: State Remedies

- **Most states have statutes forbidding false advertising as well as other deceptive acts or practices.**
- **Uniform Deceptive Trade Practices Act**
 - Generally applies only to consumer transactions in trade or commerce.
 - A person or business has engaged in an illegal deceptive trade practice when, among other things, the business or person:
 - » Represents that goods or services have ... qualities that they do not have.
 - » Represents that goods or services are of particular standard, quality, or grade ... if they are of another.
 - » Disparages the goods, services or business of another by false or misleading misrepresentation of fact.

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False Advertising: State Remedies *(cont'd)*

- **Many States have state agencies charged with enforcement of consumer protection laws.**
- **State enforcement agencies can have significant investigatory and enforcement powers.**
- **State enforcement priorities can be affected by political considerations.**
- **State enforcement agencies can be very aggressive.**

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Federal Trade Commission

- FTC is primarily concerned with issues of broad consumer deception.
- The FTC has authority to regulate advertising pursuant to the Federal Trade Commission Act.
- No private right of action under the FTC Act for competitors or consumers.
- Consumers can notify the FTC of “unfair and deceptive” practices by submitting complaints against specific companies.

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FTC Act

- FTC granted authority to investigate, prevent and prosecute unfair or deceptive acts or practices.
- Unfair or deceptive practices in and affecting commerce are unlawful.
- Deception: An act or practice is deceptive if it misleads consumers acting reasonably under the circumstances and is material to the purchase/use decision.
- Unfairness: An act or practice is unfair if it causes or is likely to cause substantial consumer injury that is not reasonably avoidable by consumers and not outweighed by countervailing benefits to consumers or competition.

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FTC Action

➤ **Factors considered:**

- 1) Likelihood that the practice will mislead the consumer
- 2) Reasonableness of consumer reaction
- 3) Materiality of the practice

➤ **FTC Options**

- Negotiate a settlement
- File enforcement action (issue a complaint)
- Rulemaking
- File civil action

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FTC Enforcement

- **Public or non-public investigation**
- **Consent Agreements**
- **Injunctions/Cease And Desist Orders**
- **Trade Regulation Rules**
- **Industry Guides**
- **Policy Statements**
- **Formal FTC Complaints**

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FTC Remedies

- Injunctive relief
- Cease and desist orders
- Warnings
- Corrective advertisements
- “Fencing in”
- Refunds
- Disgorgement

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NAD

- National Advertising Division (“NAD”) of the Better Business Bureau
- NAD only reviews national advertisements
- NAD proceeding is a non-binding dispute resolution process
- NAD can address a wide variety of false advertising claims

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NAD Evidentiary Burdens

➤ Advertiser:

- Initial burden of presenting reasonable basis for claims.
 - » Claims must be truthful, fully supported and narrowly drawn.
 - » It is “crucial that the advertiser’s evidence/data speak directly to the precise claim it purports to substantiate.”

➤ Challenger:

- If advertiser meets the “reasonable basis” threshold, the burden shifts to the challenger to show:
 - » better data demonstrating a different result, or
 - » that the advertiser’s evidence is materially flawed.

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NAD Legal Standards

➤ NAD closely scrutinizes claims of superiority.

- Claims of superiority are “held to a very high standard of proof because [they are], in essence, a promise that there is scientific evidence that proves or ‘establishes’ the truth of an advertiser’s claims.”

➤ Unqualified superiority claims must be substantiated against all significant competitors in the product category.

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NAD Legal Ramifications

- **NAD cannot enjoin the advertisement in dispute.**
- **Unfavorable NAD decision may cause considerable public pressure to discontinue or modify the advertisements.**
 - Media suppliers generally will not air or publish the offending advertising.
- **Unfavorable NAD decisions do not have any prejudicial effect on challenger's right to pursue claims in court.**
- **Notification of regulators**

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NAD Proceeding: Pros

- **Confidential process prior to issuance of decision**
- **Relatively fast resolution process (12 weeks)**
- **Low-cost alternative to litigation**
- **No discovery of challenger**
- **Considerable pressure to comply with NAD decision**
- **Advertiser cannot assert counterclaims**

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NAD Proceeding: Cons

- **Risk of NAD publishing an unfavorable decision**
- **Parties may not issue press releases regarding the proceeding or the final decision**
- **No discovery of advertiser**
- **NAD decision is not binding**
- **Advertiser can decline to participate**

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