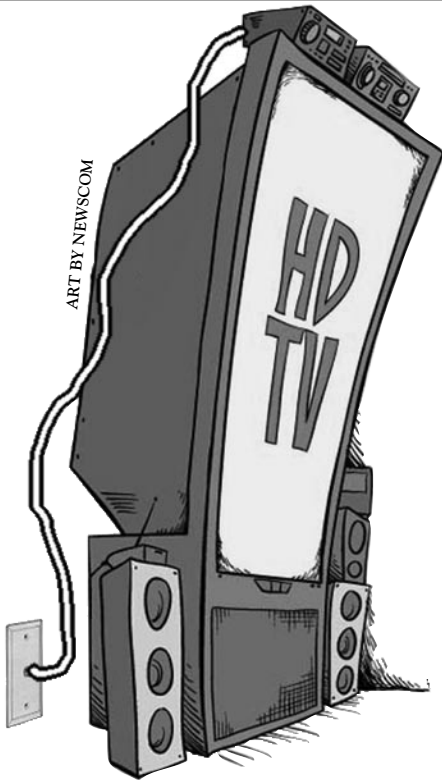


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False Advertising Law in the Second Circuit

Court adopts 'false by necessary implication' doctrine in ruling over Lanham Act claims.

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EARLIER this year, the U.S. Court of Appeals for the Second Circuit issued a significant decision concerning the scope of liability under the Lanham Act's prohibition against false advertising. In *Time Warner Cable, Inc. v. DIRECTV, Inc.*,¹ the court considered three issues: (i) whether

an advertisement making no explicitly false claims may nevertheless be found literally "false by necessary implication," (ii) whether grossly exaggerated visual depictions may qualify as non-actionable "puffery," and (iii) whether a false advertising plaintiff's required showing of irreparable harm on a preliminary injunction motion may be presumed when a challenged comparative advertisement does not reference the plaintiff's product by name.

The court answered all three questions in the affirmative. This decision will likely have a substantial impact on Lanham Act false advertising law in the Second Circuit.

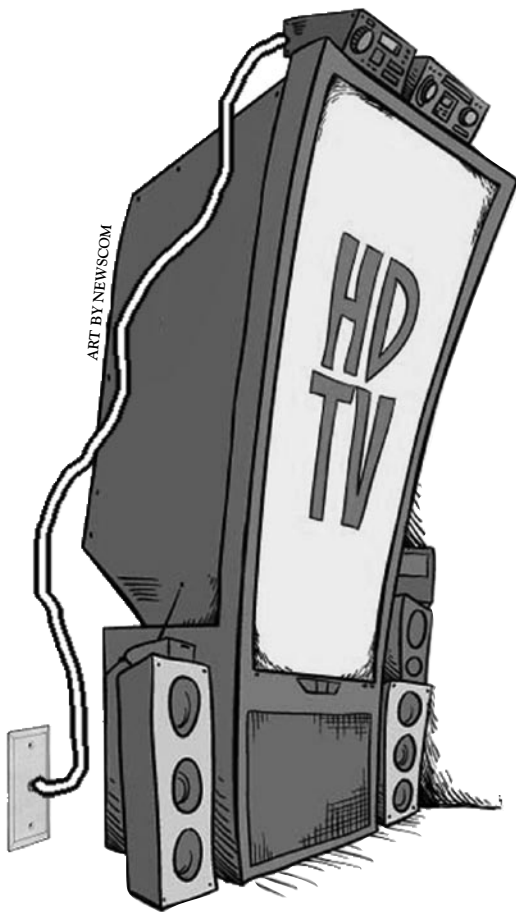
Lanham Act False Advertising Law

Before a discussion of the impact of the decision, a review of basic principles underlying Lanham Act false advertising law is in order. Section 43(a) of the Lanham Act authorizes a party to sue a competitor who, in connection with the sale of goods or services, uses a "false or misleading description of fact, or false or misleading representation of fact,

which...in commercial advertising or promotion, misrepresents the nature, characteristics [or] qualities...of his or her or another person's goods." This language covers false claims about the advertiser's product, as well as false claims about the competitor's product, whether those claims are comparative or non-comparative. Lanham Act suits are brought in federal court, and are typically accompanied by a request for a preliminary injunction seeking an immediate halt to the offending ads.

