

HANDLING UNFAIR
COMPETITION AND FALSE
ADVERTISING CASES

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Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), provides a federal cause of action against any person who, on or in connection with the sale of any goods or services, uses in commerce “any false or misleading description of fact or false or misleading representation of fact.” In order to succeed on a claim for false or misleading advertising, a plaintiff generally must prove, *inter alia*, whether a statement is literally false or misleading and whether a misleading statement is material.

In *Pizza Hut, Inc. v. Papa John’s Int’l, Inc.*, 227 F.3d 489 (5th Cir. 2000), the Fifth Circuit affirmed a district court decision finding that an advertisement was misleading, but vacated the injunction finding that the plaintiff failed to meet the materiality prong of a false advertising claim because of insufficient evidence. Although the Court’s articulation of the test is not unusual, its analysis is because it applies a significantly higher evidentiary burden than most courts have in the past.

The district court and circuit court decisions in the *Papa John's* case are summarized below, followed by a summary of recent decisions, by circuit, treating the issue of materiality, and highlighting the inconsistency created by the Fifth's Circuit's emphasis on proof of materiality.

I. INTRODUCTION: FALSE ADVERTISING UNDER SECTION 43(A) OF THE LANHAM ACT

Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), provides a federal cause of action against any person who, on or in connection with the sale of any goods or services, uses in commerce “any false or misleading description of fact or false or misleading representation of fact.” In order to succeed on a claim for false or misleading advertising, a plaintiff generally must prove each of the following:

1. An individual or entity has made a false or misleading description or representation of fact in commercial advertising or promotion;
2. That description or representation actually deceived or has the tendency to deceive a substantial segment of the intended audience;
3. Such deception is material to consumers in that it is likely to influence the purchasing decision;
4. The false advertiser caused its falsely advertised goods or services to enter into interstate commerce; and
5. The plaintiff has been or is likely to be injured as a result of such falsities.

The initial determination of whether a statement is literally false or misleading is an important one. If a statement is literally false, a court may grant injunctive relief without requiring proof under either the second or third factors (*i.e.*,

actual or likely deception and materiality). If the statement is literally true but misleading, the plaintiff first must meet the burden of proving the second factor – that the defendant’s advertisement actually deceived, or tended to deceive, the consuming public. The second factor is often proven by consumer survey evidence demonstrating that a “substantial portion of the intended audience” was deceived or misled by the defendant’s advertisement. See *Novartis Consumer Health, Inc. v. Johnson & Johnson-Merck Consumer Pharm. Co.*, 129 F. Supp. 2d 351, 367 (D. N.J. 2000) (finding that a survey showing 15.5% of the respondents were misled “is sufficient to show that, under the Lanham Act . . . a substantial portion of the intended audience” is misled); *JTH Tax, Inc. v. H & R Block E. Tax Serv., Inc.*, 128 F. Supp. 2d 926 (E.D. Va. 2001) (finding that a survey showing 20 percent of respondents were deceived is sufficient); *McNeilab, Inc. v. American Home Products Corp.*, 675 F. Supp. 819, 825 (S.D.N.Y. 1987), *aff’d*, 848 F.2d 34 (2d Cir. 1988) (finding that survey evidence that between 21 and 34 percent of respondents received a misleading message from the challenged advertisement was enough to “establish, although not in precise or even approximate quantitative terms, that a substantial fraction of those who hear the . . . commercials in question [receive a misleading impression]”); *R.J. Reynolds Tobacco Co. v. Loew’s Theatres, Inc.*, 511 F. Supp. 867, 876 (S.D.N.Y. 1980) (holding that a survey finding that between 20 and 33 percent of respondents were deceived “is not an insubstantial number of consumers”); *Stiffel Co. v. Westwood Lighting Group.*, 658 F. Supp. 1103, 1114 (D.N.J. 1987) (holding that where there is a potential that between 22 percent and 57 percent of consumers will be misled is not insubstantial). See also *Johnson & Johnson-Merck-Consumer Pharmaceuticals Co. v. Rhone-Poulenc Rorer Pharmaceuticals*, 19 F.3d 125, 135-36, n14 (3d Cir. 1994) (holding that a survey finding only 7.5 percent of respondents were deceived is not sufficient but that 20 percent would be sufficient) (citations omitted).

