

## Advertising

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## Advertising

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False advertising law is not, strictly speaking, intellectual property law, but it is a close relative. At the very least, we need to say a bit about advertising law to complete our survey of trademark law. Competitor suits for false advertising have a lot in common with competitor suits for trademark infringement and unfair competition, and trademark law incorporates several devices to discourage misleading uses of trademarks. But a slightly deeper dive – exploring advertising law as a body of law devoted to controlling information – casts new light on other areas of intellectual property as well. Three issues are pervasive in advertising law: falsity, materiality and commerciality. Each of them raises conceptual questions about the control of information that go well beyond advertising law.

The central concern of false advertising law is to prevent the dissemination of false commercial information. Note that this task necessarily requires courts to distinguish true statements from false ones. At least five different conceptions of truth butt heads in the caselaw:

- **Scientific truth** exists in the world and can be determined through objective investigation.
- **Linguistic truth** is conventional; the true meaning of a term is the meaning a reasonable listener (e.g., a reasonable consumer) would regard it as having.
- **Legal truth** is a matter of authority; courts must defer to what legislatures and agencies assert.
- **Trademark truth** is determined by priority of appropriation; the owner of a mark is entitled to say definitively what it means.
- In a pluralistic society committed to free speech, there is **no absolute truth**; everyone is entitled to express their own opinions.

As you read the cases, always ask which conception or conceptions the courts are appealing to.

We start with the tort law of competitor suits for false advertising,

then discuss its close tort and tort-like substitutes, and then look more broadly at other sources of advertising law.

## A False Advertising

The leading advertising treatises are David H. Bernstein & Bruce P. Keller, *The Law of Advertising, Marketing, and Promotions* (Law Journal Press) and James Astrachan, *The Law of Advertising* (Matthew Bender, on Lexis, current through 2014). See also the casebook Rebecca Tushnet & Eric Goldman, *Advertising & Marketing Law: Cases and Materials* (self-published, available in a variety of convenient and inexpensive formats)

15 U.S.C. § 1125 [Lanham Act § 43]  
*False designations of origin, false descriptions, and dilution forbidden*

As with trademark and unfair competition, state and federal law provide overlapping – and often redundant – protections against false advertising. We will focus on our old federal friend, section 43(a), except that now our attention turns to a different subparagraph.

### Lanham Act

- (a) *Civil action.* –
- (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.

See Rebecca Tushnet, *Running the Gamut from A to B: Federal Trademark and False Advertising Law*, 159 U. Pa. L. Rev. 1305 (2011).

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In a sense, false advertising law shares the tort structure of trademark law, but without the requirement that the plaintiff own a trademark. The false advertising tort lacks anything corresponding to procedural rules, and subject matter and "similarity" are so interwoven that it makes sense to treat them together.

### 1 "Ownership": Competitor Standing

One gains tort protection against competitors' false advertising competitors simply by having competitors – by engaging in a commercial activity that has customers capable of being diverted by lies. This requirement of competitor standing functions as a kind of ownership rule. Modern standing law under § 43(a) is considerably more liberal than its common-law precursors.

**Lexmark International, Inc. v. Static Control Components, Inc.**  
134 S. Ct. 1377 (2014)

This case requires us to decide whether respondent, Static Control Components, Inc., may sue petitioner, Lexmark International, Inc., for false advertising under the Lanham Act.

### I. BACKGROUND

Lexmark manufactures and sells laser printers. It also sells toner cartridges for those printers (toner being the powdery ink that laser printers use to create images on paper). Lexmark designs its printers to work only with its own style of cartridges, and it therefore dominates the market for cartridges compatible with its printers. That market, however, is not devoid of competitors. Other businesses, called “remanufacturers,” acquire used Lexmark toner cartridges, refurbish them, and sell them in competition with new and refurbished cartridges sold by Lexmark.

Lexmark would prefer that its customers return their empty cartridges to it for refurbishment and resale, rather than sell those cartridges to a remanufacturer. So Lexmark introduced what it called a “Prebate” program, which enabled customers to purchase new toner cartridges at a 20-percent discount if they would agree to return the cartridge to Lexmark once it was empty. To enforce the Prebate terms, Lexmark included a microchip in each Prebate cartridge that would disable the cartridge after it ran out of toner; for the cartridge to be used again, the microchip would have to be replaced by Lexmark.

Static Control is not itself a manufacturer or remanufacturer of toner cartridges. It is, rather, the market leader in making and selling the components necessary to remanufacture Lexmark cartridges. In addition to supplying remanufacturers with toner and various replacement parts, Static Control developed a microchip that could mimic the microchip in Lexmark’s Prebate cartridges. By purchasing Static Control’s microchips and using them to replace the Lexmark microchip, remanufacturers were able to refurbish and resell used Prebate cartridges.

As relevant to its Lanham Act claim, Static Control alleged two types of false or misleading conduct by Lexmark. First, it alleged that through its Prebate program Lexmark “purposefully misleads end-users” to believe that they are legally bound by the Prebate terms and are thus required to return the Prebate-labeled cartridge to Lexmark after a single use. Second, it alleged that upon introducing the Prebate program, Lexmark “sent letters to most of the companies in the toner cartridge remanufacturing business” falsely advising those companies that it was illegal to sell refurbished Prebate cartridges and, in particular, that it was illegal to use Static Control’s products to refurbish those cartridges.

### III. STATIC CONTROL’S RIGHT TO SUE UNDER § 1125(A)

Thus, this case presents a straightforward question of statutory interpretation: Does the cause of action in § 1125(a) extend to plaintiffs like Static Control? The statute authorizes suit by “any person who believes that he or she is likely to be damaged” by a defendant’s false advertising.

#### *A. Zone of Interests*

First, we presume that a statutory cause of action extends only to plaintiffs whose interests fall within the zone of interests protected by the law invoked.

We thus hold that to come within the zone of interests in a suit for false advertising under § 1125(a), a plaintiff must allege an injury to a commercial interest in reputation or sales. A consumer who is hoodwinked into purchasing a disappointing product may well have an injury-in-fact cognizable under Article III, but he cannot invoke the protection of the Lanham Act – a conclusion reached by every Circuit to consider the question. Even a business misled by a supplier into purchasing an inferior product is, like consumers generally, not under the Act’s aegis.

#### *B. Proximate Cause*

Second, we generally presume that a statutory cause of action is limited to plaintiffs whose injuries are proximately caused by violations of the statute.

Put differently, the proximate-cause requirement generally bars suits for alleged harm that is “too remote” from the defendant’s unlawful conduct. That is ordinarily the case if the harm is purely derivative of misfortunes visited upon a third person by the defendant’s acts. In a sense, of course, all commercial injuries from false advertising are derivative of those suffered by consumers who are deceived by the advertising; but since the Lanham Act authorizes suit only for commercial injuries, the intervening step of consumer deception is not fatal to the showing of proximate causation required by the statute.

We thus hold that a plaintiff suing under § 1125(a) ordinarily must show economic or reputational injury flowing directly from the deception wrought by the defendant’s advertising; and that that occurs when deception of consumers causes them to withhold trade from the plaintiff. That showing is generally not made when the deception produces injuries to a fellow commercial actor that in turn affect the plaintiff. For example, while a competitor who is forced out of business by a defendant’s false advertising generally will be able to sue for its losses, the same is not true of the competitor’s landlord, its electric company, and other commercial parties who suffer merely as a result of the competitor’s inability to meet its financial obligations.

## IV. APPLICATION

Applying those principles to Static Control's false-advertising claim, we conclude that Static Control comes within the class of plaintiffs whom Congress authorized to sue under § 1125(a).

To begin, Static Control's alleged injuries – lost sales and damage to its business reputation – are injuries to precisely the sorts of commercial interests the Act protects. Static Control is suing not as a deceived consumer, but as a “perso[n] engaged in” “commerce within the control of Congress” whose position in the marketplace has been damaged by Lexmark's false advertising. § 1127. There is no doubt that it is within the zone of interests protected by the statute.

Static Control also sufficiently alleged that its injuries were proximately caused by Lexmark's misrepresentations. This case, it is true, does not present the classic Lanham Act false-advertising claim in which one competitor directly injures another by making false statements about his own goods or the competitor's goods and thus inducing customers to switch. But although diversion of sales to a direct competitor may be the paradigmatic direct injury from false advertising, it is not the only type of injury cognizable under § 1125(a). For at least two reasons, Static Control's allegations satisfy the requirement of proximate causation.