If a Lanham Act plaintiff persuades the court that the challenged advertisement is literally false, or "false on its face," the court may grant relief without considering extrinsic evidence of consumer reaction to the advertisement. However, when a plaintiff claims that a competitor's advertisement is literally true but nonetheless has a tendency to mislead, confuse, or deceive, or that the advertising makes or conveys what is called an "implied" claim, the plaintiff must come forward with extrinsic evidence demonstrating that a material number of consumers took away a mis-

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leading message from the advertisement. This proof is typically supplied through a consumer survey designed to gauge the impact of the advertisement on the relevant public.

Many Lanham Act preliminary injunction applications founder at the consumer survey stage. As courts have noted, there is no such thing as a perfect consumer survey, and the plaintiff's consumer survey often makes an inviting target for the defendant advertiser. A defendant typically offers a survey expert to critique plaintiff's survey or, on occasion, to conduct a survey to discredit plaintiff's. This added layer of proof can significantly complicate a Lanham Act plaintiff's case. Thus, if a Lanham Act plaintiff can properly characterize a defendant's advertisement as false on its face instead of impliedly false, it will materially advance its case.

Time Warner and DIRECTV

The DIRECTV suit concerned a dispute between Time Warner Cable and DIRECTV with respect to a multimedia advertising cam-

paign first launched by DIRECTV in 2006. The goal of DIRECTV's campaign, which consisted of commercial spots on television and banner advertisements on the Internet, was to persuade consumers seeking high-definition (HD) programming that HD television sets do not display HD-quality images unless and until a consumer purchases HD programming from service providers like DIRECTV.

In response to the campaign, Time Warner sued DIRECTV for false advertising under §43(a) of the Lanham Act, and sought a preliminary injunction seeking to enjoin DIRECTV from airing the commercials in any market in which Time Warner provides cable service. The case centered on DIRECTV's claims concerning Time Warner's provision of HD-quality programming. Though Time Warner and DIRECTV supply customers with access to multi-channel video service via different means—Time Warner provides cable service and DIRECTV provides satellite service—both companies offer equivalent HD service on select channels, and compete for customers in markets where the two companies' service territories overlap. Time Warner claimed that certain advertisements used in DIRECTV's campaign—known as the "SOURCE MATTERS" campaign—made literally false claims that DIRECTV's HD programming was superior in quality to service provided by Time Warner. The U.S. District Court for the Southern District of New York agreed, and granted Time Warner's motion for a preliminary injunction.²

DIRECTV appealed and sought relief from the district court's opinion and order on three separate grounds.

Literal Falsity

First, DIRECTV argued that its television commercials could not be construed as literally false because none of the commercials explicitly stated that DIRECTV's HD programming was superior to that of other cable providers, including Time Warner. The Second Circuit disagreed and affirmed the district court's findings.

The Second Circuit had no difficulty affirming the literal falsity of claims made by DIRECTV in the first of the two televi-

sion commercials at issue. This commercial simulated a scene from the recent motion picture version of the 1980s' hit television show "The Dukes of Hazzard," with singer-turned-actress Jessica Simpson playing the part of local waitress Daisy Duke. At one point in the commercial, Ms. Simpson turns to the camera and addresses the viewer:

Y'all ready to order?

Hey, 253 straight days at the gym to get this body and you're not gonna watch me on DIRECTV HD?

You're just not gonna get the best picture out of some fancy big screen TV without DIRECTV.

It's broadcast in 1080i. I totally don't know what that means, but I want it.

The Second Circuit found these claims literally false by examining the explicit words used in the advertisement: "These statements make the explicit assertion that it is impossible to obtain 'the best picture'—i.e., a '1080i'-resolution picture—from any other source than DIRECTV. This claim is untrue; the uncontroverted factual record establishes that viewers can in fact get the same 'best picture' by ordering HD programming from their cable service provider." Thus, the court enjoined DIRECTV's claims featured in the Simpson commercial by applying the well-established rule that explicit advertising claims that are false on their face will be deemed "literally false" for purposes of a Lanham Act challenge.³

In analyzing whether claims made by DIRECTV in the second disputed television commercial were literally false, the Second Circuit adopted the "false by necessary



implication” doctrine. While this doctrine has been applied for some time in other circuits and even relied upon by district courts within the Second Circuit, the Court of Appeals had never formally embraced the doctrine. The Second Circuit described the “false by necessary implication” doctrine this way:

Under this doctrine, a district court evaluating whether an advertisement is literally false must analyze the message conveyed in full context[.] ...If the words or images, considered in context, necessarily imply a false message, the advertisement is literally false and no extrinsic evidence of consumer confusion is required.⁴

If the criteria for application of this doctrine are met, then the plaintiff can show that an advertisement is literally false and thus will not have to offer a survey, even though the claim alleged to be false is not specifically stated in the commercial.