After concluding that a statement is misleading, courts must consider the third factor – whether the misleading statement was material. Although courts may articulate the materiality prong differently, most agree that the test is whether consumer purchasing decisions are “likely” to be influenced by the misleading advertising. Most courts are relatively lenient in the evidentiary requirements imposed for demonstrating materiality - some not requiring evidence at all but relying on assumptions and inferences and some requiring only minimal evidence.

In *Pizza Hut, Inc. v. Papa John’s Int’l, Inc.*, 227 F.3d 489 (5th Cir. 2000), the Fifth Circuit strayed from this norm, however, in applying the materiality prong of a false advertising claim. Although the Court’s articulation of the test is not unusual, its analysis is because it applies a significantly higher evidentiary burden than most courts have in the past. In particular, the Fifth Circuit affirmed a district court decision finding that an advertisement was misleading, but vacated the injunction finding that the plaintiff failed to meet the materiality prong because of insufficient evidence supporting that prong.

What follows below is a summary of the district court and circuit court decisions in the *Papa John’s* case. This is followed by a summary of recent decisions, by circuit, treating the issue of materiality, highlighting the inconsistency created by the Fifth’s Circuit’s emphasis on proof of materiality.

A. PAPA JOHN’S DECISION – MATERIALITY

1. *Pizza Hut, Inc. v. Papa John’s Int’l, Inc.*, 80 F.Supp.2d 600 (N.D. Tex. 2000)

Pizza Hut sued Papa John's for allegedly false claims in three sets of commercials related to its "Better Ingredients. Better Pizza." ad campaign:

(A) "Frank Carney" Commercials

The commercials featured Frank Carney identifying himself as co-founder of Pizza Hut and stating that he preferred Papa John's. Pizza Hut argued that the commercial was misleading, because Frank Carney has not been affiliated with Pizza Hut since 1980. The court agreed and required that his status be clarified in all future commercials.

(B) "Taste Test" Commercials

In this ad, Papa John's stated that in comparative taste tests, Papa John's "won big time" over Pizza Hut. Pizza Hut argued that the tests were misleading because Papa John's' pizza was not compared to Pizza Hut's best-selling "pan pizza." In fact, in surveys that included the pan pizza, consumers preferred Pizza Hut. The court allowed future use of the commercial as long as it identified which pizzas were compared, and the location and date of the taste tests conducted.

(C) "Ingredients Comparisons" Commercials

These advertisements compared specific ingredients from Pizza Hut and Papa John's pizzas - - namely, dough and tomato sauce. Papa John's stated it used "clear filtered water" to make dough, while "the biggest chain" used "whatever comes out of the tap." Papa John's also claimed its sauce was made from "fresh, vine-ripened" tomatoes, while its competitors used "remanufactured" sauce. Each of the

comparative commercials closed with the slogan “Better Ingredients. Better Pizza.”

The evidence at trial apparently showed that although there were apparent differences in methods used to produce the competing sauces and dough, those differences did not result in any discernible differences in the actual ingredients, nor did they have an identifiable impact on the quality of the pizza. Papa John’s did not present any “credible evidence . . . [to rebut this finding and] to demonstrate the existence of demonstrable [or quantifiable] differences.” Accordingly, both the jury and the district court held that these claims were misleading because they improperly conveyed an impression that Papa John’s’ ingredients were demonstrably superior and resulted in better pizza. Papa John’s was therefore permanently enjoined from further airing the comparative commercials.

As to the slogan, “Better Ingredients. Better Pizza.” used not only in the commercials, but in print ads, and in other media, the trial judge held the following:

Although Papa John's started . . . with a slogan which was essentially ambiguous and self-laudatory, consistent with the legal definition of non-actionable puffery, Papa John's deliberately and intentionally exploited its slogan as a centerpiece of its subsequent advertising campaign . . . which falsely portrayed Papa John's tomato sauce and pizza dough as being superior to the sauce and dough components used in Pizza Hut's pizza products. When the “Better Ingredients. Better Pizza.” slogan is considered in light of the entirety of Papa John's . . . advertising which violated the 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.

