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Another Small Step for the Second Circuit Might Be a Giant Leap for Section 43(A) of the Lanham Act

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NOTES

ANOTHER SMALL STEP FOR THE SECOND CIRCUIT MIGHT BE A GIANT LEAP FOR SECTION 43(A) OF THE LANHAM ACT

DIRECTV is "one of the country's largest satellite television service providers, with more than 15.6 million customers nationwide."[1] In the fall of 2006, DIRECTV began a "multimedia advertising campaign based on the theme of 'SOURCE MATTERS,'"[2] for its High Definition (HD)[3] technology television, featuring celebrities Jessica Simpson and William Shatner.[4] The ads implied that DIRECTV HD technology was superior to that of "cable."[5]

Time Warner Cable (TWC) is the second largest provider of cable television in the United States,[6] serving over 13.4 million customers nationally.[7] Cable companies, including TWC, are allowed to operate through franchises obtained from local government entities.[8] The only cable available in some markets—including almost all of New York City, is TWC.[9] Therefore, "DIRECTV and other satellite providers pose the greatest threat to its market share."[10] Since DIRECTV broadcasts directly to customers via satellite, the company does not have the same franchise limitations that cable companies have.[11] It is in direct and "extremely fierce" competition with the cable companies.[12] Additionally, "[s]atellite

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1. Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 148–149 (2d Cir. 2007); David Pomerantz, *Time Warner Cable Wins Advertising Decision vs. DIRECTV*, THE N.Y. SUN, Aug. 10, 2007, http://www.nysun.com/article/60242.

2. "The concept of the campaign was to educate consumers that to obtain HD-standard picture quality, it is not enough to buy an HD television set; consumers must also receive HD programming from the "source," i.e., the television service provider." *Time Warner Cable*, 497 F.3d at 149.

3. The FCC defines Advanced Television (ATV) to include any system that results in "improved [television] video and audio quality." *Tentative Decision and Further Notice of Inquiry* in MM Docket No. 87-268, 3 F.C.C. Rcd. 6520, 6521 (1988). High definition television (HDTV), a subset of ATV, generally refers to systems that provide quality approaching that of 35 mm film. *Id*. HDTV "has a resolution of approximately twice that of conventional television in both the horizontal (H) and vertical (V) dimensions and a picture aspect ratio (HxV) of 16:9." ATSC Digital Television Standard at 5, *cited in* Federal Communications Commission Advisory Committee on Advanced Television Service Report (Nov. 28, 1995).

4. *Time Warner Cable*, 497 F.3d at 149.

5. *Id.*

6. Time Warner Cable, Inc. v. DIRECTV, Inc., 475 F.Supp.2d 299, 302 (S.D.N.Y. 2007).

7. *See* Pomerantz, *supra* note 1.

8. Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 149 (2d Cir. 2007).

9. *Id.*; *see also* Pomerantz, *supra* note 1 ("Time Warner Cable is the cable franchise holder for New York City, making it the only cable provider for most of the city.").

10. *Time Warner Cable.*, 497 F.3d at 149.

11. *Id.*

12. *Id. See also* Pomerantz, *supra* note 1 ("[C]ompetition between the two companies is fierce.").

companies such as DIRECTV . . . do not need to hold a franchise, and can provide service to any household with a dish."[13]

TWC "offers both analog and digital cable television services to its subscribers," while DIRECTV "offers 100% of its programming digitally."[14] In order for customers of either service to receive HD programming, those customers must also acquire HD television equipment. To qualify as HDTV, the screen resolution must be classified as either 720p, 1080i, or 1080p,[15] but it is neither the cable providers nor the digital satellite television providers who set these standards.[16] The non-profit organization Advanced Television Systems Committee (ATSC)[17] "develops voluntary standards for all digital television, including HDTV."[18] Television companies merely provide the requisite bandwidth to allow for the relevant level of resolution to be passed on to customers.[19] DIRECTV's ad campaign took advantage of the difference in services to attack TWC's HD programming quality.

Shortly after DIRECTV mounted its ad campaign, TWC brought suit seeking, among other things, a preliminary injunction enjoining DIRECTV from continuing to display the advertisements both on television and on the internet.[20] The District Court concluded that TWC and DIRECTV both have "the same picture quality when it comes to HD programming," although technically "analog cable service is inferior in certain respects to digital cable service, in part because a digital cable signal is less prone to corruption than an analog cable signal."[21] Subsequently, on February 5, 2007 the United States District Court for the Southern District of New York issued a preliminary order enjoining DIRECTV from disseminating specific television commercials and internet advertising in any market where TWC provides cable service, which violated the Lanham Act on literal falsity grounds.[22] On August 9, 2007 the Second Circuit upheld the District

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13. *See* Pomerantz, *supra* note 1.

14. Time Warner Cable, Inc. v. DIRECTV, Inc., 475 F.Supp.2d 299, 302 (S.D.N.Y. 2007).

15. *Id*. As footnoted in the opinion, the "p" and "i" designations stand for "progressive" and "interlaced." "In the progressive format, the full picture updates every sixtieth of a second, while in the interlaced format, half of the picture updates every sixtieth of a second. The higher the 'p' or 'i' number, the greater the resolution and the better the picture will appear to the viewer." *Id.*

16. *Id.*

17. "The Advanced Television Systems Committee, Inc. is an international non-profit organization developing voluntary standards for digital television. The ATSC member organizations represent the broadcast, broadcast equipment, motion picture, consumer electronics, computer, cable, satellite, and semiconductor industries. ATSC creates and fosters implementation of voluntary Standards and Recommended Practices to advance terrestrial digital television broadcasting, and to facilitate interoperability with other media." *See* http://www.atsc.org/aboutatsc.html.