First, Static Control alleged that Lexmark disparaged its business and products by asserting that Static Control's business was illegal. When a defendant harms a plaintiff's reputation by casting aspersions on its business, the plaintiff's injury flows directly from the audience's belief in the disparaging statements. Courts have therefore afforded relief under § 1125(a) not only where a defendant denigrates a plaintiff's product by name but also where the defendant damages the product's reputation by, for example, equating it with an inferior product.

In addition, Static Control adequately alleged proximate causation by alleging that it designed, manufactured, and sold microchips that both (1) were necessary for, and (2) had no other use than, refurbishing Lexmark toner cartridges. It follows from that allegation that any false advertising that reduced the remanufacturers' business necessarily injured Static Control as well. Taking Static Control's assertions at face value, there is likely to be something very close to a 1:1 relationship between the number of refurbished Prebate cartridges sold (or not sold) by the remanufacturers and the number of Prebate microchips sold (or not sold) by Static Control. Where the injury alleged is so integral an aspect of the violation alleged, there can be no question that proximate cause is satisfied.

Although we conclude that Static Control has alleged an adequate basis to proceed under § 1125(a), it cannot obtain relief without evi-

dence of injury proximately caused by Lexmark's alleged misrepresentations. We hold only that Static Control is entitled to a chance to prove its case.

## 2 "Infringement": Prohibited Conduct

Notice the threshold condition in § 43(a)(1)(B): the challenged false statement must be "in commercial advertising or promotion." This threshold condition is heavily influenced by First Amendment concerns.

### **Greater Houston Transportation Company v. Uber Technologies, Inc.** 155 F. Supp. 3d 670 (S.D. Tex. 2015)

Plaintiffs are taxicab permit-holders in Houston and San Antonio, who claim that Uber is unfairly competing with the taxicab industry by misrepresenting the safety of its services to consumers.

First, Plaintiff cites Uber's Senior Communications Associate, Lauren Altmin's statement on an NBC Detroit affiliate's website, in a post titled, "Local 4 Defenders: Is Uber X safe?". The article on the website republished Uber's statement as follows:

What I can tell you is that Uber takes passenger safety very seriously. We work every day to connect riders with the safest rides on the road and go above and beyond local requirements in every city we operate. Uber only partners with drivers who pass an industry-leading screening that includes a criminal background check at the county, federal and multistate level going back as far as the law allows. We also conduct ongoing reviews of drivers' motor vehicle records during their time as an Uber partner.

For more information on what makes Uber the safest rides on the road, please see our website ...

Plaintiffs also point to a statement by Uber's Head of Communications for North America, Lane Kasselmann, in an April 24, 2014 article on Mashable.com entitled "Faulty Background Checks May Put Uber X Passengers at Risk, Report Says." The statement quoted in the article reads:

Uber's industry-leading background checks help connect consumers with the safest ride on the road.... Our driver partner background checks are more thorough than those of taxi [sic] in most cities and include county, state and federal screens going back seven years. We continue to improve and are always working hard to tighten our policies and processes to ensure that Uber remains the safest transportation option available.



In addition, Plaintiffs take issue with a quote by Kasselmann in an April 24, 2014, NBCBayArea.com news article, titled “Is Uber Keeping Riders Safe?”. In the article, Kasselmann states, “We’re confident that every ride on the Uber platform is safer than a taxi.” Plaintiffs also allege that a similar email response from Kasselmann included in a news story on NBCLosAngeles.com, was false or misleading: “We’re confident that every ride on Uber is safer than a taxi.”

Plaintiffs allege that Uber’s statements quoted in online news articles were misleading to potential consumers. Defendant argues that false-advertising claims under the Lanham Act must be based on “commercial advertising or promotion,” and contends that statements contained in news articles do not qualify as commercial advertising.

Uber argues that each of its statements quoted in news articles are “inextricably intertwined with the reporters’ coverage” in each article, citing *Boulé v. Hutton* (affirming dismissal of a Lanham Act claim based on the defendant’s statements as quoted in a news article). Defendant further argues that the alleged statements are not commercial speech, because commercial speech is speech which does no more than propose a commercial transaction.

This area of law is currently evolving. The Second Circuit recently explored the commercial and non-commercial speech dichotomy in *Ony, Inc. v. Cornerstone Therapeutics, Inc.*. The *Ony, Inc* court found that publication and dissemination of a scientific study that had the effect of touting a company’s product is noncommercial speech and was thereby immune from the false advertising provisions of the Lanham Act. The Fifth Circuit recently highlighted the difficulties in separating commercial from non-commercial speech, holding that the dissemination of an article as part of a company’s marketing campaign is in fact commercial speech. *Eastman Chemical Co. v. PlastiPure, Inc.*

Each of Uber’s statements was issued by its corporate spokesperson or on Uber’s own official website as part of a concerted campaign by the company in response to incidents that had been publicized in the media. Three of the statements quoted in the media were made by Uber’s Head of Communications for North America. Two more were by other corporate representatives: Uber’s Senior Communications Associate and Uber’s Public Policy representative. One statement was published on Uber’s own website, and then quoted in the media.

Because Uber’s statements as a whole are issued with the intent to influence consumer opinion, they thereby become commercial speech even though they were contained in news media. In the modern age of hybrid advertising and advertising in social media, Courts must remain vigilant in order to separate commercial from

*Boulé*: 328 F.3d 84 (2d Cir.2003)

In *Boulé*, the plaintiffs and defendants competed in selling paintings by Lazar Khidekel. Two defendants, who were Khidekel’s son and daughter-in-law, defendants were quoted in ARTnews claiming that paintings being sold by the plaintiff were not authentic Khidekels.

*Ony, Inc.*: 720 F.3d 490 (2d Cir. 2013)

*Eastman Chemical*: 775 F.3d 230 (5th Cir. 2014)

non-commercial speech, regardless of the form in which it was disseminated. The comments issued by Uber's communication executives demonstrate a careful, uniform, and orchestrated message designed to encourage and facilitate the commercial use of its product and service. Thus, the Court finds that the disputed statements contained in media articles are commercial speech, and are potentially actionable under the Lanham Act.

### 3 "Infringement": Falsity and Materiality

With no specific information as such to protect, false advertising law lacks a similarity test. Instead, because it protects the truth, it asks whether the challenged statements are false, and if so, whether the lies are ones that are material to consumers.

#### **Pizza Hut, Inc. v. Papa John's Intern., Inc.** 227 F.3d 489 (5th Cir. 2000)

This appeal presents a false advertising claim under section 43(a) of the Lanham Act, resulting in a jury verdict for the plaintiff, Pizza Hut. At the center of this appeal is Papa John's four word slogan "Better Ingredients. Better Pizza."

The appellant, Papa John's International Inc. ("Papa John's"), argues that the slogan "cannot and does not violate the Lanham Act" because it is "not a misrepresentation of fact." The appellee, Pizza Hut, Inc., argues that the slogan, when viewed in the context of Papa John's overall advertising campaign, conveys a false statement of fact actionable under section 43(a) of the Lanham Act. The district court, after evaluating the jury's responses to a series of special interrogatories and denying Papa John's motion for judgment as a matter of law, entered judgment for Pizza Hut stating:

When the "Better Ingredients. Better Pizza." slogan is considered in light of the entirety of Papa John's post-May 1997 advertising which violated provisions of the Lanham Act and in the context in which it was juxtaposed with the false and misleading statements contained in Papa John's print and broadcast media advertising, the slogan itself became tainted to the extent that its continued use should be enjoined.

We conclude that (1) the slogan, standing alone, is not an objectifiable statement of fact upon which consumers would be justified in relying, and thus not actionable under section 43(a); and (2) while the slogan, when utilized in connection with some of the post-May 1997 comparative advertising—specifically, the sauce and dough campaigns—conveyed objectifiable and misleading facts, Pizza Hut has failed to

adduce any evidence demonstrating that the facts conveyed by the slogan were material to the purchasing decisions of the consumers to which the slogan was directed. Thus, the district court erred in denying Papa John's motion for judgment as a matter of law. We therefore reverse the judgment of the district court denying Papa John's motion for judgment as a matter of law, vacate its final judgment, and remand the case to the district court for entry of judgment for Papa John's.

## I

## A

Pizza Hut is a wholly owned subsidiary of Tricon Global Restaurants. With over 7000 restaurants (both company and franchisee-owned), Pizza Hut is the largest pizza chain in the United States. In 1984, John Schnatter founded Papa John's Pizza in the back of his father's tavern. Papa John's has grown to over 2050 locations, making it the third largest pizza chain in the United States.

