



# Comparative Advertising Law in the US

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An overview of comparative advertising law in the US, focusing on the treatment of comparative advertising claims by the Federal Trade Commission and the National Advertising Division of the Council of Better Business Bureaus, and the challenges of contesting comparative advertising claims under the Lanham Act.

Comparative advertising compares alternative brands on price or other measurable attributes, and identifies the alternative brand by name, illustration or other distinctive information. Examples of prominent comparative claims include:

- “Domino’s oven baked sandwiches beat Subway’s in a national taste test 2 to 1.”
- “Ink [credit cards] rewards you with points that are more valuable to you. Up to 25% more valuable than Amex Rewards when you redeem them for air travel. And Ink is accepted at more than twice as many places as American Express.”
- “Unlike Progresso soups, new Campbell’s Select Harvest soups never contain artificial flavors or MSG.”
- “Glade Fabric and Air Odor Eliminator penetrates deeper than Febreze on carpet.”

This Note describes:

- The legal framework for engaging in comparative advertising in the US (see *Legal Framework for Comparative Advertising*).

- Considerations involved in contesting a competitor’s comparative advertising claim (see *Challenging a Comparative Advertising Claim*).
- The treatment of comparative advertising claims by the Federal Trade Commission (FTC) and the National Advertising Division (NAD) of the Council of Better Business Bureaus (CBBB) (see *Alerting Regulators* and *Bringing a Proceeding before the NAD*).
- Some of the particular proof and burden-shifting issues triggered when comparative advertising claims are challenged under the Lanham Act (see *Litigating under the Lanham Act*).

## LEGAL FRAMEWORK FOR COMPARATIVE ADVERTISING

Comparative advertising is subject to regulation through a combination of federal, state and local laws, as well as self-regulatory codes of conduct. These include:

- The Federal Trade Commission Act (FTC Act).
- Section 43(a) of the Lanham Act (*15 U.S.C. § 1125(a)*).

The FTC is the primary federal agency responsible for regulating public advertisements. It regulates advertising by:

- Prescribing rules under the FTC Act.
- Investigating suspected violations of the FTC Act.
- Bringing lawsuits against companies conducting illegal activity.

In addition, other agencies like the Food and Drug Administration (FDA) have the authority to regulate certain types of advertising claims made to industry-specific products. For a discussion of issues that apply to advertising generally, see *Practice Note, Advertising: Overview* (<http://us.practicallaw.com/2-501-2799>).

### REGULATION UNDER THE FTC ACT

The FTC evaluates comparative advertising the same way it evaluates all other advertising and therefore does not require a higher standard of proof for substantiating comparative claims. As a result, advertisements that attack, discredit or otherwise criticize another product are permissible if they are truthful and not expressly or impliedly deceptive.

The FTC considers an advertisement to be deceptive if:

- It includes a representation, omission or practice that is likely to mislead the consumer acting reasonably in the circumstances.
- The representation, omission or practice is likely to affect the consumer's conduct or decision regarding a product or service. (See *FTC Policy Statement on Deception*.)
- The advertiser does not possess a reasonable basis, or substantiation, for believing any representations it makes are true when the representations are made. (See *FTC Policy Statement Regarding Advertising Substantiation*.)

Although some industry codes and trade association standards discourage comparative advertising, the FTC has taken the position that industry self-regulation should not limit the use of comparative advertising, including brand comparisons, where the comparisons are clearly identified, truthful and nondeceptive, and can provide consumers with useful and important information to help them make rational purchasing decisions (see *Statement of Policy Regarding Comparative Advertising*). For more information on the FTC Act and the FTC's regulation of advertising, see *Practice Note, Advertising: Overview: Regulatory Framework: The Federal Trade Commission Act* (<http://us.practicallaw.com/2-501-2799>).