18. *Time Warner Cable*, 475 F.Supp.2d at 302.

19. *Id*.

20. *Id.* at 299.

21. *Id.* at 303.

22. *Id.* at 309.

Court's injunction order as to the television advertisements, but reversed the order as to the internet advertisements, holding that the District Court erred in rejecting DIRECTV's "puffery" defense as to those advertisements.[23]

In light of the past development of the Second Circuit's interpretation of Section 43(a) of the Lanham Act,[24] *Time Warner* is another step in the wrong direction. Prior to this decision, the Second Circuit specifically declined to adopt the doctrine of false by necessary implication.[25] The Second Circuit is stretching the literally false doctrine[26] to include false by necessary implication.[27] Here, once again, the court has expanded actionable claims under section 43(a) of the Lanham Act.[28] The decision in *Time Warner* states that although the ads in question do not unequivocally state that DIRECTV provides better image quality than TWC, the implication that they do so justifies TWC's claims.[29] *Time Warner* stands to be a landmark case in the Second Circuit's Lanham Act interpretation. It is a case in which the plaintiff is benefiting from the Second Circuit's common law interpretation of this act, and how this interpretation has evolved since the Act's inception. The Lanham Act has come full circle and is now in direct opposition to the common law claim of false advertising as established in *American Washboard v. Saginaw Manufacturing Co.* in 1900.[30]

The implications of *Time Warner* for the future of the Lanham Act are many. In reaching this decision, the Second Circuit expanded its already overreaching interpretation of section 43(a) of the Lanham Act. In view of the Second Circuit's pattern of expansion, this decision could have

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23. Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144 (2d Cir. 2007).

24. *See* discussion *infra* Part IV.

25. *See* Johnson & Johnson Vision Care, Inc. v. Ciba Vision Corp., 348 F.Supp.2d 165, 182 (S.D.N.Y. 2004).

26. *See 'Literally False,' 'Puffery' Clarified in Advertising Dispute Between Cable, Satellite TV Providers*, N.Y.L.J. Vol. 238, Aug. 15, 2001 ("Clarifying the false advertising doctrine, the appellate court held that an advertisement can be 'literally false, even though it does not explicitly mak[e] a false assertion, if the words or images, considered in context, necessarily and unambiguously imply a false message.'").

27. *See Satellite TV Ads on HD Quality of Cable Are False*, NAT'L. L.J. VOL. 29, NO. 51, Aug. 20, 2007 ("The [Second] Circuit affirmed the injunction, modified parts of it for clarity and took the opportunity to clarify its position on claims of false advertising. Adopting the 'false by necessary implication' doctrine, the court concluded that the Simpson and Shatner ads were literally false, even though they do not explicitly make false assertions, because the words or images, considered in context, necessarily and unambiguously implied a false message that it is impossible to get the best picture from cable."); *see also* Pomerantz, *supra* note 1 ("The Court of Appeals for the [Second] Circuit yesterday upheld a lower court's decision in favor of Time Warner Cable and went a step further, saying the current legal standards for false advertising are too vague.").

28. *See* Pomerantz, *supra* note 1 ("A legal dispute between [TWC] and DIRECTV over which company provides clearer high-definition image quality could prompt stricter court regulation on false advertising.").

29. *Id*.

30. American Washboard Co. v. Saginaw Mfg. Co., 103 F. 281 (6th Cir. 1900).

sweeping implications for other courts' interpretation and application of section 43(a). Part I of this note will discuss the commercials at issue in this case. Part II will examine the facts and specific holdings in the Second Circuit *Time Warner* decision, and exactly how it departs from the Second Circuit's prior application of section 43(a). Next, Part III will explore the history of section 43(a) of the Lanham Act and its development through case law. Part IV will explore the Second Circuit's increasingly expansive conclusions about literal falsity. Part V will discuss the implications that this decision has for future litigation under this section, in light of a growing list of problems associated with section 43(a) of the Lanham Act. Finally, Part VI will offer a few solutions.

I. THE COMMERCIALS

A. THE JESSICA SIMPSON COMMERCIALS

The first commercial at issue, the "Original Simpson Commercial," began airing on October 25, 2006.[31] In the commercial, the actress Jessica Simpson wore a costume from her role as Daisy Duke in the movie *The Dukes of Hazzard*,[32] and said:

> Hey, 253 straight days at the gym to get this body and you're not going to watch me on DIRECTV HD? You're just not going to 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.[33]

The commercial concluded with a narrator stating that "for picture quality that beats cable, you've got to get DIRECTV."[34] Counsel for TWC contacted DIRECTV about the commercial on November 26, 2006, after it had been airing for just over a month.[35] Two days later, DIRECTV agreed to revise the commercial,[36] and began airing the revised commercial in December.[37] The revised commercial was "identical to the Original Simpson Commercial," except for the closing line by the narrator, which now stated that "for an HD picture that can't be beat, get DIRECTV."[38]

B. THE WILLIAM SHATNER COMMERCIALS

Like the "Original Jessica Simpson Commercial," the "Original William Shatner Commercial" went through revision.[39] Both versions