In May 1995, Papa John's adopted a new slogan: "Better Ingredients. Better Pizza." In 1996, Papa John's filed for a federal trademark registration for this slogan with the United States Patent & Trademark Office ("PTO"). Its application for registration was ultimately granted by the PTO. Since 1995, Papa John's has invested over \$300 million building customer goodwill in its trademark "Better Ingredients. Better Pizza." The slogan has appeared on millions of signs, shirts, menus, pizza boxes, napkins and other items, and has regularly appeared as the "tag line" at the end of Papa John's radio and television ads, or with the company logo in printed advertising.

On May 1, 1997, Pizza Hut launched its "Totally New Pizza" campaign. This campaign was the culmination of "Operation Lightning Bolt," a nine-month, \$50 million project in which Pizza Hut declared "war" on poor quality pizza. From the deck of a World War II aircraft carrier, Pizza Hut's president, David Novak, declared "war" on "skimpy, low quality pizza." National ads aired during this campaign touted the "better taste" of Pizza Hut's pizza, and "dared" anyone to find a "better pizza."

In early May 1997, Papa John's launched its first national ad campaign. The campaign was directed towards Pizza Hut, and its "Totally New Pizza" campaign. In a pair of TV ads featuring Pizza Hut's co-founder Frank Carney, Carney touted the superiority of Papa John's pizza over Pizza Hut's pizza. Although Carney had left the pizza business in the 1980's, he returned as a franchisee of Papa John's because he liked the taste of Papa John's pizza better than any other pizza on the market. The ad campaign was remarkably successful. During May 1997, Papa John's sales increased 11.7 percent over

May 1996 sales, while Pizza Hut's sales were down 8 percent.

On the heels of the success of the Carney ads, in February 1998, Papa John's launched a second series of ads touting the results of a taste test in which consumers were asked to compare Papa John's and Pizza Hut's pizzas. In the ads, Papa John's boasted that it "won big time" in taste tests. The ads were a response to Pizza Hut's "dare" to find a "better pizza." The taste test showed that consumers preferred Papa John's traditional crust pizzas over Pizza Hut's comparable pizzas by a 16-point margin (58% to 42%). Additionally, consumers preferred Papa John's thin crust pizzas by a fourteen-point margin (57% to 43%).

Following the taste test ads, Papa John's ran a series of ads comparing specific ingredients used in its pizzas with those used by its "competitors." During the course of these ads, Papa John's touted the superiority of its sauce and its dough. During the sauce campaign, Papa John's asserted that its sauce was made from "fresh, vine-ripened tomatoes," which were canned through a process called "fresh pack," while its competitors—including Pizza Hut—make their sauce from remanufactured tomato paste. During the dough campaign, Papa John's stated that it used "clear filtered water" to make its pizza dough, while the "biggest chain" uses "whatever comes out of the tap." Additionally, Papa John's asserted that it gives its yeast "several days to work its magic," while "some folks" use "frozen dough or dough made the same day." At or near the close of each of these ads, Papa John's punctuated its ingredient comparisons with the slogan "Better Ingredients. Better Pizza."



"Better Ingredients. Better Pizza" ad

Pizza Hut does not appear to contest the truthfulness of the underlying factual assertions made by Papa John's in the course of these ads. Pizza Hut argues, however, that its own independent taste tests and other "scientific evidence" establishes that filtered water makes no difference in pizza dough, that there is no "taste" difference between Papa John's "fresh-pack" sauce and Pizza Hut's "remanufactured" sauce, and that fresh dough is not superior to frozen dough. In response to Pizza Hut's "scientific evidence," Papa John's asserts that "each of these 'claims' involves a matter of common sense choice (fresh versus frozen, canned vegetables and fruit versus remanufactured paste, and filtered versus unfiltered water) about which individual consumers can and do form preferences every day without 'scientific' or 'expert' assistance."

In November 1997, Pizza Hut filed a complaint regarding Papa John's "Better Ingredients. Better Pizza." advertising campaign with the National Advertising Division of the Better Business Bureau, an industry self-regulatory body. This complaint, however, did not produce satisfactory results for Pizza Hut.

*B*

On August 12, 1998, Pizza Hut filed a civil action in the United States District Court for the Northern District of Texas charging Papa John's with false advertising in violation of Section 43(a)(1)(B) of the Lanham Act. The suit sought relief based on the above-described TV ad campaigns, as well as on some 249 print ads. On March 10, 1999, Pizza Hut filed an amended complaint. Papa John's answered the complaints by denying that its advertising and slogan violated the Lanham Act. Additionally, Papa John's asserted a counterclaim, charging Pizza Hut with engaging in false advertising. The parties consented to a jury trial before a United States magistrate judge. The parties further agreed that the liability issues were to be decided by the jury, while the equitable injunction claim and damages award were within the province of the court.

The trial began on October 26, 1999, and continued for over three weeks. At the close of Pizza Hut's case, and at the close of all evidence, Papa John's moved for a judgment as a matter of law. The motions were denied each time. The district court, without objection, submitted the liability issue to the jury through special interrogatories. The special issues submitted to the jury related to (1) the slogan and (2) over Papa John's objection, certain classes of groups of advertisements referred to as "sauce claims," "dough claims," "taste test claims," and "ingredients claims."

On November 17, 1999, the jury returned its responses to the special issues finding that Papa John's slogan, and its "sauce claims" and "dough claims" were false or misleading and deceptive or likely to deceive consumers. The jury also determined that Papa John's "taste test" ads were not deceptive or likely to deceive consumers, and that Papa John's "ingredients claims" were not false or misleading. As to Papa John's counterclaims against Pizza Hut, the jury found that two of the three Pizza Hut television ads at issue were false or misleading and deceptive or likely to deceive consumers.

On January 3, 2000, the trial court, based upon the jury's verdict and the evidence presented by the parties in support of injunctive relief and on the issue of damages, entered a Final Judgment and issued a Memorandum Opinion and Order. The court concluded that the "Better Ingredients. Better Pizza." slogan was "consistent with the legal definition of non-actionable puffery" from its introduction in 1995 until May 1997. However, the slogan "became tainted . . . in light of the entirety of Papa John's post-May 1997 advertising." Based on this conclusion, the magistrate judge permanently enjoined Papa John's from "using any slogan in the future that constitutes a recognizable variation of the phrase 'Better Ingredients. Better Pizza.' or which uses the adjective 'Better' to modify the terms 'ingredients' and/or

'pizza'." Additionally, the court enjoined Papa John's from identifying Frank Carney as a co-founder of Pizza Hut, "unless such advertising includes a voice-over, printed statement or a superimposed message which states that Frank Carney has not been affiliated with Pizza Hut since 1980," and enjoined the dissemination of any advertising that was produced or disseminated prior to the date of this judgment and that explicitly or implicitly states or suggested that "Papa John's component is superior to the same component of Pizza Hut's pizzas." Finally, the court enjoined Papa John's from "explicitly or implicitly claim[ing] that a component of Papa John's pizza is superior to the same component of Pizza Hut's unless the superiority claim is supported by either (1) scientifically demonstrated attributes of superiority or (2) taste test surveys." Additionally, the injunction required that if the claim is supported by taste test surveys, the advertising shall include a printed statement, voice-over or "super," whichever is appropriate, stating the localities where the tests were conducted, the inclusive dates on which the surveys were performed, and the specific pizza products that were tested. The court also awarded Pizza Hut \$467,619.75 in damages for having to run corrective ads.

### III

#### A

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.

The failure to prove the existence of any element of the prima facie case is fatal to the plaintiff's claim.

#### B

The law governing false advertising claims under section 43(a) of the Lanham Act is well settled. In order to obtain monetary damages or equitable relief in the form of an injunction, a plaintiff must demonstrate that the commercial advertisement or promotion is either literally false, or that if the advertisement is not literally false it is likely to mislead and confuse consumers. If the statement is shown to be mis-

leading, the plaintiff must also introduce evidence of the statement's impact on consumers, referred to as materiality.

(1)

(a)

Essential to any claim under section 43(a) of the Lanham Act is a determination of whether the challenged statement is one of fact – actionable under section 43(a) – or one of general opinion – not actionable under section 43(a). Bald assertions of superiority or general statements of opinion cannot form the basis of Lanham Act liability. Rather the statements at issue must be a specific and measurable claim, capable of being proved false or of being reasonably interpreted as a statement of objective fact. A statement of fact is one that (1) admits of being adjudged true or false in a way that (2) admits of empirical verification.