### COMPARATIVE ADVERTISING UNDER THE LANHAM ACT

Section 43(a) of the Lanham Act prohibits any misrepresentation of the nature, characteristics, qualities or geographic origin of the advertiser's or another person's goods, services or commercial activities through the:

- Use of any:
  - word;
  - term;
  - name;
  - symbol;
  - device; or
  - any combination of these.
- False designation of origin.
- False or misleading description of fact.
- False or misleading representation of fact.

Under the Lanham Act, liability arises if an advertisement is either:

- **Literally false.** If a claim is literally false, courts may bar the claim without referring to its effect on the buying public. A court will consider a comparative advertisement to be literally false where:

- the claim is factually false; or
  - the necessary implication of its claim is false, if the challenged advertisement can be interpreted in only one way.
- **Literally true or ambiguous, but is likely to deceive consumers because of an implied message.** Here, the plaintiff typically bears the burden of proving that the claim is both:
    - false; and
    - that consumers actually viewed the claim, usually by conducting a consumer survey.

For more information on Section 43(a) of the Lanham Act, see *Practice Note, Advertising: Overview: Section 43(a) of the Lanham Act* (<http://us.practicallaw.com/2-501-2799>).

### CHALLENGING A COMPARATIVE ADVERTISING CLAIM

Apart from running a response advertisement, companies can challenge a competitor's comparative advertising claim by:

- Communicating with the competitor directly, usually by sending a demand letter.
- Submitting a takedown request to the media outlet that is displaying the disputed advertisement.
- Alerting the appropriate state or federal regulators, or both.
- Bringing a proceeding before the NAD.
- Litigating the claim under the Lanham Act.

Of course, more than one option can be pursued at the same time. Similarly, a failure to achieve the desired result through one course of action may require a challenger to proceed with another.

#### SENDING A DEMAND LETTER

A demand letter, also known as a cease-and-desist letter, typically:

- States the challenger's legal argument against the truth of the claim.
- Demands that the advertiser modify or discontinue the claim to avoid further action being taken.

While sending a demand letter is inexpensive, the competitor is unlikely to initially admit to any wrongdoing or immediately comply with the challenger's demands. As a result, the best outcome that a challenger can usually hope for is that the letter will open a door to negotiate a discontinuation or modification of the disputed advertisement.

#### SUBMITTING A TAKEDOWN REQUEST

Many media outlets, such as broadcast networks and publishers, maintain advertising standards that include procedures for challenging comparative claims. Typically, a media outlet will stop running an advertisement when a challenger provides a well-constructed argument with supporting evidence that a competitor's advertisement contains false or misleading claims. In addition, these types of challenges are commonly reviewed and resolved much more quickly than in formal dispute resolution



settings. As a result, submitting a takedown request to a media outlet can have the same effect as a temporary restraining order, but at a fraction of the cost and effort.

The challenge process typically consists of two rounds of submissions to give each party involved in the challenge an opportunity to present evidence and rebut the other party's claims. Media outlets often allow parties to submit information on a confidential basis, as long as the media outlet considers the confidentiality request to be reasonable. During its review of the challenged advertisement, the media outlet reviews only the specific advertisement it or its affiliates run. While the media outlet generally considers the truth and accuracy of the challenged claims, it may also consider other factors when determining if a challenged advertisement should be withdrawn like:

- Tastelessness.
- Obscenity.
- Indecency.
- Profanity.

Submitting a takedown request involves a number risks for a challenger, namely that:

- The decision by a media outlet is often final, leaving no room to appeal further.
- Media outlets' review standards can be subjective and arbitrary.
- The media outlet has an inherent conflict of interest if it is collecting revenue from airing or publishing the offending advertisement.
- A challenge can also lead to a counter-complaint from a competitor if the media outlet is running comparative advertisements from the challenger.
- If a complaint is also pending in court or with the NAD, many media outlets will suspend any review of a challenge until the pending complaint has been resolved. This means a challenger should consider approaching the applicable media outlet before filing a more formal complaint elsewhere.