31. Time Warner Cable, Inc. v. DIRECTV, Inc., 475 F.Supp.2d 299 (S.D.N.Y. 2007).
32. *Id.*
33. *Id.*
34. *Id*.
35. *Id.*
36. *Id.*
37. *Id.*
38. *Id.*
39. *Id*.

featured William Shatner as Captain James T. Kirk from the television series *Star Trek*.[40] The Original William Shatner Commercial aired on October 7, 2006, featuring a conversation which purported to take place aboard the Starship Enterprise:

> 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.
>
> Mr. Spock: [Clearing throat.]
>
> Captain Kirk: What, I can't use that line?[41]

Again, a narrator concluded the commercial and stated that "for picture quality that beats cable, you've got to get DIRECTV."[42] As in the revised Simpson commercial, in the revised Shatner commercial, the narrator's closing line was changed to "for an HD picture that can't be beat, get DIRECTV."[43]

C. THE INTERNET ADVERTISEMENTS

DIRECTV "also waged its campaign in cyberspace, placing banner advertisements on various websites to promote the message that when it comes to picture quality, 'source matters.'"[44] The internet advertisements began by "showing an image that is so highly pixelated [sic] that it is impossible to discern what is being depicted," below the slogan "SOURCE MATTERS."[45] The screen then divided into two sides, with one side labeled "DIRECTV," and the other side simply "OTHER TV."[46] The screen on the DIRECTV side was "exceptionally sharp and clear," while the other side was "extremely pixelated [sic] and distorted."[47] Only once the screen split could one discern by looking at the DIRECTV side what the image actually portrayed.[48] On its own website, in addition to the banner advertisements elsewhere on the internet, DIRECTV featured a demonstrative advertisement that followed the split screen format, and used

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40. *Id*.

41. Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 150 (2d Cir. 2007); *see also* Time Warner Cable, Inc. v. DIRECTV, Inc., 475 F.Supp.2d 299, 303 (S.D.N.Y. 2007).

42. *Time Warner Cable*, 475 F.Supp.2d at 303.

43. *Id.* at 304.

44. *Time Warner Cable*, 497 F.3d 144 at 150.

45. *Id.* at 151.

46. *Id*.

47. *Id.*

48. *Id.* DIRECTV created two of these banner ads, the first featuring NFL football player Eli Manning and the second featuring women snorkeling underwater. Time Warner Cable, Inc. v. DIRECTV, Inc., 475 F.Supp.2d 299, 304 (S.D.N.Y. 2007).

it to "compare the picture quality of DIRECTV to that of OTHER TV, which the advertisement later identified as representing 'basic cable.'"[49] On the top of the blurry side of the screen the following text appeared:

> If you're hooking up your high-definition TV to basic cable, you're not getting the best picture on every channel. For unparalleled clarity, you need DIRECTV HD. You'll enjoy 100% digital picture and sound on every channel and also get the most sports in HD—including all your favorite football games in high definition with the NFL SUNDAY TICKET.[50]

II. ARGUMENTS PRESENTED AND FINDINGS OF THE SECOND CIRCUIT

A. DIRECTV'S ARGUMENTS

DIRECTV's basic contention was that it provided a higher quality of HDTV programming when considering the entire spectrum of subscribers. DIRECTV claimed that the statement in the Revised Simpson commercial, "that 'you're just not going to get the best picture out of a television without DIRECTV'" was not proven false by TWC,[51] because it "refers to the overall picture quality of DIRECTV on all of its channels since that is the only way to determine whether a consumer is getting the most out of their television."[52] DIRECTV pointed out that digital quality in general is better than analog[53] and that according to TWC, forty-eight percent of TWC's subscribers receive analog programming only, while DIRECTV transmits 100% of its programming digitally to each of its customers.[54] Also, referencing a J.D. Power and Associates' 2006 Residential Cable/Satellite

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49. Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 151 (2d Cir. 2007).

50. *Id*. The website currently states the following: "By the end of October, DIRECTV will deliver over 70 HD channels. And by the end of the year, you'll get up to 100 of the channels you really want to see in breathtaking HD. That's more than any other cable or satellite provider. If you want to see what your HDTV can really do, your choice is crystal clear: DIRECTV is the only source for the best HD. Get the most from your HDTV. Only DIRECTV will give you up to 100 of your favorite national channels in HD by year's end. For the best HD, get DIRECTV." *See* http://www.DIRECTV.com/DTVAPP/global/contentPageNR.jsp?assetId=P4360042&CMP=ILC-Q407-Film-100HD.

51. *See* DIRECTV, Inc.'s Opposition to Plaintiff's Motion for a Preliminary Injunction at 4, Time Warner Cable, Inc. v. DIRECTV, Inc., (S.D.N.Y. Jan. 17, 2007) (No. 06 Civ.14245), 2007 WL 672191.

52. *Id.* at 11.

53. *Id*. This was undisputed in the case and conceded by the Second Circuit: "There is no dispute, at least on the present record, that the HD programming provided by Time Warner Cable and DIRECTV is equivalent in picture quality. In terms of non-HD programming, digital service generally yields better picture quality than analog service, because a digital signal is more resistant to interference." *Time Warner Cable*, 497 F.3d at 149.

