

STRETCHING THE TRUTH, AND OTHER ADVERTISING PITFALLS

By

*Charles S. Modell

and

**Meredith A. Bauer

Larkin Hoffman Daly
& Lindgren Ltd.

INHERENT LEGAL PITFALLS

We need more business! Every business wants more business. Public companies are under pressure to increase earnings every quarter. Small companies need new business to keep the doors open and large companies need new business to feed the overhead beast. Word of mouth and referrals go just so far in generating new business, and so most businesses create advertising and advertising campaigns to generate additional sales.

An effective ad or ad campaign is one that grabs the viewer's attention. It may be accomplished by extolling the virtues of the product or service offered for sale, or by making comparisons to the products and services of a competitor. It may also be done with testimonials of people who have used the product or service, or through celebrity endorsements. All of these forms of advertising can be very effective, but all have inherent legal pitfalls. When creating advertising, hiring an advertising agency, or advising clients regarding their advertising schemes, several issues should be kept in mind.

HONESTY IS THE BEST POLICY

*Most Actions or Claims of False or Misleading Advertising
Arise Out One of These Legal Avenues*

Advertisements that are false or misleading can result in consumer class actions, redress from the government, and even claims from competitors. Most actions or claims of false or misleading advertising arise out one of the following legal avenues:

- The Lanham (Trademark) Act, as amended by the Trademark Law Revision Act of 1988, which provides for civil actions against persons using in commerce any word, term, name, symbol or device of false designation or origin, or false or misleading fact;

* Mr. Modell is a shareholder, and head of the franchise practice group at Larkin Hoffman Daly & Lindgren Ltd., Minneapolis, Minnesota. He is a former Finance Officer and Member of the Governing Committee of the American Bar Association Forum on Franchising. He represents franchisors nationwide, and has spoken and written extensively on issues of interest to franchisors and franchisees. He can be reached at cmmodell@larkinhoffman.com.

** Ms. Bauer is an associate at Larkin Hoffman Daly & Lindgren Ltd., Minneapolis, Minnesota. She also works in the firm's franchise group, representing franchisors on registration, disclosure and transactional matters.

Volume XXVIII

Issue 9

May 5, 2008

Page 3

© Copyright 2008 JLCom Publishing Co., L.L.C. All rights reserved. This publication, in whole or in part, may not be reproduced, stored in a computerized, or other, retrieval system, or transmitted in any form or by any means whatsoever without the prior written permission of JLCom Publishing Co., L.L.C.

Subscription and Editorial Inquiries:

JLCom Publishing Co., L.L.C., 26 Hawthorn Drive, Roxbury, NJ 07876-2112. Phone (Toll free): (888) 235-2997. Internet: <http://www.lawpublish.com>. E-mail: advertise@lawyer.com.

This publication is not intended to provide legal advice. Persons who need legal services should contact a duly licensed professional.

- The Federal Trade Commission Act, which grants the FTC the power to regulate unfair methods of competition in commerce;
- The Copyright Act of 1976, which provides copyright protection for advertisements;
- Various state laws, such as state Uniform Deceptive Trade Practices Acts; and
- Common law tort claims of unfair competition, misappropriation, commercial disparagement, defamation, and others.

*Ad That Explicitly Contains Misrepresentation as to
Character or Quality of Product or Service*

Any advertisement that explicitly contains a misrepresentation regarding the character or quality of a product or service is obviously going to be problematic. On the other hand, an advertisement that includes exaggerated sales talk or subjective opinions about a product or service, such as ads touting that a certain company's automobile has "a great ride," or "luxury feel" or that a business has "cost effective growth," are known as "puffing," and puffing is considered permissible under the law. See for example In re Xm Satellite Radio Holdings Securities Lit. (finding that positive forward looking statements about future economic performance and growth constitute non-actionable puffery, as reasonable investors do not rely on them in making investment decisions)¹ and Presidio Enters., Inc. v. Warner Bros. Distrib. Corp. (a motion picture distributor's statements in advertisements that a movie would be a "blockbuster" and the "most 'want-to-see' movie of the year" were classified as permissible puffery).²

Fine Line Between Puffery and Misrepresentation

There is a fine line, however, between puffery and misrepresentation. A general claim or statement that is subjective and cannot really be measured, or merely exaggerates the positive qualities of a particular product, is "puffing". On the other hand, if the claim is subject to an objective test or qualification, and thus can be proven true or untrue, then it is a factual representation, and it must be accurate.³ For example, if you say that you have the "best cheese steak sandwich in Philadelphia," or "the world's lowest price," that is purported statement of fact, and your statement must be based on an independent, unbiased survey that confirms the accuracy of your claim.