## ALERTING REGULATORS

Challengers can press the FTC or relevant state officials to use their statutory authority to investigate and end an offending comparative advertising claim.

### Requesting an Investigation

To pursue this course of action, a challenger should present a white paper outlining its position and be prepared to meet directly with regulators. Whether a regulator will actually proceed based on a challenger's claim, however, depends on many factors, with consumer harm being the most critical (see *Box, Consumer Harm*).

The level or amount of consumer harm that may result is directly linked to the likelihood that a challenged advertisement will draw the regulators' attention. However, if the dispute is seen as a matter between competitors only, which often is the case

in comparative advertising, regulators are less likely to commit limited resources to investigating and resolving the dispute. Instead, they expect the parties to resolve the issue through negotiation, litigation or other means.

Other factors regulators may consider include:

- The number of consumer complaints that have been submitted regarding a company or advertisement.
- The type of practice in which the advertiser is engaged, for example, a consumer health or safety issue.
- Whether the alleged unlawful practice falls under the regulator's current enforcement priorities, for example, green marketing claims, consumer privacy-related issues and health-benefit claims.

A challenger should consider who to approach within the applicable regulatory agency. For example, a challenger may have more success bringing its concerns to a regional FTC office rather than the Washington, D.C. office, which has other responsibilities like rulemaking.

A challenger should also consider whether to keep its identity as a challenger confidential, as a competitor may be able to obtain a copy of the challenger's complaint through a Freedom of Information Act (FOIA) request or under applicable state law. If confidentiality is important, instead of presenting a white paper, the challenger should provide oral statements to regulators and ensure that any additional documents subsequently provided to regulators do not identify the challenger.

Generally, an advertiser will not be aware of a regulatory investigation until the regulator requests specific information or otherwise formally notifies the advertiser. In the case of an FTC investigation, the advertiser typically cooperates with the investigation voluntarily, as voluntary compliance provides the advertiser a significant degree of control over the pace of the investigation and may prevent developing a contentious relationship with FTC staff.

## Advantages

For a challenger, the advantages to pursuing this course of action include:

- **Cost.** Alerting regulators is inexpensive relative to litigation.
- **Expertise.** Many government attorneys have the background and skills to understand the implications of a challenger's complaint and evaluate the potential for consumer harm. The FTC, in particular, is very well-versed in reviewing potentially false advertising claims.
- **FTC Connections.** The FTC's strong ties with other regulators and enforcement agencies adds significant credibility to a report that a competitor is engaging in false or misleading advertising. For example, the FTC's Division of Advertising Practices coordinates consumer protection initiatives with industry self-regulation groups, and state, federal and international law enforcement agencies.

### CONSUMER HARM

In 2004, the FTC took action against Kentucky Fried Chicken Corporation (KFC) because the public health was implicated. The FTC charged KFC with both making:

- False claims in a national television advertising campaign about the relative nutritional value and healthiness of its fried chicken.
- False claims that its fried chicken was compatible with certain popular weight-loss programs.

(See Press Release, *FTC, KFC's Claims that Fried Chicken Is a Way to "Eat Better" Don't Fly (June 3, 2004)*.)

The FTC can seek penalties such as injunctive relief and restitution or disgorgement for an advertiser's unlawful comparative advertising practices. In addition, FTC action against an advertiser could trigger:

- Increased scrutiny at the state level.
- Consumer class-action lawsuits.
- Lanham Act litigation brought by other competitors.