54. *See* DIRECTV, Inc.'s Opposition to Plaintiff's Motion for a Preliminary Injunction at 11, Time Warner Cable, Inc. v. DIRECTV, Inc., (S.D.N.Y. Jan. 17, 2007) (No. 06 Civ.14245), 2007 WL 672191.

Satisfaction Study that found the same,[55] DIRECTV concluded "that DIRECTV provides overall better picture quality is further established by the fact that consumers, television installers, and television manufacturers have all found DIRECTV's picture quality to be better than cable."[56]

DIRECTV likewise argued that the statement "for an HD picture that can't be beat, get DIRECTV," is not only a true statement,[57] but is "textbook puffery."[58] The commercial is true because the interpretation of the commercial is "at odds with the plain language of the statement," which simply states that "no other service offers an HD picture that is superior to DIRECTV HD, not that DIRECTV HD is superior to all other HD."[59] Even if this assertion is a bit questionable because it could be implied that if DIRECTV can't be beat, it is necessarily the best,[60] DIRECTV's puffery defense is persuasive and arguably should have been noted more by the Second Circuit.

B. TWC'S ARGUMENTS

While conceding that no single statement in either the Revised Jessica Simpson Commercial or the Revised William Shatner Commercial was

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55. The 2007 version of this report states "DIRECTV ranks highest in customer satisfaction in three regions and WOW! ranks highest in one region among cable and satellite providers, according to the J.D. Power and Associates 2007 Residential Cable/Satellite Satisfaction Study released today." For press release, see http://www.jdpower.com/press-releases/pressrelease.aspx?id=2007137, posted Aug. 15, 2007.

56. *See* DIRECTV, Inc.'s Opposition to Plaintiff's Motion for a Preliminary Injunction at 11–12, Time Warner Cable, Inc. v. DIRECTV, Inc., (S.D.N.Y. Jan. 17, 2007) (No. 06 Civ.14245), 2007 WL 672191.

57. *Id.* at 13.

58. *Id.* Puffery "is an exaggeration or overstatement expressed in broad, vague, and commendatory language, and is distinguishable from misdescriptions or false representations or specific characteristics of a product and, as such, is not actionable." 15 U.S.C.A. § 1125(a) (West 2006).

59. *Id.* at 14.

60. However, counsel for DIRECTV points to a strikingly similar case in which the District Court decided that such a statement is entitled to be interpreted just as DIRECTV claims it should. *See* DIRECTV, Inc.'s Opposition to Plaintiff's Motion for a Preliminary Injunction at 13, Time Warner Cable, Inc. v. DIRECTV, Inc., (S.D.N.Y. Jan. 17, 2007) (No. 06 Civ.14245), 2007 WL 672191 (citing Novo Nordisk A/S v. Becton Dickinson & Co., 997 F.Supp. 470, 474 (S.D.N.Y. 1998)). In *Novo Nordisk*, defendant "claimed to offer 'the finest and shortest insulin needle available in the U.S.,'" and although the court found that plaintiff's needles were "equally fine and short," the Court rejected plaintiff's claim "that the statements were literally false, finding they only meant 'no needle on the market is finer or shorter.'" *See id.*, (quoting *Novo Nordisk*, 997 F.Supp. at 474). The Court concluded there that "[w]here, as here, more than one competitor produces the finest and shortest needle available on the market, the proper recourse for [plaintiff] is to compete in the market place with its own advertisements." *Id*. DIRECTV counsel assert that "[t]he same conclusion is compelled here. Because Time Warner Cable . . . cannot prove that its HD picture is superior to the JD picture offered by DIRECTV, Time Warner Cable cannot base its literal falsity allegation on this statement" under Novo. *See* DIRECTV, Inc.'s Opposition to Plaintiff's Motion for a Preliminary Injunction at 13, Time Warner Cable, Inc. v. DIRECTV, Inc., (S.D.N.Y. Jan. 17, 2007) (No. 06 Civ.14245), 2007 WL 672191.

false,[61] TWC maintained that the Second Circuit should not "engage in *disputatious dissection*," but should view the commercials as an "entire mosaic . . . rather than each tile separately."[62] TWC further argued that the Second Circuit should "look[] to the visual images in a commercial to assess whether it is literally false."[63]

TWC did not argue that any specific statement in either revised commercial was literally false. As TWC noted, DIRECTV "removed the word 'cable' from the tag line of the Revised Jessica Simpson Commercial."[64] Yet, TWC maintained that it was implied that the commercial still referred to cable since "cable remained DIRECTV's primary competitor and the clear focus of the ad."[65] Similarly, the Revised William Shatner Commercial claimed that it would be "illogical for a consumer to 'settle' for cable's HD services."[66] However, this claim made no specific assertions about the picture quality of DIRECTV in relation to that of TWC, rendering TWC's claim that literal falsity was implied improper. Moreover, TWC conceded that "there is no single, discrete statement in the Revised William Shatner Commercial that contain[ed] the superiority claim at issue."[67] Instead, TWC urged the court to find that the ads contained literal falsity since "[t]he words were already there; they were simply in two sentences rather than one."[68] TWC also claimed that this interpretation did not "distort" or "convert" the language in the Revised William Shatner Commercial.[69]

Furthermore, while acknowledging that the District Court sided with TWC "in the absence of survey evidence as to the message consumers underst[ood] from the ads,"[70] TWC argued that it could still prove a likelihood of success on the merits "by showing that the advertising at issue [was] literally false as a factual matter."[71] TWC argued that the Lanham Act "encompasses more than blatant falsehoods,"[72] and that, the advertisements at issue contain "blatant falsehoods," rendering consumer survey evidence

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61. Brief of Plaintiff-Appellee at 21, Time Warner Cable, Inc. v. DIRECTV, Inc., No. 07-0468 (2d Cir. Apr. 13, 2007).