(b)

One form of non-actionable statements of general opinion under section 43(a) of the Lanham Act has been referred to as “puffery.” Puffery has been discussed at some length by other circuits. The Third Circuit has described “puffing” as “advertising that is not deceptive for no one would rely on its exaggerated claims.” Similarly, the Ninth Circuit has defined “puffing” as “exaggerated advertising, blustering and boasting upon which no reasonable buyer would rely and is not actionable under 43(a).”

These definitions of puffery are consistent with the definitions provided by the leading commentaries in trademark law. A leading authority on unfair competition has defined “puffery” as an “exaggerated advertising, blustering, and boasting upon which no reasonable buyer would rely,” or “a general claim of superiority over a comparative product that is so vague, it would be understood as a mere expression of opinion.” *McCarthy*<sup>7</sup> Similarly, Prosser and Keeton on Torts defines “puffing” as “a seller's privilege to lie his head off, so long as he says nothing specific, on the theory that no reasonable man would believe him, or that no reasonable man would be influenced by such talk.”

Drawing guidance from the writings of our sister circuits and the leading commentators, we think that non-actionable “puffery” comes in at least two possible forms: (1) an exaggerated, blustering, and boasting statement upon which no reasonable buyer would be justified in relying; or (2) a general claim of superiority over comparable

"Although factfinders usually base literal falsity determinations upon the explicit claims made by an advertisement, they may also consider any claims the advertisement conveys by necessary implication. A claim is 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. For instance, a factfinder found that an advertisement that claimed a motor oil provided "longer engine life and better engine protection" without explicitly mentioning competitors nonetheless drew a comparison by necessary implication vis a vis those competitors." *Clorox Co. P.R. v. Procter & Gamble Commercial Co.* 228 F.3d 24 (1st Cir. 2000)

<sup>7</sup>McCarthy on Trademarks goes on to state: “Vague advertising claims that one's product is ‘better’ than that of competitors’ can be dismissed as mere puffing that is not actionable as false advertising.”

products that is so vague that it can be understood as nothing more than a mere expression of opinion.

(2)

(a)

With respect to materiality, 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 misled consumers. On the other hand, if the statements at issue are either ambiguous or true but misleading, the plaintiff must present evidence of actual deception. The plaintiff may not rely on the judge or the jury to determine, based solely upon their own intuitive reactions, whether the advertisement is deceptive. Instead, proof of actual deception requires proof that consumers were actually deceived by the defendant's ambiguous or true-but-misleading statements.

#### IV

We turn now to consider the case before us. Reduced to its essence, the question is whether the evidence, viewed in the most favorable light to Pizza Hut, established that Papa John's slogan "Better Ingredients. Better Pizza." is misleading and violative of section 43(a) of the Lanham Act. In making this determination, we will first consider the slogan "Better Ingredients. Better Pizza." standing alone to determine if it is a statement of fact capable of deceiving a substantial segment of the consuming public to which it was directed. Second, we will determine whether the evidence supports the district court's conclusion that after May 1997, the slogan was tainted, and therefore actionable, as a result of its use in a series of ads comparing specific ingredients used by Papa John's with the ingredients used by its "competitors."

#### A

The jury concluded that the slogan itself was a "false or misleading" statement of fact, and the district court enjoined its further use. Papa John's argues, however, that this statement "quite simply is not a statement of fact, [but] rather, a statement of belief or opinion, and an argumentative one at that." Papa John's asserts that because "a statement of fact is either true or false, it is susceptible to being proved or disproved. A statement of opinion or belief, on the other hand, conveys the speaker's state of mind, and even though it may be used to attempt to persuade the listener, it is a subjective communication that may be accepted or rejected, but not proven true or false." Papa John's contends that its slogan "Better Ingredients. Better Pizza."



falls into the latter category, and because the phrases “better ingredients” and “better pizza” are not subject to quantifiable measures, the slogan is non-actionable puffery.

We will therefore consider whether the slogan standing alone constitutes a statement of fact under the Lanham Act. Bisecting the slogan “Better Ingredients. Better Pizza.,” it is clear that the assertion by Papa John’s that it makes a “Better Pizza.” is a general statement of opinion regarding the superiority of its product over all others. This simple statement, “Better Pizza.,” epitomizes the exaggerated advertising, blustering, and boasting by a manufacturer upon which no consumer would reasonably rely. *See, e.g., In re Boston Beer Co.* (stating that the phrase “The Best Beer in America” was “trade puffery” and that such a general claim of superiority “should be freely available to all competitors in any given field to refer to their products or services”); *Atari Corp. v. 3DO Co.* (stating that a manufacturer’s slogan that its product was “the most advanced home gaming system in the universe” was non-actionable puffery); *Nikkal Indus., Ltd. v. Salton, Inc.* (stating that a manufacturer’s claim that its ice cream maker was “better” than competition ice cream makers is non-actionable puffery). Consequently, it appears indisputable that Papa John’s assertion “Better Pizza.” is non-actionable puffery.<sup>8</sup>

Moving next to consider separately the phrase “Better Ingredients.,” the same conclusion holds true. Like “Better Pizza.,” it is typical puffery. The word “better,” when used in this context is unquantifiable. What makes one food ingredient “better” than another comparable ingredient, without further description, is wholly a matter of individual taste or preference not subject to scientific quantification. Indeed, it is difficult to think of any product, or any component of any product, to which the term “better,” without more, is quantifiable. As our court stated in *Presidio Enterprises, Inc. v. Warner Brothers Distribution Corp.*:

The law recognizes that a vendor is allowed some latitude in claiming merits of his wares by way of an opinion rather than an absolute guarantee, so long as he hews to the line of rectitude in matters of fact. Opinions are not only the lifestyle of democracy, they are the brag in advertising that has made for the wide dissemination of products that otherwise would never have reached the households of our citizens. If we were to accept the thesis set forth

<sup>8</sup>It should be noted that Pizza Hut uses the slogan “The Best Pizza Under One Roof.” Similarly, other nationwide pizza chains employ slogans touting their pizza as the “best”: (1) Domino’s Pizza uses the slogan “Nobody Delivers Better.”; (2) Danato’s uses the slogan “Best Pizza on the Block.”; (3) Mr. Gatti’s uses the slogan “Best Pizza in Town: Honest!”; and (4) Pizza Inn uses the slogans “Best Pizza Ever.” and “The Best Tasting Pizza.”

*Boston Beer Co.*: 198 F.3d 1370 (Fed. Cir. 1999)

*3DO*: 1994 WL 723601 (N.D.Cal. 1994)

*Nikkal*: 735 F.Supp. 1227 (S.D.N.Y. 1990)

*Presidio*: 784 F.2d 674 (5th Cir. 1986)

by the appellees, [that all statements by advertisers were statements of fact actionable under the Lanham Act,] the advertising industry would have to be liquidated in short order.

Thus, it is equally clear that Papa John's assertion that it uses "Better Ingredients." is one of opinion not actionable under the Lanham Act.

Finally, turning to the combination of the two non-actionable phrases as the slogan "Better Ingredients. Better Pizza.," we fail to see how the mere joining of these two statements of opinion could create an actionable statement of fact. Each half of the slogan amounts to little more than an exaggerated opinion of superiority that no consumer would be justified in relying upon. It has not been explained convincingly to us how the combination of the two phrases, without more, changes the essential nature of each phrase so as to make it actionable. We assume that "Better Ingredients." modifies "Better Pizza." and consequently gives some expanded meaning to the phrase "Better Pizza," i.e., our pizza is better because our ingredients are better. Nevertheless, the phrase fails to give "Better Pizza." any more quantifiable meaning. Stated differently, the adjective that continues to describe "pizza" is "better," a term that remains unquantifiable, especially when applied to the sense of taste. Consequently, the slogan as a whole is a statement of non-actionable opinion. Thus, there is no legally sufficient basis to support the jury's finding that the slogan standing alone is a "false or misleading" statement of fact.

### B

We next will consider whether the use of the slogan "Better Ingredients. Better Pizza." in connection with a series of comparative ads found by the jury to be misleading – specifically, ads comparing Papa John's sauce and dough with the sauce and dough of its competitors – "tainted" the statement of opinion and made it misleading under section 43(a) of the Lanham Act. Before reaching the ultimate question of whether the slogan is actionable under the Lanham Act, we will first examine the sufficiency of the evidence supporting the jury's conclusion that the comparison ads were misleading.