### Disadvantages

The disadvantages to pursuing this course of action include:

- **Timing.** Once a challenger makes the complaint, it has no control over how, or if, the investigation proceeds. The investigation can take years without the challenger's knowledge of its progress or potential outcome.
- **Publicity.** The opportunity to leverage an investigation for publicity purposes is limited. Statutes and regulations regarding confidentiality during an investigation prohibit regulators from sharing information about its progress. For example, 16 C.F.R. § 4.10 designates materials obtained by the FTC during an investigation as nonpublic records. Further, FTC policy states that generally it is required to conduct its investigations on a nonpublic basis and is only permitted to disclose information about an investigation under limited circumstances, for example:
  - where the target has publicly disclosed the relevant information in a press release or regulatory filing, or the investigation has received substantial publicity; and
  - the disclosure does not identify a target that has not already disclosed its own identity (see *Policy Concerning Disclosures of Nonmerger Competition and Consumer Protection Investigations*, 63 Fed. Reg. 63,477 (Nov. 13, 1998)).
- **Industry-wide investigations.** Educating the government about an industry-specific concern may lead to increased scrutiny of that entire industry. Given the risk of industry-wide investigations (also known as sweeps), which is common practice for regulators, a challenger should ensure that its own advertising practices are defensible before alerting a regulator to a competitor's comparative advertising practices.

### BRINGING A PROCEEDING BEFORE THE NAD

The NAD provides an alternative to litigation for resolving disputes regarding comparative advertising claims. The advertising industry established the NAD, which is managed by the CBBB, as a self-regulatory agency to help maintain truth and accuracy in national advertising. The NAD may review any national advertisements directed toward consumers 12 years of age and older, regardless of whether that advertisement is targeting consumers, professionals or business entities.

Experienced attorneys review comparative advertising issues brought to the NAD, which applies precedent to determine whether the advertising claims are truthful and non-misleading. As a result, the NAD process offers the opportunity to obtain a thorough review of a comparative advertising claim in less time than it would take to litigate.

### Review Standards

The NAD's treatment of comparative advertising claims tracks that of the FTC, except that the NAD applies a higher standard to advertising claims that criticize a competitor's products to ensure these claims are truthful, accurate and narrowly drawn.

Unlike the FTC, the NAD does not examine whether:

- Deception has occurred.
- An advertiser has violated the law.
- An entity has engaged in false or unfair advertising practices.

Instead, the NAD evaluates the express and implied messages communicated in the advertisement, and determines whether the advertiser has given a reasonable basis to support those messages.

In addition, the NAD has set out standards advertisers should adhere to when making comparative claims. For example:

- Advertisers can make a disparaging comparison, if:
  - the comparison is factually accurate; and
  - the distinction is meaningful to consumers.
- If a comparison pertains only to some products sold in an advertiser's line of similar products, the advertisement should clearly specify the products being compared.
- Advertisers can compare dissimilar products, if:
  - the object of the comparisons is clearly identified; and
  - all relevant material differences between the products are clearly disclosed.

### Procedure and Costs

The two sides must submit briefs to the NAD outlining their respective positions. After the parties submit their briefs, optional meetings may follow to further discuss the disputed claims. However, there is no discovery in the NAD review process. As a result, the challenger should expect to spend more than by sending a demand letter or submitting a takedown request, but less than if it chooses to litigate. Also, the challenger must pay

a filing fee to the NAD, the amount of which is determined by the challenger's annual income and whether the challenger is a member of the CBBB (see *Box, NAD Filing Fees*).

### Timing

The NAD usually issues a decision within 90 days of a challenge. However, a challenger can request the NAD to expedite its review, if the challenger waives its right to file a response to its competitor's brief. An expedited review often results in the NAD issuing a decision within 60 days.

The NAD's time frame for issuing a decision may also be affected by the schedule for any follow-up meetings taking place after the parties file their respective briefs. As a result, the challenger should schedule follow-up meetings as soon as possible after each side files its brief.

### Evidence and Confidentiality

While the challenger is not required to provide extrinsic evidence, like a consumer survey, when filing a complaint, it should consider doing so for challenges to implied claims. Challengers should also be aware that online surveys have become more acceptable to support challenges to implied claims (see *Box, Online Surveys*).