Id. at 612. Based in part on the foregoing, the district court denied Papa John's Motion for Judgment as a Matter of Law, adopted the jury's finding and issued a broad injunction precluding Papa John's from using the slogan "Better Ingredients. Better Pizza." in association with "the sale, promotion and/or identification of pizza products sold under the Papa John's name." *Id.* at 619. The court further enjoined Papa John's "from using any slogan in the future which 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.'" *Id.*

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

On appeal, the Fifth Circuit first considered the jury's and the district court's findings that the "Better Ingredients. Better Pizza." slogan, standing alone, could be a "false or misleading" statement of fact. In examining the slogan, the Court held "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." *Id.* at 499. It therefore reversed the decision with respect to the misleading nature of the slogan as used outside the context of the advertisements.

The Court next addressed the use of the slogan in connection with the advertising. The Court upheld the jury's finding that the use of the slogan in the sauce and dough advertisements, as well as the advertisements themselves, although literally true, was misleading. In particular, the Court concluded that

“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.” *Id.* at 501.

Notwithstanding its agreement that the slogan was misleading, the Fifth Circuit vacated the district court’s injunction on the basis that Pizza Hut had not met its burden of proof with respect to the materiality prong. The Court concluded that Pizza Hut did not submit any evidence showing that any consumers had actually been deceived, and thus, “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.” *Id.* at 502.

As evidence of materiality, Pizza Hut pointed to a tracking survey performed by Papa John’s that found that 48% of respondents believed that Papa John’s had better ingredients than other large chains. The Court rejected this survey as evidence of materiality because it did not address the question of whether the consumer beliefs were based on the advertising campaign, personal taste tests, or a combination of both. Without evidence actually linking the advertising campaign to the consumer’s purchasing decision, the Court held that Pizza Hut failed to satisfy the materiality prong of its false advertising claim.

Accordingly, the Court reversed the district court’s denial of Papa John’s motion for judgment as a matter of law, vacated the injunctive orders, and remanded for entry of judgment for Papa John’s.

B. ANALYSIS OF MATERIALITY – BEFORE PAPA JOHN’S

In its petition for certiorari to the United States Supreme Court, Pizza Hut argued that the Fifth Circuit’s materiality test is inconsistent with the one used by the majority of courts. The Supreme Court denied the *cert.* petition. Pizza Hut nonetheless may have been at least partially correct. On its face, the test articulated by the Fifth Circuit was consistent with the test used by the majority of other courts. The evidentiary requirements the Court imposed, however, appear to be more however, appear to be more stringent. Like other courts, the Fifth Circuit describes the materiality test as one which requires that a misleading statement be likely to influence the purchasing decision of the reasonable consumer. In practice, however, plaintiffs in the Fifth Circuit will only be able to prove that a misleading statement is likely to influence consumer purchasing decisions by presenting evidence that consumers not only were deceived by the misrepresentation, but also were influenced into a purchasing decision by the deception. Accordingly, after *Papa John’s*, a plaintiff’s burden in a false advertising case in the Fifth Circuit appears to include a “material causation” element not present in other circuits.

The following are examples of cases from courts outside the Fifth Circuit which highlight the differences from the *Papa John’s* approach.

- Second Circuit: *National Basketball Ass’n v. Motorola, Inc.*, 105 F.3d 841, 855 (2d Cir. 1997). In this case, Motorola stated in advertising that their SportsTrax pager product, that apparently provided scores from ongoing sporting events, provided “game updates from the arena.” *Id.* However, the data was actually entered from reporters watching the sporting events on television or listening to the games on the radio. The NBA sued

Motorola for, among other things, false advertising in that the sports scores did not actually originate directly from the sporting arena. The court found that it was immaterial where the scores came from because “the inaccuracy in the statements would not influence customers at the present time” because there was no product on the market that did provide the information directly from the arena. *Id.* However, the court did note that “if the NBA were in the future to market a rival pager with a direct data-feed from the arenas – perhaps with quicker updates than SportsTrax and official statistics – then Motorola’s statements regarding the source might well be materially misleading.” *Id.*