#### (1)

After the jury returned its verdict, Papa John's filed a post-verdict motion under Federal Rule of Civil Procedure 50 for a judgment as a matter of law. In denying Papa John's motion, the district court, while apparently recognizing that the slogan "Better Ingredients. Better Pizza." standing alone is non-actionable puffery under the Lanham Act, concluded that after May 1997, the slogan was transformed as a result of its use in connection with a series of ads that the jury found

misleading. These ads had compared specific ingredients used by Papa John's with the ingredients used by its competitors. In essence, the district court held that the comparison ads in which the slogan appeared as the tag line gave objective, quantifiable, and fact-specific meaning to the slogan. Consequently, the court concluded that the slogan was misleading and actionable under section 43(a) of the Lanham Act and enjoined its further use.

(2)

We are obligated to accept the findings of the jury unless the facts point so overwhelmingly in favor of one party that no reasonable person could arrive at a different conclusion. In examining the record evidence, we must view it the way that is most favorable to upholding the verdict. Viewed in this light, it is clear that there is sufficient evidence to support the jury's conclusion that the sauce and dough ads were misleading statements of fact actionable under the Lanham Act.

Turning first to the sauce ads, the evidence establishes that despite the differences in the methods used to produce their competing sauces: (1) the primary ingredient in both Pizza Hut and Papa John's sauce is vine-ripened tomatoes; (2) at the point that the competing sauces are placed on the pizza, just prior to putting the pies into the oven for cooking, the consistency and water content of the sauces are essentially identical; and (3) as noted by the district court, at no time "prior to the close of the liability phase of trial was any credible evidence presented [by Papa John's] to demonstrate the existence of demonstrable differences" in the competing sauces. Consequently, the district court was correct in concluding that: "Without any scientific support or properly conducted taste preference test, by the written and/or oral negative connotations conveyed that pizza made from tomato paste concentrate is inferior to the 'fresh pack' method used by Papa John's, its sauce advertisements conveyed an impression which is misleading. . . ." Turning our focus to the dough ads, while the evidence clearly established that Papa John's and Pizza Hut employ different methods in making their pizza dough, again, the evidence established that there is no quantifiable difference between pizza dough produced through the "cold or slow-fermentation method" (used by Papa John's), or the "frozen dough method" (used by Pizza Hut).<sup>10</sup> Further, although there is some evidence indicating that the texture of the dough used by Papa John's and Pizza Hut is slightly different, this difference is not related to the manufacturing

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<sup>10</sup>The testimony of Pizza Hut's expert, Dr. Faubion, established that although consumers stated a preference for fresh dough rather than frozen dough, when taste tests were conducted, respondents were unable to distinguish between pizza made on fresh as opposed to frozen dough.

process used to produce the dough. Instead, it is due to a difference in the wheat used to make the dough. Finally, with respect to the differences in the pizza dough resulting from the use of filtered water as opposed to tap water, the evidence was sufficient for the jury to conclude that there is no quantifiable difference between dough produced with tap water, as opposed to dough produced with filtered water.

We should note again that Pizza Hut does not contest the truthfulness of the underlying factual assertions made by Papa John's in the course of the sauce and dough ads. Pizza Hut concedes that it uses "remanufactured" tomato sauce to make its pizza sauce, while Papa John's uses "fresh-pack." Further, in regard to the dough, Pizza Hut concedes the truth of the assertion that it uses tap water in making its pizza dough, which is often frozen, while Papa John's uses filtered water to make its dough, which is fresh – never frozen. Consequently, because Pizza Hut does not contest the factual basis of Papa John's factual assertions, such assertions cannot be found to be factually false, but only impliedly false or misleading.

Thus, we conclude by saying that although the ads were true about the ingredients Papa John's used, it is clear that there was sufficient evidence in the record to support the jury's conclusion that Papa John's sauce and dough ads were misleading – but not false – in their suggestion that Papa John's ingredients were superior.

(3)

Thus, having concluded that the record supports a finding that the sauce and dough ads are misleading statements of fact, we must now determine whether the district court was correct in concluding that the use of the slogan "Better Ingredients. Better Pizza." in conjunction with these misleading ads gave quantifiable meaning to the slogan making a general statement of opinion misleading within the meaning of the Lanham Act.

In support of the district court's conclusion that the slogan was transformed, Pizza Hut argues that "in construing any advertising statement, the statement must be considered in the overall context in which it appears." Building on the foundation of this basic legal principle, Pizza Hut argues that "[t]he context in which Papa John's slogan must be viewed is the 2½ year campaign during which its advertising served as 'chapters' to demonstrate the truth of the 'Better Ingredients. Better Pizza.' book." Pizza Hut argues, that because Papa John's gave consumers specific facts supporting its assertion that its sauce and dough are "better" – specific facts that the evidence, when viewed in the light most favorable to the verdict, are irrelevant in making a better pizza – Papa John's statement of opinion that it made a "Better Pizza" became misleading. In essence, Pizza Hut ar-

gues, that by using the slogan “Better Ingredients. Better Pizza.” in combination with the ads comparing Papa John’s sauce and dough with the sauce and dough of its competitions, Papa John’s gave quantifiable meaning to the word “Better” rendering it actionable under section 43(a) of the Lanham Act.

We agree that the message communicated by the slogan “Better Ingredients. Better Pizza.” is expanded and given additional meaning when it is used as the tag line in the misleading sauce and dough ads. The slogan, when used in combination with the comparison ads, gives consumers two fact-specific reasons why Papa John’s ingredients are “better.” Consequently, a reasonable consumer would understand the slogan, when considered in the context of the comparison ads, as conveying the following message: Papa John’s uses “better ingredients,” which produces a “better pizza” because Papa John’s uses “fresh-pack” tomatoes, fresh dough, and filtered water. In short, Papa John’s has given definition to the word “better.” Thus, when the slogan is used in this context, it is no longer mere opinion, but rather takes on the characteristics of a statement of fact. When used in the context of the sauce and dough ads, the slogan is misleading for the same reasons we have earlier discussed in connection with the sauce and dough ads.

(4)

Concluding that when the slogan was used as the tag line in the sauce and dough ads it became misleading, we must now determine whether reasonable consumers would have a tendency to rely on this misleading statement of fact in making their purchasing decisions. We conclude that Pizza Hut has failed to adduce evidence establishing that the misleading statement of fact conveyed by the ads and the slogan was material to the consumers to which the slogan was directed. Consequently, because such evidence of materiality is necessary to establish liability under the Lanham Act, the district court erred in denying Papa John’s motion for judgment as a matter of law.

As previously discussed, none of the underlying facts supporting Papa John’s claims of ingredient superiority made in connection with the slogan were literally false. Consequently, in order to satisfy its prima facie case, Pizza Hut was required to submit evidence establishing that the impliedly false or misleading statements were material to, that is, they had a tendency to influence the purchasing decisions of, the consumers to which they were directed.<sup>13</sup> We conclude

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<sup>13</sup>In *Johnson & Johnson v. Smithkline Beecham Corp.*, 960 F.2d 294 (2d Cir. 1992), the Second Circuit discussed this requirement in some detail:

Where, as here, a plaintiff’s theory of recovery is premised upon a claim of implied falsehood, a plaintiff must demonstrate, by extrinsic

that the evidence proffered by Pizza Hut fails to make an adequate showing.

In its appellate brief and during the course of oral argument, Pizza Hut directs our attention to three items of evidence in the record that it asserts establishes materiality to consumers. First, Pizza Hut points to the results of a survey conducted by an “independent expert” (Dr. Dupont) regarding the use of the slogan “Better Ingredients. Better Pizza.” as written on Papa John’s pizza box (the box survey). The results of the box survey, however, were excluded by the district court. Consequently, these survey results provide no basis for the jury’s finding.

Second, Pizza Hut points to two additional surveys conducted by Dr. Dupont that attempted to measure consumer perception of Papa John’s “taste test” ads. This survey evidence, however, fails to address Pizza Hut’s claim of materiality with respect to the slogan. Moreover, the jury rejected Pizza Hut’s claims of deception with regard to Papa John’s “taste test” ads – the very ads at issue in these surveys.