The NAD has rules concerning the treatment of confidential materials to protect proprietary information submitted during the process. Trade secrets and proprietary information or data may be withheld from a challenger if the advertiser:

- Clearly identifies the confidential or proprietary information, or both.
- Affirms that the material is not publicly available.
- Provides a comprehensive summary of the material to the challenger that includes as much nonconfidential information as possible.

### Publicity

NAD participants must sign a statement at the beginning of the case confirming that the proceedings will not be used for publicity during or after the case. Whatever the outcome, each NAD decision is accompanied by a press release announcing the decision, and the parties are asked to provide a statement indicating whether they intend to comply with the NAD decision. While publicizing NAD proceedings are generally inappropriate, the NAD does permit a prevailing party to provide a list of media contacts, but absolutely no business contacts, to whom the NAD will forward copies of the press release.

### Counter-challenges and Appeals

Although NAD rules do not permit counterclaims, bringing a proceeding before the NAD raises the risk of receiving a retaliatory counter-challenge to the challenger's own advertising. To the extent the NAD accepts the counter-challenge, it assigns a different case review specialist to ensure the proceedings are kept separate.

## NAD FILING FEES

All challenges made by companies or competitors, or both, must be filed together with a check, made payable to the CBBB in the following amounts, which are subject to change:

- **CBBB Corporate Partner Filing Fees.** Competitive challenges submitted to the NAD by businesses that are CBBB members must pay \$2,500.
- **Non-CBBB Corporate Partner Filing Fees.** Competitive challenges submitted to the NAD by businesses that are not CBBB members must pay:
  - \$6,000, if the challenger's gross annual revenue is \$400 million or less;
  - \$10,000, if the challenger's gross annual revenue is more than \$400 million and less than \$1 billion; or
  - \$20,000, if the challenger's gross annual revenue is \$1 billion or more.

The filing fee shall be accompanied by a statement indicating the category into which the challenger's revenues fall. In the case of a challenge filed by a subsidiary, the filing fee is determined by the gross annual revenue of the parent company.

- If a case is opened but subsequently closed administratively, for example, in accordance with procedures but without a substantive determination, the filing fee is \$1,500 for CBBB members and \$2,500 for nonmembers. The difference between the initial filing fee and the administrative closing fees is refunded to the challenging party.

The National Advertising Review Board (NARB) provides the advertiser and challenger with a forum to challenge NAD recommendations. However, while advertisers have the automatic right to appeal NAD decisions to NARB, challengers must first request NARB's approval to file an appeal. A challenger's appeal request will not be granted if NARB determines there is no substantial likelihood NARB's decision would differ from NAD's. To file an appeal to NARB, the appealing party must pay filing fees to the CBBB, which is currently \$1,500 for CBBB members and \$2,500 for nonmembers.

### Enforceability

Complying with NAD's decision is optional. However, given the NAD's strong reputation and its growing recognition as the authoritative voice on advertising issues, advertisers generally honor NAD decisions regardless of the outcome. The NAD's expertise is also evidenced by the rarity of reversals on appeal to the NARB. In 2009, for example, the NARB heard eight appeals, yet one NAD decision was modified in favor of the advertiser.

When an advertiser chooses not to cooperate with NAD proceedings or comply with the NAD's decision, the NAD typically



## ONLINE SURVEYS

In a case brought by Bissell Homecare, Inc. against Electrolux Homecare Products, Bissell submitted an online consumer perception survey to support its position that consumers were taking away a false message from Electrolux advertising for one of its products (*Electrolux Home Care Products, Ltd. (Eureka Atlantis Extractor), Report # 4561 (NAD/CARU Case Reports September 2006)*).

In its decision, the NAD acknowledged that, despite certain drawbacks of online surveys, such as the lack of a face-to-face meeting with participants, online surveys are becoming increasingly common and the trend will continue. As a result, the NAD evaluated the online survey the same way it would a real-world consumer study and used some of the data in reaching its recommendation that the advertiser modify its claims.

forwards the case to the FTC or applicable state regulator for action. While the NAD's referral does not automatically result in a formal regulatory response, the potential for increased scrutiny often deters advertisers from refusing to cooperate with the NAD.