- Third Circuit (D. N.J.): *Novartis Consumer Health, Inc. v. Johnson & Johnson-Merck Consumer Pharm. Co.*, 129 F. Supp. 2d 351, 367 (D. N.J. 2000). In this case, the plaintiff, manufacturer of Maalox, and defendant, manufacturer of Mylanta, produce competing antacids. Plaintiff sought to enjoin the defendant from advertising Mylanta with the designation “Night Time Strength,” arguing that Mylanta is not specially formulated to be more effective at night. The court found that the claims of “night time strength” were literally false. Evidence demonstrated that Mylanta Night Time Strength was not specially formulated to be more effective at night. Survey evidence indicated that 25% of consumers believed that Mylanta Night Time Strength provided all night relief of heartburn solely on the basis of the “Night Time” portion of the mark. In light of the survey evidence, the court also found that the “night time” claims were material, in that they were likely to influence consumers’ purchasing decisions. The court found that the plaintiff was likely to succeed on the merits, and granted the preliminary injunction. Defendant was enjoined from marketing its product with any designation

of “Night Time” or “Night Time Strength.” No actual evidence of materiality was required.

- Fourth Circuit (E.D. Va): *JTH Tax, Inc. v. H & R Block E. Tax Serv., Inc.*, 128 F. Supp. 2d 926 (E.D. Va. 2001). The court found that H & R Block engaged in false and misleading advertising in their use of the term “refund” to describe an offer that was really a loan. Advertisements containing the word “refund” were deemed literally false, and even those that included a disclaimer were found to be misleading. The court held that, where, as here, a plaintiff establishes that a defendant’s false advertising campaign was malicious, willful, and in bad faith, there is no need to show actual deception. H & R Block relied on *Papa John’s* for the proposition that surveys should be required to prove materiality, but the court held that materiality requires some probative, but not necessarily survey, evidence. The plaintiffs proved materiality with the testimony of a marketing expert who offered evidence of the effectiveness of using the term “refund” instead of “loan.” Limited evidence was accepted here as proof of materiality.
- Federal Circuit: *Hewlett-Packard Co. v. Nu-Kote Int’l, Inc.*, 155 F.3d 571, 1998 U.S. App. LEXIS 12744, *10 (Fed. Cir. 1998). The court held that, “[w]ith respect to the issue of materiality . . . the fact that only a modest percentage of all customers would care about the allegedly false statement does not necessarily defeat a Lanham Act claim.” Rather, “[w]here . . . the false statement relates to a feature that determines whether the parties’ products will compete, and has the potential to have an impact on the sale of hundreds of thousands of products, the false statement cannot be said to be immaterial as a matter of law.” *Id.* at *10-11 (citing *In re Uranium Antitrust Litigation*, 473 F. Supp. 393, 408-09 (N.D. Ill. 1979) (Lanham Act protects competitors from

misrepresentations that relate to the principal bases of competition among sellers)). No actual evidence of materiality or deception was required.

C. THE SCOPE OF INJUNCTIVE RELIEF IN FALSE ADVERTISING CASES

An often overlooked issue in a false advertising case is the scope of injunctive relief granted to a successful plaintiff. After a court finds in favor of the plaintiff, holding that the defendant's advertising or promotion has the tendency to mislead a substantial number of consumers, how broad an injunction should the court issue? If, for instance, the defendant's deceptive advertising is limited to a particular geographic territory, should the injunction, nonetheless, be national in effect? Likewise, if a defendant made a claim that was true and therefore not actionable when standing alone, but was misleading in the context of a particular advertisement, should that defendant be precluded from making that claim even outside the context of the objectionable advertisement?

The following cases illustrate some situations which involved injunctions that arguably were too broad. The issues raised in these cases highlight the importance of considering the scope of injunctive relief in crafting the request for relief in a false advertising complaint or defending against a false advertising claim.

1. *Pizza Hut, Inc. v. Papa John's Int'l, Inc.*, 80 F.Supp.2d 600 (N.D. Tex. 2000)

- As stated previously, in this case the district court permanently enjoined Papa John's from using the "Better Ingredients. Better Pizza." slogan in any advertising. Papa John's argued that it should be able to use the

slogan in geographic areas where Papa John's currently had no operations and thus, there was no advertising. The district court recognized that Papa John's did not have operations in all fifty states but held that "[a]ny attempt to fashion an equitable remedy carving out specific geographic regions where Papa John's has no current operations would involve detailed qualifications of the relief granted which may well create unanticipated ambiguities in the injunction and make it more difficult to determine whether future conduct of Papa John's is violative of its terms." *Id.* at 611. Therefore, the court issued a permanent nationwide injunction against *Papa John's* use of the ads and the slogans, finding the slogan "tainted" by its use in connection with what it held was misleading advertising. Pizza Hut was also awarded damages for the corrective advertising it ran in response to the Papa John's commercials.