Examining the facts of this case, the Second Circuit upheld the district court’s finding that statements made in DIRECTV’s television commercials, in context, unambiguously conveyed a literally false claim of superiority concerning HD picture quality. Specifically, the second disputed commercial simulated a scene from the science-fiction television and film series “Star Trek,” with actor William Shatner reprising his role as Captain James T. Kirk. Both the district court and the Second Circuit carefully examined each of the statements made in the advertisement in context:

Mr. Chekov: Should we raise our shields, Captain?

Captain Kirk: At ease, Mr. Chekov.

Again with the shields, I wish he’d just relax and enjoy the amazing picture clarity of the DIRECTV HD we just hooked up.

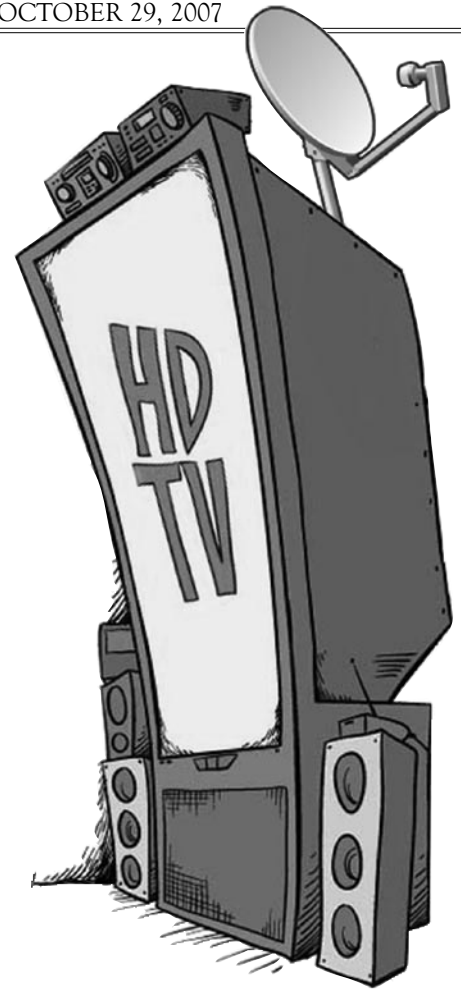
With what Starfleet just ponied up for this big screen TV, settling for cable would be illogical.

On its face, this commercial makes no explicitly false assertions. However, the district court found that Mr. Shatner’s declaration that “settling for cable would be illogical,” considered in light of the advertisement as a whole, unambiguously made the false claim that cable’s HD picture quality is inferior to that of DIRECTV’s.” Applying the “false by necessary implication” doctrine, the Second Circuit agreed, noting the close proximity of Mr. Shatner’s “illogical” line to his claims attesting to the “amazing picture clarity of DIRECTV HD.”⁵

In adopting the false by necessary implication doctrine, the court harmonized its holdings in two prior decisions, *American Home Products Corp. v. Johnson & Johnson*,⁶ and *Avis Rent A Car System, Inc. v. Hertz Corp.*⁷ The court in *DIRECTV* explained that “*American Home Products* counsels that when an advertisement is not false on its face, but instead relies on indirect intimations, district courts should look to consumer reaction to determine meaning, and not rest on their subjective impressions of the advertisement as a whole.” In other words, a plaintiff must offer a consumer survey to prove the ad communicated the alleged false claim in question.

On the other hand, *Avis Rent A Car* “instructs district courts to consider the overall context of an advertisement to discern its true meaning, and holds that the message conveyed by an advertisement may be viewed as not false in the context of the business at issue, even though the written words are not literally accurate.”⁸ Both *American Home Products* and *Avis Rent A Car* stressed the importance of evaluating context when dealing with Lanham Act false advertising claims, and, as such, the Second Circuit reasoned that there was no real conflict between the propositions advanced in those cases.

By adopting the false by necessary implica-



tion doctrine, *DIRECTV* materially expands the scope of literal falsity under Second Circuit Lanham Act false advertising law.