## Judicial Recognition

Under NAD rules, cases that are the subject of litigation are outside the NAD's jurisdiction. As a result, advertisers sometimes attempt to force the NAD to suspend its proceedings by filing an action in court for declaratory judgment against the challengers. However, courts have shown a willingness to stay these actions to allow the NAD to investigate the dispute and issue a decision.

One of the most significant acknowledgments of NAD's reputation and authority was *Russian Standard Vodka (USA), Inc. v. Allied Domecq Spirits & Wine USA, Inc., 523 F. Supp. 2d 376 (S.D.N.Y. 2007)*. Russian Standard claimed in its advertising that it was the only true Russian vodka and that Allied's Stolichnaya vodka was not Russian. Allied challenged these claims at the NAD. After each party submitted their briefs, Russian Standard closed down the NAD proceeding by seeking a declaratory judgment in federal court. In response, Allied requested a stay of the federal suit to let the NAD complete its inquiry. The court approved the stay, stating:

- The NAD's expert view on Stolichnaya's authenticity as a Russian vodka would be extremely useful in resolving the claims.
- It would promote judicial economy and be informative to the court in its own decision regarding the claims.
- The NAD decision would promote settlement between the parties.

The case went back to the NAD, and the NAD recommended Russian Standard discontinue its claims that Stolichnaya vodka is not distilled in Russia and modify or qualify any claims that Stolichnaya vodka is not authentically Russian (*Company Russian Standard (Imperial Vodka), Report # 4591R (NAD/CARU Case Reports January 2008)*). For more examples see *Box, NAD Recognition*.

## LITIGATING UNDER THE LANHAM ACT

As mentioned, Section 43(a) of the Lanham Act provides a cause of action to recover for injury from a competitor's false or misleading claims, or both. However, before pursuing a Lanham Act challenge to a comparative advertising claim, a potential plaintiff should consider:

- Its burden of proof when arguing for injunctive relief or monetary damages, or both.
- The possible strategic and operational consequences of taking this type of action.
- That it might be subject to prudential standing limitations.
- The extent to which the dispute involves representations about certain intellectual property rights.

## Injunctive Relief

A competitor can seek an injunction to force its competitor to immediately end or modify the offending advertising campaign. To obtain injunctive relief, a plaintiff must prove both that the:

- Elements of a false advertising claim (see *Comparative Advertising under the Lanham Act*).
- False advertising threatens to cause irreparable injury.

Irreparable injury is generally considered to be harm that cannot be compensated through monetary damages, and can be shown by establishing the likelihood of consumer deception. Where a comparative advertisement specifically mentions the competitor, irreparable injury is presumed. However, where the competitor only makes claims about its own product, the plaintiff must provide evidence of actual injury and causation (for example, with market surveys or other extrinsic evidence).

## NAD RECOGNITION

### COUNCIL FOR RESPONSIBLE NUTRITION (CRN)

In 2006, the CRN, a prominent dietary supplement trade organization, enlisted the NAD as its partner in launching a new initiative to expand the review of dietary supplement advertising, describing the NAD as an excellent model of self-regulation by the FTC. In a series of grants totaling almost \$500,000 over three years, the initiative has allowed the NAD to hire an additional attorney to focus solely on reviewing dietary supplement claims.

### ELECTRONIC RETAILING SELF-REGULATION PROGRAM (ERSP)

The National Advertising Review Council formed the ERSP in 2004 as an extension of the NAD's success as a self-regulatory program. The ERSP focuses solely on evaluating, investigating and resolving inquiries regarding the truthfulness of claims about effectiveness or performance in national direct-response advertising.