False or Misleading Claims as to Origin of Products

False or misleading claims as to the origin of products is an area of particular concern to the Federal Trade Commission. It is one thing to give a product an exotic, European sounding name, like Haagen Dazs or Yoplait, and let the consumer assume what they might about the product. It is another to make

Volume XXVIII
Issue 9
May 5, 2008
Page 4

express statements concerning the source of a product that are not completely accurate. The FTC brought actions against both Hyde Athletic Industries, Inc.⁴ (the manufacturer of Saucony footwear) and New Balance Athletic Shoes, Inc.⁵, regarding advertisements of each company, which represented that all of their footwear was made in the United States. Hyde ran an advertisement which stated: "Generation after generation, our family-owned company has worked with the families of Bangor, Maine to build Saucony shoes and a history of quality craftsmanship." The statement was literally true, but the FTC's complaint alleged that this phrase and other similar advertising constituted an unfair and deceptive act or practice, because it implied all Saucony shoes were made in Maine when, in fact, a substantial amount of Saucony footwear was wholly made in foreign countries. The FTC also alleged that New Balance marketed shoes as "Made In USA," when in fact, their shoes were made partially of imported materials. Both Hyde and New Balance settled the charges with the FTC, and agreed to include disclaimers on all advertising going forward that explicitly set forth the percentage or specific models of footwear actually made in the United States, and disclaimers regarding products or parts of shoes imported from other countries.

BE CAREFUL HOW YOU COMPETE

Celebrities may say that any publicity is good, "as long as you spell my name right." However, competitors do not usually feel the same way. Fifty years ago, it was a violation of federal law to even mention your competitor in your advertising. Today, comparison advertising is common in many industries. However, if an advertisement compares one product to another it is imperative that the advertising be truthful and not misleading or confusing to ordinary consumers. In Pizza Hut Inc. v. Papa John's International, Inc., et al., Papa John's and its franchisees ran advertisements comparing their sauce and pizza dough to competitors, stating that "most big chains," and "the biggest chain," use a tomato paste sauce and frozen pizza dough, as compared to Papa John's supposedly fresher products.⁶ In connection with such advertising, Papa John's used the slogan "Better Ingredients. Better Pizza." Pizza Hut claimed the ads were misleading and based on unfounded claims of superiority, as no scientific evidence existed that tomato paste and frozen dough created an inferior pizza to that offered by Papa John's. The court sided with Pizza Hut and required Papa John's to pay damages to Pizza Hut and discontinue use of their advertisements and slogan due to their deceptive nature.⁷ (The 5th Circuit later affirmed the district court's judgment as to the ads, but found that Pizza Hut failed to introduce sufficient evidence that the misleading slogan was material to consumers).

One has to not only be careful about using another company's name in an advertisement, but also its unique trademarks, logos and slogans, as such items also represent intellectual property owned by the original user, and an inappropriate use of that mark or slogan can lead to claims of trademark infringement. Thus, if a competitor has established a specific logo or tag line

Volume XXVIII
Issue 9
May 5, 2008
Page 5

by which it identifies its products, that same tag line cannot be used in your advertisements. Likewise, given that Burger King Corporation holds a federal trademark on the word "whopper" to describe its large hamburger sandwich, a claim that your company sells a "whopper" of a hamburger, would infringe upon Burger King's trademark rights. The same is true for the use of deceptively similar names, as trademark protection is afforded not only to specific names, but also to similar names (and trade dress). Thus, notwithstanding the use by John Amos' character in "Coming to America," of the name "McDowell's" to identify his quick service hamburger restaurant featuring a large yellow arch, if such a restaurant was established in "Real Life America," McDonalds Corporation would have no trouble prosecuting such use as an infringement of its trademarks. (A business owner does not need to register a trademark to obtain an enforceable trademark right in a unique name, slogan, or advertising campaign. Common law trademark rights arise "automatically" when someone is the first to consistently use their trademark in commerce in connection with their goods or services, in a public market, and the use has a substantial impact on the purchasing public.8)