Finally, Pizza Hut attempts to rely on Papa John’s own tracking studies and on the alleged subjective intent of Papa John’s executives “to create a perception that Papa John’s in fact uses better ingredients” to demonstrate materiality. Although Papa John’s 1998 Awareness, Usage & Attitude Tracking Study showed that 48% of the respondents believe that “Papa John’s has better ingredients than other national pizza chains,” the study failed to indicate whether the conclusions resulted from the advertisements at issue, or from personal eating experiences, or from a combination of both. Consequently, the results of this study are not reliable or probative to test whether the slogan was material. Further, Pizza Hut provides no precedent, and we are aware of none, that stands for the proposition that the subjective intent of the defendant’s corporate executives to convey a particular message is evidence of the fact that consumers in fact relied on the message to make their purchases. Thus, this evidence does not

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evidence, that the challenged commercials tend to mislead or confuse consumers. It is not for the judge to determine, based solely upon his or her own intuitive reaction whether the advertisement is deceptive. Rather, as we have reiterated in the past, “the question in such cases is – what does the person to whom the advertisement is addressed find to be the message?” That is, what does the public perceive the message to be.

The answer to this question is pivotal because, where the advertisement is literally true, it is often the only measure by which a court can determine whether a commercial’s net communicative effect is misleading. Thus, the success of a plaintiff’s implied falsity claim usually turns on the persuasiveness of a consumer survey.

Id. at 287-98.

address the ultimate issue of materiality.

In short, Pizza Hut has failed to offer probative evidence on whether the misleading facts conveyed by Papa John's through its slogan were material to consumers: that is to say, there is no evidence demonstrating that the slogan had the tendency to deceive consumers so as to affect their purchasing decisions. Thus, the district court erred in denying Papa John's motion for judgment as a matter of law.

## V

In sum, we hold that the slogan "Better Ingredients. Better Pizza." standing alone is not an objectifiable statement of fact upon which consumers would be justified in relying. Thus, it does not constitute a false or misleading statement of fact actionable under section 43(a) of the Lanham Act.

Additionally, while the slogan, when appearing in the context of some of the post-May 1997 comparative advertising – specifically, the sauce and dough campaigns – was given objectifiable meaning and thus became misleading and actionable, Pizza Hut has failed to adduce sufficient evidence establishing that the misleading facts conveyed by the slogan were material to the consumers to which it was directed. Thus, Pizza Hut failed to produce evidence of a Lanham Act violation.

### **McNeil-PPC, Inc. v. Pfizer Inc.** 351 F. Supp. 2d 226 (S.D.N.Y. 2005)

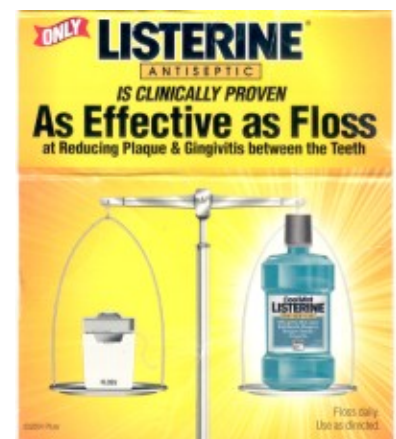
In June 2004, defendant Pfizer Inc. ("Pfizer") launched a consumer advertising campaign for its mouthwash, Listerine Antiseptic Mouthrinse. Print ads and hang tags featured an image of a Listerine bottle balanced on a scale against a white container of dental floss.

The campaign also featured a television commercial called the "Big Bang." In its third version, which is still running, the commercial announces that "Listerine's as effective as floss at fighting plaque and gingivitis. Clinical studies prove it."

In this case, plaintiff McNeil-PPC, Inc. ("PPC"), the market leader in sales of string dental floss and other interdental cleaning products, alleges that Pfizer has engaged in false advertising in violation of § 43(a) of the Lanham Act and unfair competition in violation of state law.

Before the Court is PPC's motion for a preliminary injunction enjoining Pfizer from continuing to make these claims in its advertisements.

Pfizer sponsored two clinical studies involving Listerine and floss: the "Sharma Study" and the "Bauroth Study." These studies purported to compare the efficacy of Listerine against dental floss in con-



Listerine ad

trolling plaque and gingivitis in subjects with mild to moderate gingivitis.

In proving an advertising claim literally false, a plaintiff bears a different burden depending on whether the advertisement purports to be based on test results. Hence, where a defendant's advertisement contends that "clinical tests" prove the superiority of its product (an "establishment claim"), the plaintiff need only prove that the tests referred to were not sufficiently reliable to permit one to conclude with reasonable certainty that they established the proposition for which they were cited. On the other hand, where a superiority claim does not purport to rest on test results, the plaintiff may prove falsity only upon adducing evidence that affirmatively shows defendant's claim to be false.

Pfizer's advertisements make the explicit claim that "clinical studies prove that Listerine is as effective as floss against plaque and gingivitis." As Pfizer purports to rely on "clinical studies," this is an "establishment claim" and PPC need only prove that the studies referred to were not sufficiently reliable to permit one to conclude with reasonable certainty that they established the proposition for which they were cited. Two questions are presented: first, whether the Sharma and Bauroth Studies stand for the proposition that "Listerine is as effective as floss against plaque and gingivitis"; and second, assuming they do, whether the studies are sufficiently reliable to permit one to draw that conclusion with "reasonable certainty."

First, even putting aside the issue of their reliability, the two studies do not stand for the proposition that "Listerine is as effective as floss against plaque and gingivitis." The two studies included in their samples only individuals with mild to moderate gingivitis. They excluded individuals with severe gingivitis or with any degree of periodontitis, and they did not purport to draw any conclusions with respect to these individuals. Hence, the literal claim in Pfizer's advertisements is overly broad, for the studies did not purport to prove that Listerine is as effective as floss "against plaque and gingivitis," but only against plaque and gingivitis in individuals with mild to moderate gingivitis. The advertisements do not specify that the "as effective as floss" claim is limited to individuals with mild to moderate gingivitis. Consequently, consumers who suffer from severe gingivitis or periodontitis (including mild periodontitis) may be misled by the ads into believing that Listerine is just as effective as floss in helping them fight plaque and gingivitis, when the studies simply do not stand for that proposition.

Second, the two studies were not sufficiently reliable to permit one to conclude with reasonable certainty that Listerine is as effective as floss in fighting plaque and gingivitis, even in individuals with mild to moderate gingivitis. What the two studies showed was that



Listerine is as effective as floss when flossing is not done properly. The authors of both studies recognized that the plaque reductions in the flossing groups were lower than would be expected and hypothesized that “behavioral or technical causes” were the reason. Significantly, in some of the plaque reduction scores for the flossing groups there was greater improvement at three months than at six months, suggesting a deterioration in flossing technique with the passage of time.

Hence, the studies did not “prove” that Listerine is “as effective as floss.” Rather, they proved only that Listerine is “as effective as improperly-used floss.” The studies showed only that Listerine is as effective as floss when the flossing is not performed properly. As one of the ADA consultants observed in objecting to the advertising when it was proposed, “for a substitute product to be ‘as good as’ or ‘better’ than flossing it must be compared against the data of subjects who demonstrate they can and are flossing effectively.”

Pfizer and its experts argue that the two studies are reliable, notwithstanding the indications that the participants in the flossing group did not floss properly, because these conditions reflect “real-world settings.” But the ads do not say that “in the real world,” where most people floss rarely or not at all and even those who do floss have difficulty flossing properly, Listerine is “as effective as floss.” Rather, the ads make the blanket assertion that Listerine works just as well as floss, an assertion the two studies simply do not prove. Although it is important to determine how a product works in the real world, it is probably more important to first determine how a product will work when it is used properly.

Accordingly, I hold that PPC is likely to succeed on its claim of literal false advertisement.

### **Satellite TV Problem**

This advertisement for DirecTV ran on the Internet; it was shown to customers in markets served by Time Warner Cable. Some of Time Warner’s channels are analog; others are digital HD. DirecTV offers only digital HD channels. The parties agree that the HD channels are equivalent in quality. They also agree that the pixelated portions of the ads are not accurate depictions of cable TV signals, either digital or analog. Is the advertisement actionable?



## 4 Secondary Liability

*Duty Free Americas*: 797 F.3d 1248 (10th Cir. 2015)

There's not a lot of caselaw on secondary liability for false advertising – but there is some. For example see *Duty Free Americas, Inc. v. Estee Lauder Companies, Inc.*, which analyzed contributory liability for false advertising under § 43(a) by borrowing from trademark law.

## B Other Sources of Advertising Law

### 1 Trademark

In a sense, trademark law treats consumer understandings – i.e. secondary meaning and goodwill – as a source of truth. A trademark refers to its owner's goods or services; using it to refer to something else is false as a matter of law. But in another, more accurate sense, trademark law defers to consumer understandings only so long as the mark owner is not using them to deceive. Arbitrary trademarks

like APPLE for computers are acceptable only because no one really thinks the computers are made of apples.