- Although it did not expressly have to address the issue because it vacated the entire injunction, the Fifth Circuit expressed disagreement with the broad scope of the district court's injunction. The Court noted that "out of a total 278 print and television ads, the slogan appeared in only 31 ads that could be liberally construed to be misleading sauce or dough ads." *Pizza Hut, Inc. v. Papa John's Int'l, Inc.*, 227 F.3d 489, 502 n.11 (5th Cir. 2000). The Court concluded, therefore, that "Pizza Hut failed to offer sufficient evidence to support the district's conclusion that the slogan had become forever 'tainted' by its use as the tag line in the handful of misleading comparison ads." *Id.* The Court implied that even if it had not vacated the entire injunction, it likely would have limited the district court's injunction to allow use of the slogan outside the advertising context.

2. *JTH Tax, Inc. v. H & R Block E. Tax Serv., Inc.*, 128 F. Supp. 2d 926 (E.D. Va. 2001)

- While this case involved only the defendant's regional advertising, the court noted the egregious conduct of the defendant and granted a permanent nationwide injunction. In ascertaining the geographic scope of the injunction, the court noted both the Defendants' regional and national conduct. Apparently, the Defendants were involved in numerous suits pertaining to false advertising. The court found that "[w]hen [Defendants] have consented to one state's court order, they have simply taken their advertisements to a new jurisdiction and continued to run similarly offending advertisements. . . . This conduct, together with Defendants' similar advertisements in several other states, counsels that the scope of injunctive relief be nationwide." *Id.* at 948. This case suggests that injunctions may be more likely to be overly broad in scope in situations where a defendant's behavior is particularly egregious.

3. *Castrol, Inc. v. Pennzoil Quaker State Co.*, 2001 U.S. Dist. LEXIS 1875 (D. N.J. 2001)

- Both Plaintiff and Defendant were producers/manufacturers of oil. Defendant advertised that its product was superior in a number of quantifiable ways to the product being sold by the Plaintiff. Plaintiff was successful in bringing this false advertising claim. The court enjoined the Defendant from using a specific list of statements including "that its motor oil provides better protection against oxidation", "that its motor oil provides better performance in stop-and-go driving conditions", and "that its motor oil provides better protection against engine wear." *Id.* at *12-17. In addressing Defendant's concern about the scope of the injunctive relief, the court held that its order "enjoins false commercial speech only, it is not a prior restraint on protected speech." *Id.* at *18 (Citing *Castrol, Inc. v. Pennzoil Co.*, 987 F.2d 939, 949

(3rd Cir. 1993) (noting that it is "well settled that false commercial speech is not protected by the First Amendment and may be banned entirely") (citation omitted) and *Better Business Bureau of Metro. Houston, Inc. v. Medical Directors, Inc.*, 681 F.2d 397, 404 (5th Cir. 1982) ("False and misleading representations in advertising are not shielded by the First Amendment; as 'unprotected speech' such statements may be banned entirely"). Further, the court held that "[t]he Order also permits Pennzoil to make true comparative superiority claims in the future without this Court's involvement." *Id.*

D. Mobius Management Sys. v. Fourth Dimension Software, 880 F. Supp. 1005 (S.D.N.Y. 1995)

- Plaintiff and Defendant were software manufacturers. Defendant claimed that its product was quantifiably superior to Plaintiff's. Plaintiff brought a false advertising claim against the Defendant and was ultimately successful. The court, in granting injunctive relief, held "[t]he scope of the injunction must be as narrow as possible so as to avoid being overbroad and reaching non-violative activity. This concern is particularly present in false advertising cases where speech, and not merely conduct, is implicated. Balancing this concern with the need to protect plaintiff from future violative conduct, I conclude that the defendant shall be enjoined from making, exactly or in substance, those statements that already have been demonstrated to be false . . . and the additional statements that I specifically have found to be false in this action." *Id.* at 1024.