Derogatory references to competitors, whether they are express or implied, can lead to common law claims of commercial disparagement or to a cause of action under Section 43(a) of the Lanham Act.9 To cross the line into commercial disparagement, an advertiser must:

- (i) knowingly or recklessly publish a false or incorrect statement to a third person;
- (ii) which denigrates the quality of another's products, services, or business practices; and
- (iii) is likely to cause monetary loss to that other person.

See for example Gucci America Inc. v. Duty Free Apparel, Ltd.10

However, one does not have to specifically mention a competitor to become subject to a claim of commercial disparagement. The brewer of Labatt's Ice Beer used a slogan in its advertising, "If It's Not Labatt's, It's Not Ice Beer." Anheuser-Busch prevailed on its claim that this tag line constituted an injurious falsehood (the equivalent of commercial defamation), because the defendant was aware that Anheuser-Busch had created its own ice beer, and it was reasonably foreseeable that the public could understand such claim to imply that other commercial brewers did not produce an authentic ice beer.11

PERILS OF USING CELEBRITIES AND OTHER RECOGNIZED MATERIAL

Some of the best endorsements for a product are word of mouth, or referrals. On a large-scale basis, this is done by using actors in commercials who have allegedly used a product or service and talk about their satisfaction with the

Volume XXVIII
Issue 9
May 5, 2008
Page 6

product. However, a celebrity endorsement is even more compelling to consumers. However, celebrities have a commercial investment in their name and image, and they own the rights to their name and likeness (including deceased celebrities). It is therefore unlawful to use a photograph or image of any person (celebrity or otherwise) to sell a product or service without the consent of the individual. The mere implication of an unauthorized celebrity endorsement is also unlawful, as it can constitute deceptive advertising in the same manner as an explicit misstatement or misrepresentation.¹²

For a celebrity to state a claim under the Lanham Act against an ad using their unauthorized likeness, the celebrity must prove that there is a "likelihood of confusion" or a false impression that the celebrity is endorsing the product, such that the impression created is misleading to the ordinary consumer. The courts use several factors to determine if an advertisement using a celebrity likeness is confusing, including the strength of the celebrity's "mark" (how widely recognized their image is), its similarity to the defendant's "mark," proximity of the products, evidence of actual confusion, and the intent of the defendants. Without such proof, a common law right to privacy claim may still be viable. See Midler v. Ford Motor Co. (finding that Bette Midler had a valid common law tort claim against an automobile company in which an authorized "sound alike" was used for their commercial)¹³; Onassis v. Christian Dior-N.Y. (finding that Jacqueline Kennedy Onassis stated a claim under the New York Civil Rights Law to enjoin the use of a "lookalike" model in Dior ads, as the model captured the essence of her recognizable image and identity)¹⁴; and Ali v. Playgirl, Inc. (granting Muhammad Ali an injunction against the use of an illustration of a man physically resembling Ali, sitting on a stool in a boxing ring, and captioned "The Greatest," as it amounted to wrongful appropriation of the market value of Ali's likeness).¹⁵

In two related and notorious cases, actor Woody Allen successfully enjoined the use of advertisements featuring the Allen look-alike, Phil Boroff.¹⁶ In the first case, National Video used a photograph featuring Boroff posed in heavy black glasses, bearing a smug yet quizzical expression, and surrounded by videos of "Annie Hall" and "Bananas," to promote National Video's franchise system. In the court's own words, "it is not disputed that... the physical features and pose are characteristic of [Woody Allen]."¹⁷ In the second case, Boroff was featured in a photograph playing the clarinet, evoking the image of Woody Allen's appearance in "Annie Hall." This ad included disclaimer language in small print beneath the photograph, stating that the advertisement used a celebrity look-alike. In both cases, the court found a substantial likelihood of consumer confusion, even in light of the disclaimer, because the likeness to Woody Allen was so strong.