DIRECTV’s Use of ‘Puffery’

As a second argument on appeal, *DIRECTV* contended that its Internet advertisements were not literally false because certain images used in the advertisements constituted non-actionable “puffery.” Puffery consists of advertising claims that are so exaggerated that no reasonable consumer would believe they are accurate, or claims that are not susceptible to objective measurement, for example “the most terrific car around.” Here, *DIRECTV* maintained that its blurry and pixelated representations of cable picture quality were so exaggerated that no reasonable consumer would take them to be accurate depictions of cable HD programming. The Second Circuit agreed.

The district court had voiced concern that “consumers unfamiliar with HD equipment could be led to believe that



using an HD television set with an analog cable feed might result in the sort of distorted images showcased in DIRECTV's Internet Advertisements." The Second Circuit found these concerns untenable because "the Internet Advertisements' depictions of cable are not just inaccurate; they are not even remotely realistic. It is difficult to imagine that any consumer, whatever the level of sophistication, would actually be fooled by the Internet Advertisements" into thinking that cable's picture quality is as poor as the distorted images used in the ads. Therefore, there was no risk of consumer confusion or resulting injury to Time Warner.⁹

The court's discussion of puffery is notable for at least two reasons. First, the analysis represents one of the few times that the Court of Appeals has attempted to define puffery as it concerns images and visual depictions as opposed to words alone. In addition, the court recognized that puffery may consist of either (i) an overly vague claim expressing mere opinion, or (ii) "an exaggerated, blustering, and boasting statement upon which no reasonable buyer would be justified in relying."¹⁰

Irreparable Harm Presumption

Finally, the court addressed DIRECTV's third ground for appeal, that Time Warner was not entitled to the presumption of irreparable harm usually afforded a competitor seeking to enjoin a comparative advertisement because DIRECTV's advertisements did not explicitly reference Time Warner by name or by product. The Second Circuit concluded that even though the commercial did not identify Time Warner or its product by name, the presumption could still apply when a Lanham Act plaintiff (i) demonstrates a likelihood of success on the merits, and (ii) establishes that the challenged comparative advertisement can

be read to reference plaintiff's product, for example, when there are no other significant competitors in the marketplace.

As to the latter showing, both the district court and the Second Circuit stressed that consumers essentially have only two choices when purchasing multi-channel video service, cable or satellite. Moreover, in markets where Time Warner operates, Time Warner "is 'cable.'"¹¹ Therefore, in those markets in which Time Warner's and DIRECTV's service territories overlap, the Court of Appeals recognized that DIRECTV's advertising claims inevitably disparaged and injured Time Warner in the eyes of relevant consumers: "According to a survey in the record, approximately 90 percent of households have either cable or satellite service. Given the nearly binary structure of the television services market, it would be obvious to consumers that DIRECTV's claims of superiority are aimed at diminishing the value of cable—which, as discussed above is synonymous with [Time Warner] in the areas covered by the preliminary injunction."¹²

The Second Circuit found neither unreasonable nor erroneous the district court's finding that DIRECTV's advertisements necessarily diminish the value of Time Warner's product in markets where both Time Warner and DIRECTV operate, even though the ads did not explicitly reference Time Warner's product by name.¹³

Looking to the Future

Overall, the Court of Appeals' recent clarification of false advertising law in *Time Warner Cable v. DIRECTV* should prove significant to future Lanham Act litigants in the Second Circuit. Most notably, the "false by necessary implication" doctrine allows Lanham Act plaintiffs more leeway to avoid having to resort to a consumer survey to prove that a

defendant's ad is communicating the alleged false claim in question. That eliminates a significant obstacle to relief, particularly in light of the pitfalls a Lanham Act plaintiff may face in trying to persuade a court to credit its consumer survey.

The court also eased the proof needed to establish irreparable harm on a preliminary injunction application by extending the presumption of irreparable harm to comparative ads that do not reference plaintiff's product by name. At the same time, the court's expansion of puffery may afford some Lanham Act defendants an effective affirmative defense. In addition to its potential impact, the decision makes clear that jurisprudence in this area continues to evolve.



1. 497 F.3d 144 (2d Cir. 2007).
2. 475 F.Supp.2d 299 (SDNY), *aff'd in part, vacated in part* on other grounds, 497 F.3d 144 (2d Cir. 2007).
3. 497 F.3d at 153.
4. *Id.* at 158.
5. *Id.* at 154-55.
6. 577 F.2d 160 (2d Cir. 1978).
7. 782 F.2d 381 (2d Cir. 1986).
8. 497 F.3d at 157.
9. *Id.* at 161.
10. *Id.* at 160.
11. *Id.* at 162.
12. *Id.*
13. *Id.*