62. *Id.* at 22, (quoting S.C. Johnson, Inc. v. Clorox Co., 241 F.3d 232, 238 (2d Cir. 2001)).

63. *Id.*

64. Brief of Plaintiff-Appellee at 27, Time Warner Cable, Inc. v. DIRECTV, Inc., No. 07-0468 (2d Cir. Apr. 13, 2007).

65. *Id.*

66. *Id.* at 28.

67. *Id.*

68. *Id.* at 29.

69. *Id.*

70. Brief of Plaintiff-Appellee at 33, Time Warner Cable, Inc. v. DIRECTV, Inc., No. 07-0468 (2d Cir. Apr. 13, 2007).

71. *Id.*

72. *Id.* at 34.

unnecessary.[73] However, as aforementioned, TWC conceded that no single statement in the commercials was singularly false.[74]

C. FINDINGS OF THE SECOND CIRCUIT

In granting preliminary injunctions against the airing of the television advertisements at issue, the Second Circuit upheld the findings of the District Court. The Second Circuit held that the Revised Jessica Simpson Commercial's assertion that a television viewer cannot get the best picture without DIRECTV would likely be proven false.[75] Additionally, the court held that the fact that the Revised Jessica Simpson Commercial did not mention cable specifically was not dispositive, and that "[t]he presumption [of irreparable injury] is properly limited to circumstances in which . . . the plaintiff is an obvious competitor with respect to the misrepresented product."[76] Accordingly, the court concluded that the commercial "'necessarily diminishe[d]' the value of TWC's product."[77]

As for the Revised William Shatner Commercial, the Second Circuit concluded that, taken as a whole, it "unambiguously made the false claim that cable's HD picture quality is inferior to that of DIRECTV's."[78]

III. A BRIEF HISTORY OF THE LANHAM ACT

As several scholars note, the evolution of section 43(a) the Lanham Act in the sixty years since its enactment has been increasingly expansive.[79] One observer contends that "[w]hen section 43(a) of the Lanham Act was enacted . . . neither Congress nor then-President Truman could have predicted the dramatic effect it later would have on our national commerce."[80] An "entire body of case law" has developed that was virtually "non-existent in the 1940s."[81] In light of all this, a look at the

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73. *Id.*

74. *Id.* at 21.

75. Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 154 (2d Cir. 2007).

76. *Id.* at 162, (citing Ortho Pharm. Corp. v. Cosprophar, Inc., 32 F.3d 690, 694 (2d Cir. 1994)).

77. *Id.*

78. *Id.* at 158.

79. *See* Bruce P. Keller, *The Lanham Act After Fifty Years; It Keeps Going and Going and Going: The Expansion of False Advertising Litigation Under the Lanham Act*, 59 LAW & CONTEMP. PROBS. 131 (Spring 1996). *See also* Ross D. Petty, *Competitor Suits Against False Advertising: Is Section 43(a) of the Lanham Act a Pro-Consumer Rule or an Anticompetitive Tool?*, 20 U. BALT. L. REV. 381 (Spring 1991); Lee Goldman, *The World's Best Article on Competitor Suits for False Advertising*, 45 FLA. L. REV. 487 (July 1993); David Klein, *The Ever-Expanding Section 43(a): Will the Bubble Burst?*, 2 U. BALT. INTELL. PROP. L.J. 65 (Fall 1993); J. Thomas McCarthy, *The Lanham Act After Fifty Years; Lanham Act Section 43(a): The Sleeping Giant Is Now Wide Awake*, 59 SPG LAW & CONTEMP. PROBS. 45 (Spring 1996).

80. *See* Keller, *supra* note 79.

81. *Id*.

enactment of and subsequent caselaw on section 43(a) of the Lanham Act,[82] most notably in the Second Circuit, is helpful.

A. COMMON LAW "PASSING OFF"

Before the legislature formally took note of and codified the claim of false advertising in section 43(a), "at common law, competitors could only obtain relief on a claim of false advertising if they could allege and prove "passing off,"[83] wherein "the deception induces the public to buy the goods as those of plaintiff."[84] Two landmark cases from the early twentieth century exemplify the principle of "passing off," and are important to understand these early courts' conceptions of the claim of false advertising and their reluctance to expand its application.[85]

The first, decided in the Sixth Circuit in 1900, is *American Washboard v. Saginaw Manufacturing Co.*[86] There, the plaintiff, a manufacturer of aluminum washboards, brought suit against the defendant for manufacturing washboards which it falsely claimed to be aluminum.[87] Even though the defendant did not claim to be selling the aluminum washboards sold and manufactured by the plaintiff, it was American Washboard's contention that it was still "passing off" because the plaintiff enjoyed a monopoly on authentic aluminum washboards.[88] The court's conclusion as to the merits of this monopoly argument was unequivocal:

> We are not referred to any case, nor can we think of any reason why one who has obtained a monopoly in the material of which his goods are made should have any broader rights in protecting his trade-name than another who is engaged in competition in the same line of business . . . . [W]e are of opinion that complainant's bill lacks the essential allegations necessary to make the case entitling it to the relief sought.[89]

As one scholar has noted, *American Washboard* "effectively cut off any expansion of federal unfair competition law in the area of false advertising for almost four decades, until the United States Supreme Court's holding in *Erie R.R. v. Tompkins* wiped the slate clean"[90] by striking down the notion of a "federal general common law."[91]

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82. 15 U.S.C.A. § 1125 (West 2006).