### Lanham Act

No trademark ... shall be refused registration on the principal register on account of its nature unless it—

- (a) Consists of or comprises ... deceptive ... matter; ...
- (e) Consists of a mark which (1) when used on or in connection with the goods of the applicant is merely ... deceptively misdescriptive of them ... .

15 U.S.C. § 1052 [Lanham Act § 2]  
Trademarks registrable on principal register ...

### In re Budge Mfg. Co. 857 F.2d 773 (Fed. Cir. 1988)

Budge Manufacturing Co., Inc., appeals from the final decision of the United States Trademark Trial and Appeal Board refusing registration of LOVEE LAMB for “automotive seat covers,” application Serial No. 507,974 filed November 9, 1984. The basis for rejection is that the term LAMB is deceptive matter within the meaning of section 2(a) of the Lanham Act as applied to Budge’s goods which are made wholly from synthetic fibers. We affirm.

Section 2(a) of the Lanham Act bars registration of a mark which: “Consists of or comprises ... deceptive ... matter....” As stated in *In re Automatic Radio Mfg. Co.*: “The proscription [of section 2(a)] is not against misdescriptive terms unless they are also deceptive.” Thus, that a mark or part of a mark may be inapt or misdescriptive as applied to an applicant’s goods does not make it “deceptive.” *Id.*(AUTOMATIC RADIO not a deceptive mark for air conditioners, ignition systems, and antennas).

*Automatic Radio*: 404 F.2d 1391 (CCPA 1969)

Where the issue relates to deceptive misdescriptiveness within the meaning of 2(a), we are in general agreement with the standard set out by the board:

- (1) Is the term misdescriptive of the character, quality, function, composition or use of the goods?
- (2) If so, are prospective purchasers likely to believe that the misdescription actually describes the goods?
- (3) If so, is the misdescription likely to affect the decision to purchase?

In ex parte prosecution, the burden is initially on the Patent and Trademark Office (PTO) to put forth sufficient evidence that the mark for which registration is sought meets the above criteria of unregistrability. Mindful that the PTO has limited facilities for acquiring evidence – it cannot, for example, be expected to conduct a survey of the

marketplace or obtain consumer affidavits – we conclude that the evidence of record here is sufficient to establish a prima facie case of deceptiveness. That evidence shows with respect to the three-pronged test:

- (1) Budge admits that its seat covers are not made from lamb or sheep products. Thus, the term LAMB is misdescriptive of its goods.
- (2) Seat covers for various vehicles can be and are made from natural lambskin and sheepskin. Applicant itself makes automobile seat covers of natural sheepskin. Lambskin is defined, inter alia, as fine-grade sheep skin. The board's factual inference is reasonable that purchasers are likely to believe automobile seat covers denominated by the term LAMB or SHEEP are actually made from natural sheep or lamb skins.
- (3) Evidence of record shows that natural sheepskin and lambskin is more expensive than simulated skins and that natural and synthetic skins have different characteristics. Thus, the misrepresentation is likely to affect the decision to purchase.

Faced with this prima facie case against registration, Budge had the burden to come forward with countering evidence to overcome the rejection. It wholly failed to do so.

Budge argues that its use of LAMB as part of its mark is not misdescriptive when considered in connection with the text in its advertising, which states that the cover is of "simulated sheepskin."

We conclude that the board properly discounted Budge's advertising and labeling which indicate the actual fabric content. Misdescriptiveness of a term may be negated by its meaning in the context of the whole mark inasmuch as the combination is seen together and makes a unitary impression. *A.F. Gallun & Sons Corp. v. Aristocrat Leather Prods., Inc.* (COPY CALF not misdescriptive, but rather suggests imitation of calf skin). The same is not true with respect to explanatory statements in advertising or on labels which purchasers may or may not note and which may or may not always be provided. The statutory provision bars registration of a mark comprising deceptive matter. Congress has said that the advantages of registration may not be extended to a mark which deceives the public. Thus, the mark standing alone must pass muster, for that is what the applicant seeks to register, not extraneous explanatory statements.

Budge next argues that no reasonable purchaser would expect to purchase lambskin automobile seat covers because none made of lambskin are on the market. Only sheepskin automobile seat covers are being made, per Budge. Not only was no evidence submitted on the point Budge seeks to make, only statements of Budge's attorney, but also the argument is without substance. The board properly

equated sheepskin and lambskin based on the dictionary definition which indicates that the terms may be used interchangeably. In addition, while Budge would discount the evidence presented that bicycle and airline seat coverings are made of lambskin, we conclude that it does support the board's finding that there is nothing incongruous about automobile seat covers being made from lambskin. We also agree with the board's conclusion that any differences between sheepskin and lambskin would not be readily apparent to potential purchasers of automobile seat covers. The board's finding here that purchasers are likely to believe the misrepresentation is not clearly erroneous.

Finally, we note the evidence of Budge's extensive sales since 1974 under the mark. However, it is too well established for argument that a mark which includes deceptive matter is barred from registration and cannot acquire distinctiveness.

None of the facts found by the board have been shown to be clearly erroneous nor has the board erred as a matter of law. Accordingly, we affirm the board's decision that Budge's mark LOVEE LAMB for automobile seat covers made from synthetic fibers is deceptive and is, thus, barred from registration.

## 2 Certifications

### Lanham Act

The term "certification mark" means any word, name, symbol, or device, or any combination thereof—

- (1) used by a person other than its owner, or
- (2) which its owner has a bona fide intention to permit a person other than the owner to use in commerce and files an application to register on the principal register established by this [Act], to certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of such person's goods or services or that the work or labor on the goods or services was performed by members of a union or other organization.

15 U.S.C. § 1127 [Lanham Act § 45]  
*Construction and definitions; intent of chapter*

### Trademark Manual of Examining Procedure

... Based on the statute, there are generally three types of certification marks, that is, those that certify:

1. *Geographic origin.* Certification marks may be used to certify that authorized users' goods or services originate in a specific geographic region (e.g., SUNSHINE TREE for citrus from Florida).

§ 1306.1  
*Types of Certification Marks*

2. *Standards met with respect to quality, materials, or mode of manufacture.* Certification marks may be used to certify that authorized users' goods or services meet certain standards in relation to quality, materials, or mode of manufacture (e.g., approval by Underwriters Laboratories) (UL certifies, among other things, representative samplings of electrical equipment meeting certain safety standards).

3. *Work/labor performed by member or that worker meets certain standards.* Certification marks may also be used to certify that authorized users' work or labor on the products or services was performed by a member of a union or other organization, or that the performer meets certain standards.

§ 1306.01(a)

*Use Is by Person Other than Owner of Certification Mark*

A certification mark may not be used, in the trademark sense of "used," by the owner of the mark; it may be used only by a person or persons other than the owner of the mark. That is, the owner of a certification mark does not apply the mark to his or her goods or services and, in fact, usually does not attach or apply the mark at all. The mark is generally applied by other persons to their goods or services, with authorization from the owner of the mark.

The owner of a certification mark does not produce the goods or perform the services in connection with which the mark is used, and thus does not control their nature and quality. Therefore, it is not appropriate to inquire about control over the nature and quality of the goods or services. What the owner of the certification mark does control is use of the mark by others on their goods or services. This control consists of taking steps to ensure that the mark is applied only to goods or services that contain the characteristics or meet the requirements that the certifier/owner has established or adopted for the certification.

§ 1306.01(b)

*Purpose Is to Certify, Not to Indicate Source*

A certification mark is a special creature created for a purpose uniquely different from that of an ordinary service mark or trademark. That is, the purpose of a certification mark is to inform purchasers that the goods or services of a person possess certain characteristics or meet certain qualifications or standards established by another person. A certification mark does not indicate origin in a single commercial or proprietary source the way a trademark or service mark does. Rather, the same certification mark is used on the goods or services of many different producers.

The message conveyed by a certification mark is that the goods or services have been examined, tested, inspected, or in some way checked by a person who is not their producer, using methods determined by the certifier/owner. The placing of the mark on goods, or

its use in connection with services, thus constitutes a certification by someone other than the producer that the prescribed characteristics or qualifications of the certifier for those goods or services have been met.

**Fair Trade USA Farm Workers Standard**  
Version 1.11 (2014)

The Fair Trade USA Farm Workers Standard takes a development approach in that it differentiates between minimum criteria and progress criteria. Minimum criteria are assessed during the first certification audit and represent minimum practices in social empowerment, economic development, and environmental responsibility. These criteria are met prior to initial certification. Progress criteria are fulfilled after the first year of certification and represent continuous development towards increased social empowerment and economic development as well as best practices in environmental responsibility.