Fictional characters also have rights. (Actually, their creators have rights.) Most fictional characters, such as cartoon characters, or famous movie characters, were created by publishers or movie studios that own the copyright for that character. The owner of that copyright is entitled to control

Volume XXVIII
Issue 9
May 5, 2008
Page 7

© Copyright 2008 JCom Publishing Co., L.L.C. All rights reserved. This publication, in whole or in part, may not be reproduced, stored in a computerized, or other, retrieval system, or transmitted in any form or by any means whatsoever without the prior written permission of JCom Publishing Co., L.L.C.

Subscription and Editorial Inquiries:

JLCom Publishing Co., L.L.C., 26 Hawthorn Drive, Roxbury, NJ 07876-2112. Phone (Toll free): (888) 235-2997. Internet: <http://www.lawpublish.com>. E-mail: advertise@lawyer.com.

This publication is not intended to provide legal advice. Persons who need legal services should contact a duly licensed professional.

its use, as the owner of a costume shop discovered in Lyons Partnership, L.P. v. Morris Costumes.¹⁸

In this case, the plaintiff owned all of the intellectual property rights to the popular children's character "Barney," and had registered 25 trademarks and obtained hundreds of copyrights with respect to the name "Barney" and the depiction of the character. The plaintiff specifically refused to license the commercial use of any Barney costumes, in order to completely control the live appearance of the Barney character, and to avoid the possibility of an individual in a Barney costuming behaving in an "un-Barney-like manner."¹⁹ The defendant was in the practice of renting to the public purple dragon costumes with a striking resemblance to Barney. The court found that the plaintiff could state a claim as to trademark and copyright infringement against the costume shop, as the costume was substantially similar to the copyrighted Barney character and the costume shop owner did not have a license for use of the protected material.

Works of art, music, and reproductions of sporting events, are also all copyrighted works, and cannot be used without the consent of the owner. Further, not only must consent be acquired to use the copyrighted work, but consent must be obtained for the specific use intended for the piece. Owners of these items are not only careful to protect the image associated with the work, but they typically recognize the commercial value for the person or work and are careful to grant very limited and explicit licenses (with the license fees they charge directly related to the manner and extent to which the copyright will be used).

EVEN YOUR OWN ADVERTISING AGENCY CAN TURN ON YOU

In order to make the most of each dollar spent on advertising and marketing, many businesses hire advertising agencies for help in creating and managing their advertising campaigns. Those businesses often assume that they own all of the rights to the advertising campaign after it has been created, and certainly, that the advertising campaign will be unique to their business. That is not necessarily the case, as illustrated in Health Insurance Association of America v. Novelli et. al.²⁰ In this case, the HIAA hired an advertising agency pursuant to an oral agreement to create a national campaign opposing certain health care initiatives. The agency created what the court refers to as the "now famous Harry and Louise advertisements," which featured actors having a conversation in worried tones regarding a serious political issue, with soft piano background music, and contact information displaying at the end of the advertisement instructing viewers on how to express their views.²¹ Nine years later, the advertising agency created an advertising campaign for a non-profit organization against certain legislation that featured the same actors and attire, the same background music, the same setting, the same conversation in worried tones, and the same method of display of contact information at the end of the ad. HIAA sued, maintaining a protectible

Volume XXVIII
Issue 9
May 5, 2008
Page 8

copyright interest in the advertising format. The court found that in absence of a written agreement containing unambiguous language to the contrary, the advertising agency, as opposed to the advertiser, owned the copyright in an advertising scheme created to promote the advertiser's business.²²

As this case demonstrates, if you or your client decide to hire an advertising agency, it is important to negotiate a provision in the contract with the agency that specifically and explicitly provides:

- (i) the client, as opposed to the agency, will own and retain all rights to the campaign and all advertising materials used in the campaign;
- (ii) the client will be able to continue to use the campaign and the materials, even after termination of the agency's role in the campaign; and
- (iii) the right to use the materials will be exclusive to the client for which the campaign is created.