83. Robert S. Saunders, *Replacing Skepticism: An Economic Justification for Competitors' Actions for False Advertising Under Section 43(a) of the Lanham Act*, 77 VA. L. REV. 563, 566 (Apr. 1991). As noted by Saunders, the term "palming off," was accorded the same meaning as "passing off" at the time.

84. American Washboard Co. v. Saginaw Mfg. Co., 103 F. 281, 285 (6th Cir. 1900).

85. *See* Saunders, *supra* note 83, at 566.

86. *American Washboard.*, 103 F. at 281.

87. *Id.* at 283.

88. *Id*.

89. *Id* at 287.

90. *See* Saunders, *supra* note 83, at 566.

91. Erie R.R. v. Tompkins, 304 U.S. 64, 78 (1938).

The second important case in which a competitor plaintiff again sought to expand the claim of false advertising by arguing it should apply where a monopoly existed is *Ely-Norris Safe Co.v. Mosler Safe Co.*, decided in 1925.[92] In that case, as in *American Washboard*, the plaintiff manufacturer alleged that the defendant was "passing off" because he enjoyed a monopoly on the goods at issue.[93] The plaintiff sold and manufactured safes under a patent which were "distinctive because they contained an explosion chamber,"[94] and claimed that defendant "manufactured safes in violation of the patent and duplicitously sold them with the appearance of having an explosion chamber," while telling customers they in fact did have one.[95]

In perhaps the first instance of many in which the Second Circuit has displayed a tendency to expand the claim of false advertising, Judge Learned Hand "endorsed the monopoly analogy to passing off that previously had been rejected by . . . the Sixth Circuit"[96] in *American Washboard*:

> [I]f it be true that the plaintiff has a monopoly of the kind of wares concerned, and if to secure a customer the defendant must represent his own as of that kind, it is a fair inference that the customer wants those and those only. . . . If a tradesman falsely foists on a customer a substitute for what the plaintiff alone can supply, it can scarcely be that the plaintiff is without remedy, if he can show that the customer would certainly have come to him, had the truth been told.[97]

However, the Second Circuit's attempt at expansion of the claim of false advertising was thwarted when the Supreme Court reversed Judge Hand's decision two years later.[98]

The next development in false advertising claims was accomplished through legislation soon after, yet was still very conservative. Under section

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92. Ely-Norris Safe Co. v. Mosler Safe Co., 7 F.2d 603 (2d Cir. 1925).

93. *Id.* at 603.

94. *See* Saunders, *supra* note 83, at 566, (citing *Ely-Norris Safe Co.*, 7 F.2d at 603).

95. *Id*.

96. *See* Saunders, *supra* note 83, at 568. It should be noted that technically the first and most significant expansion of the role of federal courts' application of section 43(a) of the Lanham Act was a decision of the Third Circuit. One scholar dubs L'Aiglon Apparel, Inc. v. Lana Lobell, Inc., 214 F.2d 649 (3d Cir. 1954) the "seminal case in expanding the role of section 43(a)." *See* Jeffrey P. Singdahlsen, *The Risk of Chill: A Cost of the Standards Governing the Regulation of False Advertising Under Section 43(a) of the Lanham Act*, 77 VA. L. REV. 339, 344 (Mar. 1991). Saunders likewise is of the opinion that the "Third Circuit was the first to reject the restrictive interpretation of section 43(a) and to give it the broader application that seems clearly indicated by its language." *See* Saunders, *supra* note 83, at 572. However, as will be shown the Second Circuit arguably took over the job of expanding the reach of section 43(a) and continues to do so, as evidenced in the case that is the subject of this note, Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144 (2d Cir. 2007).

97. *Ely-Norris Safe Co.*, 7 F.2d at 604.

98. Mosler Safe Co. v. Ely-Norris Safe Co., 273 U.S. 132 (1927), *rev'd* 7 F.2d 603 (2d Cir. 1925).

3 of the Trademark Act of March 19, 1920,[99] "the legal standard for unfair competition [was] very exacting, limiting liability to defendants who had willfully and with intent to deceive, affixed, applied, or annexed, or used in connection with any article or articles of merchandise . . . a false designation of origin."[100] Many unfair competition claims were precluded by the language of this statute.[101] Overall, section 3 "had little legal impact."[102]

B. PASSAGE OF THE LANHAM ACT

After *Erie* took false advertising claims out of the federal arena by making them state actions, Congress enacted the Lanham Act in 1946.[103] Section 43(a) of the Lanham Act provides a private right of action for false advertising claims in federal court,[104] replacing what was formerly section 3 of the Trademark Act of March 19, 1920.[105] Section 43(a) provides, in relevant part:

> Any person who, on or in connection with any goods or services . . . 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.[106]

