



Trademark management

The potential pitfalls of comparative advertising

Brand owners need to choose the course of action taken over comparative advertising in the United States carefully

The recent dispute between Stokely-Van Camp, Inc (Gatorade) and The Coca-Cola Company, *et al.* (Powerade) highlights the potential legal pitfalls of comparative advertising in the United States (*Stokely-Van Camp, Inc v The Coca-Cola Company*, Case No 09-civ-3741 (SDNY August 4 2009)). Powerade ran a comparative campaign in which it characterized its competitor's Gatorade sports drink as "incomplete" and lacking several "critical" electrolytes, which were touted components of Powerade's new sports beverage. In response, Gatorade filed a civil action in federal district court for false advertising and trademark infringement, and moved for a preliminary injunction. The court denied Gatorade's motion, finding that Powerade's representations regarding the absence of certain electrolytes in Gatorade were true and that other Powerade statements were mere "puffery". The decision provides a roadmap for those charged with assessing the risks inherent in comparative ad campaigns or assessing whether to file suit against a competitor.

A trademark owner can establish a *prima facie* case of false advertising by showing that the advertiser used a false or misleading description of fact or representation of fact in interstate commercial advertising in connection with goods, services or commercial activities. The party bringing the action must also show that the challenged factual assertion is either literally false or false by necessary implication (*Southland Sod Farms v Stover Seed Co*, 108 F 3d 1134, 1139 (9th Cir 1997)). If the language used in the ad is susceptible to more than one reasonable interpretation, it is not considered to be literally false (*Time Warner Cable, Inc v DIRECTV, Inc*, 497 F 3d 144 (2d Cir 2007)). Thus, before embarking on a comparative ad campaign, a company must take care to ensure it has the evidence needed to defend a false or misleading claim. Such evidence could include surveys and studies supporting the statements made in these ads. In addition to being true, the evidence must be sufficiently reliable to be objectively

reasonable to rely upon. The court in *Gatorade* found that Powerade's ads stating that its drink was "the complete sports drink" were mere puffery – non-actionable representations of quality that reasonable consumers would not be justified in relying upon. In addition, the court found that Gatorade had not shown a likelihood of proving any of Powerade's claims were false. Rather, the evidence indicated Powerade's representations were truthful – Gatorade's product did not contain certain electrolytes and the court found Powerade's claim that its beverage contained electrolytes "typically lost in sweat", however unscientific, was a truthful claim supported by expert testimony, as the Powerade beverage contained electrolytes in the same ratio as those contained in sweat.

To the extent the use of a mark or false or misleading representation of fact is likely to cause consumer confusion, the injured company may be able to establish a *prima facie* case under federal trademark infringement and state unfair competition statutes. If the injured company can prove that its mark is 'famous', the company may also bring a claim under the federal dilution statute (15 USC § 1125(c)). With regard to potential mark infringement claims, the comparative advertiser should try to stay within the confines of the 'fair use' doctrine permitting use of "a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of [another] party, or their geographic origin" (§ 15 USC 1115(b)(4)). Such 'nominative fair use' of another's mark to describe another's goods or services is likely to be found non-infringing if the product or service in question is not readily identifiable without use of the trademark; only so much of the mark(s) is used as is reasonably necessary to identify the product or service; and the defendant does nothing that would suggest sponsorship or endorsement by the mark owner (*New Kids on the Block v News America Pub, Inc*, 971 F 2d 302 (9th Cir 1992)).

Because ad campaigns are often short-lived and may have concluded by the time a preliminary injunction motion can be heard in district court (as in *Gatorade*), it is worth considering other options. First, a company facing a national or 'broadly regional'

campaign can submit a complaint to the National Advertising Division (NAD) of the Better Business Bureau. A forum for alternative dispute resolution to determine the truthfulness and accuracy of national advertising, the NAD promises expedited resolution of ad disputes through a written decision within 60 business days. Proceedings are generally less expensive than court litigation, and can react more swiftly to campaigns. In cases where it appears that the offending campaign may be short-lived, companies may consider swiftly filing a complaint to the NAD.

While the NAD option provides advantages, including the confidentiality of case data, there are drawbacks. For example, complaints brought before the NAD cannot be the subject of pending litigation or a court order, although courts are split as to whether litigation initiated after the commencement of NAD proceedings should be stayed pending the NAD decision. In addition, compliance with NAD decisions is voluntary. However, if after a reasonable time an advertiser does not comply with an NAD decision requesting that advertising be 'modified' or 'discontinued', the NAD will refer the file to an 'appropriate government agency', such as the Federal Trade Commission (FTC), and release information regarding the referral to the press, public and the media in which the advertising at issue has appeared. The FTC is a federal agency authorized to investigate and prosecute false, unfair or deceptive advertising, and can levy civil and criminal penalties for violations (15 USC § 52 *et seq.*). Advertising may be considered false by the FTC if, even if not literally false, it is misleading or inadequately substantiated.

It remains to be seen whether Gatorade will recover monetary damages based on Powerade's past assertion that Gatorade's product was "incomplete". However, as far as preliminary relief was concerned, Powerade emerged victorious by combining supportable factual assertions with non-factual puffery. As an aside, the court also found additional grounds barring Gatorade from obtaining a preliminary injunction, in that it had itself previously and extensively advertised the beneficial qualities of certain electrolytes. Advertisers should therefore note that their own representations made in ads may later be used against them. **WTR**

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