CONCLUSION

As the economy continues to weaken and consumers are saving more and spending less, business owners are seeking new and innovative ways to make their advertising more effective and attract customers to their business. As the above noted cases and examples illustrate, wide-ranging legal issues can arise from even a relatively simple advertisement. In an increasingly litigious society, business owners must be sure that they, or their lawyer, have reviewed their advertisements, licenses, and advertising agency contracts, to assure the business generated by their advertising is business for the advertiser, and not for their lawyer.

LAWYER'S REFERENCE SERVICE

Federal Law

The Lanham (Trademark) Act, 15 U.S.C. §§ 1051 *et. seq.*, as amended by the Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (1988).

The Federal Trade Commission Act, 15 U.S.C. §§ 41 *et. seq.*

The Copyright Act of 1976, 17 U.S.C. §§ 101 *et. seq.*

Footnotes

1 In re Xm Satellite Radio Holdings Securities Lit., 479 F. Supp. 2d 165, 180 (D.D.C. 2007).

Volume XXVIII
Issue 9
May 5, 2008
Page 9

© Copyright 2008 JCom Publishing Co., L.L.C. All rights reserved. This publication, in whole or in part, may not be reproduced, stored in a computerized, or other, retrieval system, or transmitted in any form or by any means whatsoever without the prior written permission of JCom Publishing Co., L.L.C.

Subscription and Editorial Inquiries:

JCom Publishing Co., L.L.C., 26 Hawthorn Drive, Roxbury, NJ 07876-2112. Phone (Toll free): (888) 235-2997. Internet: <http://www.lawpublish.com>. E-mail: advertise@lawyer.com.

This publication is not intended to provide legal advice. Persons who need legal services should contact a duly licensed professional.

2 Presidio Enters., Inc. v. Warner Bros. Distrib. Corp., 784 F.2d 674 (5th Cir. 1986).

3 In the Matter of Better Living, Inc., 54 F.T.C. 648, 635 (1957).

4 In the Matter of Hyde Athletic Industries Inc., F.T.C. File No. 922-3236 (September 6, 1996).

5 In the Matter of New Balance Athletic Shoes, Inc., F.T.C. File No. D. 9268 (September 6, 1996).

6 Pizza Hut Inc. v. Papa John's International, Inc., et al., 80 F. Supp. 2d 600 (N.D. Tex. 2000), 227 F. 3d 489 (5th Cir. 2000).

7 Id. at 619-622.

8 McDonald's Corp. v. Burger King Corp., 107 F. Supp. 2d 787 (E.D. Mich. 2000).

9 15 U.S.C. 1 1125(a).

10 Gucci America Inc. v. Duty Free Apparel, Ltd., 277 F. Supp. 2d 269, 275-276 (S.D.N.Y. 2003).

11 Anheuser Busch, Inc. v. John Labatt Limited, 89 F.2d 1339 (8th Cir. 1996).

12 Allen v. National Video, Inc., 610 F. Supp. 612 (S.D.N.Y. 1985).

13 Midler v. Ford Motor Co., 849 F.2d 460 (9th Cir. 1988).

14 Onassis v. Christian Dior-N.Y., 122 Misc. 2d 603 (N.Y. Supp. 1984).

15 Ali v. Playgirl, Inc., 447 F. Supp. 723 (S.D.N.Y. 1978).

16 Allen, 610 F. Supp. 612 and Allen v. Men's World Outlet, Inc., 679 F. Supp. 360 (S.D.N.Y. 1988).

17 Id. at 617-618.

18 Lyons Partnership, L.P. v. Morris Costumes, 243 F.3d 789 (4th Cir. 2001).

19 Id. at 795.

20 Health Insurance Association of America v. Novelli et. al., 211 F. Supp. 2d 23 (D.D.C. 2002).

21 Id. at 25-26

22 Id. at 29

#

Volume XXVIII
Issue 9
May 5, 2008
Page 10