As noted by several scholars,[107] "there is virtually no legislative history addressing [the] scope or purpose" of section 43(a) of the Lanham Act when it was passed, since it was considered "a relatively insignificant provision."[108] More importantly, "nothing in the legislative history . . . recognizes that a new and potent weapon against false advertising claims was being created."[109] Also, "unlike section 3 [of the Trade-Mark Act],

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99. Trademark Act of 1920, ch. 104, § 3, 41 Stat. 533 (1920).
100. *See* Keller, *supra* note 79.
101. *Id*.
102. *See* Klein, *supra* note 79, at 66.
103. Trademark Act of 1946, ch. 540, §§ 1-50, 60 Stat. 427 (1946).
104. *See* Singdahlsen, *supra* note 96, at 343.
105. *Id*. at 344. *See also* Trademark Act of 1920, ch. 104 § 3, 41 Stat. 533, 534 (1920).
106. 15 U.S.C. § 1125(a)(1) (emphasis added). It should be noted that this statute was revised in 1988 to include the words "or another person's" in section (B).
107. *See, e.g.*, Singdahlsen, *supra* note 96, at 344; Joseph P. Bauer, *A Federal Law of Unfair Competition: What Should Be the Reach of Section 43(a) of the Lanham Act?*, 31 UCLA L. REV. 671, 679 (1984).
108. *Id.*
109. *See* Keller, *supra* note 79. This scholar further notes that, "[t]o the contrary, the focus at the time was that section 43(a) provided an express statutory basis for prohibiting false designations of geographic origin, thus bringing U.S. law into conformity with the provisions of

which required a showing of willfulness and intent to deceive, section 43(a) is a strict liability tort."[110]

C. EARLY DEVELOPMENT OF SECTION 43(A)

In the first several years of the Lanham Act, section 43(a) "generally was construed as a codification of pre-Lanham Act law . . . restricted to actions for 'passing off' or actions which include only such false descriptions or representations as are of substantially the same economic nature as those which involve infringement."[111] The first significant expansion of its application began with the landmark case *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*[112] which created a statutory tort of false representation of goods in commerce,[113] allowing for a greater array of actionable claims. However, little further expansion occurred until three decades later. During the 1980s, "the law of false advertising as determined by federal courts' interpretations of section 43(a) of the Lanham Act . . . departed sharply from earlier common law readings,"[114] while at the same time the courts saw "a dramatic increase in the number of actions brought under section 43(a)."[115]

Two cases in the early 1980s marked important expansions in the application of section 43(a). First, in *U-Haul Int'l v. Jartran, Inc.,*[116] the Ninth Circuit upheld an earlier court's award of $40 million in damages, half of which were punitive damages,[117] "based on U-Haul's corrective-

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various international conventions to with the United States was a party." *Id.* at 132. *See also* Klein, *supra* note 79, at 66 ("The enactment of section 43(a) was also motivated by international developments and interests.").

110. *See* Singdahlsen, *supra* note 96, at 344.

111. *See* Ethan Horwitz & Benjamin Levi, *Half a Century of Federal Trademark Protection: The Lanham Act Turns Fifty; Fifty Years of the Lanham Act: A Retrospective of Section 43(a)*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 59, 64 (Fall 1996).

112. L'Aiglon Apparel, Inc. v. Lana Lobell, Inc., 214 F.2d 649 (3d Cir. 1954).

113. *Id.* at 651 ("We find nothing in the legislative history of the Lanham Act to justify the view that this section is merely declarative of existing law. Indeed, because we find no ambiguity in the relevant language in the statute we would doubt the propriety of resort to legislative history even if that history suggested that Congress intended less than it said. It seems to us that Congress has defined a statutory civil wrong of false representation of goods in commerce and has given a broad class of suitors injured or likely to be injured by such wrong the right to relief in the federal courts. This statutory tort is defined in language which differentiates it in some particulars from similar wrongs which have developed and have become defined in the judge made law of unfair competition.").

114. *See* Saunders, *supra* note 83, at 563. *See also* Lillian R. BeVier, *Symposium on the Law and Economics of Intellectual Property: Competitor Suits for False Advertising Under Section 43(a) of the Lanham Act: A Puzzle in the Law of Deception*, 78 VA. L. REV. 1 (Feb., 1992) ("In the last decade and a half, section 43(a) false advertising litigation has increased steadily.").

115. *See* Singdahlsen, *supra* note 96, at 346.

116. U-Haul Int'l, Inc. v. Jartran, Inc., 793 F.2d 1034 (9th Cir. 1986).

117. The court justified doubling the $20 million award under section 35 of the Lanham Act. *See id.* at 1037.

advertising-expenditures theory."[118] In the Second Circuit case *PPX Enterprises, Inc. v. Audiofidelity Enterprises, Inc.,* the court also awarded damages.[119] The court held that PPX "should not have been required to provide evidence of actual consumer confusion,"[120] and remanded to the District Court for further proceedings on its damages claim.[121] The Second Circuit cited the increasingly expansive application of section 43(a) as influential in its decision[122] and, although it recognized that "courts have traditionally distinguished the standard that must be met to state a claim for injunctive relief from the standard necessary to establish entitlement to damages,"[123] it departed sharply from this tradition:

> [W]e perceive no reason why the same logic should not apply in regard to claims for damages . . . [W]e see no need to require appellant to provide consumer surveys or reaction tests in order to prove entitlement to damages. . . . [T]he distinction drawn between stating a claim for injunctive relief and establishing entitlement to damages has less relevance in the context of [section 43(a)] false advertising: Having established falsity, the plaintiff should be entitled to both injunctive and monetary relief, regardless of the extent of impact on consumer purchasing decisions.[124]

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118. *Id.* at 1041. The corrective-advertising-expenditures theory is a damages theory predicated on the idea that recovery of corrective advertising expenditures incurred by a plaintiff to counteract public confusion from a defendant's wrongful conduct is warranted under section 35 of the Lanham Act. Big O Tire Dealers v. Goodyear Tire & Rubber Co., 561 F.2d 1365, 1374 (10th Cir. 1977).