If the plaintiff chooses to seek a preliminary injunction, it must show, among other things, likelihood of success on the merits. This means the plaintiff must argue the entire case, supported by relevant evidence, in a tight time frame, which is usually about 30 days.

## Monetary Damages

In addition to seeking injunctive relief, parties affected by comparative advertising claims can seek monetary damages against their competitors. However, monetary damages are rarely awarded because of the higher level of proof required for monetary damages than for injunctive relief. To recover monetary damages under the Lanham Act, a plaintiff must prove, in addition to the elements of a false advertising claim, that:

- Actual consumer deception or confusion occurred.
- The false advertising claim was material to customers, causing actual injury to the plaintiff.

The nature of a comparative advertising claim can significantly affect the challenger's burden of proving causation and injury. For example, when the challenged advertisement makes a misleading comparison or references a challenger's product, courts often take the position that causation and injury may be presumed. Where an advertisement relates to a competing product and makes direct comparative claims, demonstrating a reasonable **belief** of injury is generally sufficient to establish a reasonable **likelihood** of injury. However, if the plaintiff's products are not obviously in competition with the defendant's products or are otherwise not mentioned in the advertisement, the plaintiff must make a more substantial showing of injury and causation.

## Strategic Considerations

While Lanham Act litigation is the strongest way to challenge a competitor's comparative claim, there are some disadvantages to pursuing this course of action:

- **Timing.** The process to resolve the action usually takes at least ten to 12 months, and sometimes longer.
- **Cost.** Litigation is expensive. In addition to factoring the cost of litigating the initial dispute, the challenging party should also weigh the potential costs of litigating any counterclaims or appeals.
- **Disruption.** It disrupts the company's business with:
  - depositions;
  - interviews;
  - development of expert testimony; and
  - document discovery.
- **Unclean Hands.** The pre-trial evidentiary process could expose potentially damaging information about the challenger's own practices. A challenger should identify in advance potential vulnerabilities that may be exposed when raising certain issues, in addition to weighing the costs as mentioned above.

## Prudential Standing Limitations

The concept of prudential standing allows courts to both:

- Avoid deciding questions of broad social importance where no individual rights would be vindicated.
- Limit access to the federal courts to litigants best suited to assert a particular claim.

Recently, several courts have expressly recognized that prudential standing limitations apply to false advertising actions under the Lanham Act and have applied these principles to bar plaintiffs from pursuing claims (for examples, see *Box, Prudential Standing Limitations*). However, challenges to advertisements that make a direct comparison to a competitor's products typically do not raise prudential standing issues.

## Intellectual Property Rights Claims under Dastar

Another significant trend in Lanham Act litigation has been the continuing effort by courts to determine the scope to which a recent US Supreme Court decision bars false advertising claims based on representations about intellectual property rights in a product.

In *Dastar Corp.*, the US Supreme Court dismissed a false advertising claim based on representations about the origin of a television series that Dastar had acquired from Twentieth Century Fox. The US Supreme Court held that the Lanham Act's prohibition against falsely identifying the "origin" of a product referred only to the source of the product and not to

## APPLICATION OF DASTAR

In *Baden Sports, Inc. v. Molten*, the US district court rejected an effort to set aside a jury's finding that Molten's advertisement of a "Dual Cushion" basketball as "innovative" was false, despite Molten's claim that this finding was barred by Dastar. The "dual cushion" basketballs in question include a sponge cushion layer between the skin of the basketball and the basketball's bladder. After weighing the relevant evidence and testimony, the court concluded that the essence of the advertisement was a claim that the basketball was "new," and therefore could not be barred by Dastar (*Baden Sports, Inc. v. Kabushiki Kaisha Molten*, 541 F. Supp. 2d 1151 (W.D. Wash. 2008)).