...

**ED-CE 1** Conditions of employment, including wages, either meet or exceed the following standards: sector regulations, Collective Bargaining Agreements that are in place with the employer, the regional average minimum wage, and official minimum wages for similar occupations. The employer specifies wages for all functions. ...

**ED-CE 20** If the company provides the workers with housing, the conditions and the infrastructure of the house must be such as to ensure sanitation, safety, ventilation, reasonable protection from heat and cold, privacy and security. Housing must be provided at reasonable cost. Fire extinguishers are provided and workers should be trained on how to use them. ...

**SR-ND 1** There is no discrimination, particularly on the basis of race, color, gender, sexual orientation, disability, marital status, family obligations, age, religion, political opinion, union or worker's representative bodies or Fair Trade Committee membership, national extraction or social origin or any other condition that could give rise to discrimination, in: recruitment, promotion, access to training, remuneration, allocation of work, termination of employment, retirement or other activities. ...

**ES-AC 1** Materials on the red list (prohibited materials) on the Fair Trade USA Prohibited Materials List (see annex 1) are not used or otherwise sold, handled, or distributed by the company.

**ES-AC 2** The decision to use herbicides is based on the presence of weeds and lack of alternative controls. If used, herbicides are only one element of an integrated strategy against weeds, and are only used in spot applications. ...

SPECIAL PRICE AND PREMIUM TERMS



Fair Trade Certified certification mark

*Produce - Banana*

At FOB level, prices include the costs for the following packing material:

- standard carton box,
- one plastic per carton box (banovac or polypack),
- pallet,
- edge corners,
- strips,
- up to 3 labels per banana hand

The costs for these standard packing and palletization materials are covered by the exporter. However, the service related to packing (labor costs) of above defined standard packing material is included in the Ex Works prices and provided by the producer. Neither the Ex Works nor the FOB prices include costs for additional or special packing materials such as “clusterbags” or “parafilm” and related services. Costs for those packing materials and any associated labor must be paid on top of the Fair Trade Minimum Prices to producers at Ex Works or FOB level and be defined in the contract. Fair Trade Minimum Prices in any case refer to 18.14 kg of ripened fruit. If boxes with different weight are used, Fair Trade Minimum Prices and Fair Trade Premiums are calculated pro rata.

### 3 Geographic Indications

Some countries have *sui generis* systems for protecting *geographical indications*. The United States mostly does not; we protect them primarily – but not exclusively – with trademarks and certification marks.

An underlying question is how terms become geographical designators in the first place. Some arise from local usage over time; others are assigned by official bodies. For two interesting snapshots with occasional parallels to the trademark system, see U.S. Board on Geographic Names, *Policies, Principles, Procedures: Domestic Geographic Names* (2016), and Margaret A. Corwin, *Street-Naming and Property-Numbering Systems* (American Planning Association, 1978).

**Justin Hughes, *Champagne, Feta, and Bourbon -- The Spirited Debate About Geographical Indications***  
58 *Hastings L.J.* 299 (2006)

The French system of *appellations d'origine contrôlées* (AOC) is founded on the idea of terroir. Terroir has no direct English translation, but the notion behind the Latinate word is simple: the product's qualities *come with the territory*. As one Australian wine critic describes it: “terroir . . . translates roughly as ‘the vine’s environment[,]’ but



has connotations that extend right into the glass: in other words, if a wine tastes of somewhere, if the flavours distinctly make you think of a particular place on the surface of this globe, then that wine is expressing its terroir.”

Beliefs about terroir run deep in France, but not too deep, for if they did there might not be a justification for the elaborate regulatory structure governing production of AOC foodstuffs. The INAO regulates not just the geographic boundaries for each AOC, but all “conditions of production,” including, for wine, the grape varieties, hectare production quotas, natural alcohol content during vinification, permitted irrigation, etc. The *Institut National des Appellations d’Origine* (INAO) regulations for AOC cheese place varying legal requirements on rennet used in coagulation, curd drainage, milk temperature at different points in curing, salting, and the use of lactic proteins.

In contrast to a separate system for protecting appellations, some countries, like the United States, subsume protection of geographical indications under trademark law. This is achieved through the categories of “certification marks” and “collective marks.” ...

Geographical words in product names (that is, labeling and advertising) have three basic purposes. These are (1) to communicate geographic source, (2) to communicate (non-geographic) product qualities, and (3) to create evocative value. The first of these is simple. “*Industria Argentina*” or “*Made in England*” communicate a product’s geographic origins. Second, geographic words are often used to communicate product characteristics other than geographic origin. This second use often leads to the geographic words becoming “generic.” The word loses its geographic meaning and acquires another meaning based on non-geographic qualities of the product, as when people go into a *restaurant chinois* off the Champs-Élysées or, nine time zones away, Californians order *French fries* with their *hamburger*.

A third, more overlooked, category for use of geographical words in product names is their use for evocative and aesthetic purposes. These are typically uses of words which, in American trademark doctrine, would be “fanciful” or “arbitrary.” The evocative value of geographic words is most evident with geographic names of fictional or no-longer-existent places: ATLANTIS waterproofing services, POMPEII game machines,<sup>23</sup> and SHANGRI-LA hotels.

Armed with this framework, we will see that the classical justification for geographical indications is that they serve a special combination of (1) and (2): to communicate a product’s geographical source *and* non-geographic qualities of the product that are related to its geographic origin. This is the idea of terroir: that the *particular geography* produces *particular* product characteristics that cannot be imitated by other regions. The idea of terroir undergirds the European Union

claim for stronger protection of geographical indications. This concept helps justify the European Union's demand, since 2004, for the "return" of over forty words that have become generic names for foodstuffs in other countries (e.g., Parmesan cheese, Champagne, Chablis, Gorgonzola cheese, Parma ham, etc.). Although terroir and a claim for a unique communications function for geographical indications is the European Union's public rhetoric, this Article concludes that the European Commission has a simpler goal: control of geographic words for their *evocative value in the marketplace*. The monopoly rents available from exclusive control of this evocative value drive the EU position in the debates over geographical indications.

### Lanham Act

15 U.S.C. § 1052 [Lanham Act § 2]  
*Trademarks registrable on principal register ...*

No trademark ... shall be refused registration on the principal register on account of its nature unless it—

- (a) Consists of or comprises ... a geographical indication which, when used on or in connection with wines or spirits, identifies a place other than the origin of the goods ...
- (e) Consists of a mark which ... (2) when used on or in connection with the goods of the applicant is primarily geographically descriptive of them, except as indications of regional origin may be registrable under section 1054 of this title [pertaining to collective marks and certification marks], (3) when used on or in connection with the goods of the applicant is primarily geographically deceptively misdescriptive of them, ... .

Gulf Shrimp From Nebraska?

Valencia Oranges From Maine?

Champagne Not From Champagne?

*No way!*

A sparkling wine may look or claim the part. But if it's not from Champagne, it's simply not true Champagne.

That's because Champagne is a specific place 90 miles east of Paris that produces the only grapes that yield the taste of Champagne of legend. Champagne's one of a kind cool climate, chalky soil and long history of winemaking expertise combine to produce a wine impossible to duplicate.

So, it does matter where wine comes from. A Napa wine is only from Napa, a Willamette wine is only from Willamette and a Walla Walla is only from Walla Walla.

And if it's not from Champagne, it's simply not true Champagne.

www.champagne.us

Champagne  
It's from Champagne

A mark is “primarily geographically deceptively misdescriptive” when:

(1) the primary significance of the mark is a generally known geographic location, (2) the consuming public is likely to believe the place identified by the mark indicates the origin of the goods bearing the mark, when in fact the goods do not come from that place, and (3) the misrepresentation was a material factor in the consumer’s decision.

*In re California Innovations, Inc..*

*California Innovations: 329 F.3d 1334 (Fed. Cir. 2003)*

**Melting Bad Problem, Redux**

Blancorp has come to you with a few more ideas for trademarks for its clumpless ice-melter. The product is factory-made in the United States (in Duluth, Minnesota, to be precise). Recall that it mimics the properties of a naturally occurring rock salt from Quebec, Canada. Give your opinion on the following names as trademarks:

- DULUTH
- HAWAIIAN
- ATLANTIS
- QUEBEC SALT
- CANADIAN BLUE