However, in an earlier decision, the same court had rejected Baden's effort to assert a claim based on Molten's references to its product as "exclusive or proprietary." The court concluded that these representations did not relate to the nature or qualities of Molten's products, but to the fact that Molten invented and owns the basketball technology. Therefore, the court granted partial summary judgment under Dastar (*Baden Sports, Inc. v. Kabushiki Kaisha Molten*, No. C06-210MJP, 2007 US Dist. LEXIS 70776 (W.D. Wash. Sept. 25, 2007)).

## PRUDENTIAL STANDING LIMITATIONS

### CONTE BROS. AUTOMOTIVE, INC. V. QUAKER STATE-SLICK 50, INC.

Conte Brothers, a retailer of motor oil and engine lubricants, sued Quaker State, the manufacturer of a competing product called Slick 50, alleging that Quaker State falsely advertised that Slick 50 would reduce the friction of moving parts, decrease engine wear, and improve engine performance and efficiency.

The US Court of Appeals for the Third Circuit held that Conte Brothers lacked prudential standing, and outlined the following five factors for determining whether a party has prudential standing to bring a claim for false advertising under the Lanham Act, which the US Court of Appeals for the Fifth and Eleventh Circuits have also adopted:

- Whether Congress intended for the Lanham Act to redress the plaintiff's injury.
- The directness or indirectness of the alleged injury.
- The proximity or remoteness of the party to the alleged injurious conduct.
- The speculative nature of the damages claim.
- The risk of duplicative damages or complexity in apportioning damages.

*(Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc., 165 F.3d 221, 225 (3d Cir. 1998).)*

### PHOENIX OF BROWARD, INC. V. MCDONALD'S CORP.

Phoenix of Broward, Inc., a Burger King franchisee, brought a class-action suit against McDonald's Corp., seeking damages based on McDonald's advertising for its promotional games as being "fair and equal." Because of fraud committed by the company operating the games for McDonald's, there was no fair and equal chance to win high-value prizes, which were redirected to people affiliated with the operating company. The district court

granted McDonald's motion to dismiss for lack of prudential standing, and the Eleventh Circuit affirmed, holding that:

- Prudential standing limitations apply to false advertising claims under the Lanham Act.
- Applying the Conte Brothers test, it was unlikely that the alleged misrepresentations would decrease Burger King's sales and any damages were remote and highly speculative, even though Phoenix of Broward's injury stemmed from the McDonald's advertisements and, as a competing franchisee, it was likely to be injured by the advertisements.
- Apportioning damages among competitors of McDonald's would be excessively complex.

*(Phoenix of Broward, Inc. v. McDonald's Corp., 489 F.3d 1156 (11th Cir. 2007).)*

### ITC LTD. V. PUNCHGINI, INC.

ITC Ltd. operated a "Bukhara" restaurant in India and sold "Dal Bukhara" packaged foods in the US. Punchgini, Inc. operated a "Bukhara Grill" restaurant in the US. ITC claimed that the defendants implied that their restaurant was affiliated with ITC's products and this constituted false advertising. The lower court dismissed ITC's advertising claims for lack of standing, and the US Court of Appeals for the Second Circuit affirmed, holding that:

- ITC's mere plans to open "Bukhara" restaurants in the US did not establish a protectable interest that gave rise to standing.
- Since defendants were not comparing their restaurant to ITC's packaged food products, ITC's use of the "Dal Bukhara" name on its products did not provide it with standing to challenge the defendants' advertising.
- ITC's operation of "Bukhara" restaurants overseas was too remote to support standing for a false advertising claim in the US or justify a US court's intervention.

*(ITC Ltd. v. Punchgini, Inc., 482 F.3d 138 (2d Cir. 2007).)*

any ideas, concepts or other intellectual property associated with it, effectively barring false advertising claims based on representations about intellectual property rights (*Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23 (2003)*).

While courts are still determining the scope of Dastar, it is clear that choice of words matters a great deal in deciding actionability. For example, one federal district court held that advertising a product as "new" is actionable, while making representations that relate to exclusive rights in a product may not be (see *Box, Application of Dastar*).

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