119. PPX Enter., Inc. v. Autofidelity Enter., Inc., 818 F.2d 266 (2d Cir. 1987).

120. *Id.* at 268.

121. *Id.* at 273.

122. The court presented a lengthy list of expansive decisions that influenced its own here: (*See, e.g.*, Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200 (2d Cir. 1979) (misappropriating cheerleader uniform in sexually-explicit film); RJR Foods, Inc. v. White Rock Corp., 603 F.2d 1058 (2d Cir. 1979) (imitating trade dress of established, competitive fruit punch); American Home Prod. Corp. v. Johnson & Johnson, 577 F.2d 160 (2d Cir. 1978) (presenting false and misleading claims in comparative advertising of analgesics); Gilliam v. American Broad. Cos., 538 F.2d 14 (2d Cir. 1976) (presenting garbled version of plaintiffs' comedy program to public); Vuitton Et Fils, S.A. v. Crown Handbags, 492 F.Supp. 1071 (S.D.N.Y. 1979) (distributing imitation Louis Vuitton handbags), *aff'd mem.*, 622 F.2d 577 (2d Cir. 1980); Benson v. Paul Winley Record Sales Corp., 452 F.Supp. 516 (S.D.N.Y. 1978) (deceptive marketing of old records of newly successful recording artist); *see also, e.g.*, Camel Hair & Cashmere Inst. v. Associated Dry Goods Corp., 799 F.2d 6 (1st Cir. 1986) (mislabeling of coats that overstated their cashmere content); Smith v. Montoro, 648 F.2d 602 (9th Cir. 1981) (substituting false name in film credits and advertising); Boston Prof'l Hockey Ass'n v. Dallas Cap & Emblem Mfg., 510 F.2d 1004 (5th Cir. 1975) (unlicensed manufacturing of emblems and insignias of professional hockey teams). *See PPX Enter., Inc*., at 270–271.

123. *See PPX Enter., Inc.*, at 271. Normally, for injunctive relief, "plaintiffs, must demonstrate a likelihood of deception or confusion on the part of the buying public caused by the false description or representation." *Id. See also* Coca-Cola Co. v. Tropicana Prod., Inc., 690 F.2d 312, 316 (2d Cir. 1982). While, to establish "entitlement to damages for violation of section 43(a)" a plaintiff "must establish actual consumer confusion or deception resulting from the violation." *PPX Enter., Inc.*, 818 F.2d at 271.

124. *PPX Enter., Inc.*, 818 F.2d at 272–273.

The import of these two decisions, as many scholars note,[125] and as will be discussed in depth herewith, is that section 43(a) is becoming more and more of a competitor tool and less of a necessary deterrent to false advertising or a means of consumer protection.

The next important evolution of section 43(a) came with the false advertising "prong," which was added to section 43(a) by the Trademark Revision Act of 1988.[126] "Pre-1988 judicial interpretations of section 43(a) . . . limited actionable false statements to claims about one's own goods or services; consequently section 43(a) did not provide a cause of action for false statements or representations about a competitor's goods or services."[127] The major effect of the Trademark Revision Act of 1988 was to expand section 43(a) to "include trade libel and product disparagement."[128] This change, "clearly enlarged the scope of section 43(a)" beyond what it had been prior to the amendment,[129] effectively placing a "congressional stamp of approval . . . [on] the Lanham Act metamorphosis."[130]

"Once interpreted as prohibiting only passing-off, section 43(a) of the Lanham Act has increased in scope to include infringement of common law marks, trade dress infringement, and false advertising—including trade libel and product disparagement."[131] By the 1990s, "virtually all advertising claims made in interstate commerce—whether on product packages, in newspaper and magazine advertisements, in television or radio commercials, or disseminated through . . . the Internet—[fell] within the reach of section 43(a) of the Lanham Act."[132] Section 43(a) is now extremely "broad and far-reaching."[133] Since it is a remedial statute, it "allow[s] the courts to adapt its language to changing commercial circumstances."[134] As will be demonstrated by this note, "[s]ection 43(a) has risen from obscurity as a largely ignored subsection of the Trade Registration Act . . . to today's unrivaled legal instrument to combat unfair competition."[135] As predicted by one scholar[136] and evidenced in the case at

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125. *See, e.g.*, Garrett J. Waltzer, *Monetary Relief for False Advertising Claims Arising Under Section 43(a) of the Lanham Act*, 34 UCLA L. REV. 953 (Feb. 1987); James M. Keating, Jr., *Damages Standards for False Advertising Under the Lanham Act: A New Trend Emerges*, 20 RUTGERS L.J. 125 (Fall 1988); Thomas J. Holdych, *Standards for Establishing Deceptive Conduct Under State Deceptive Trade Practices Statutes That Impose Punitive Remedies*, 73 OR. L. REV. 235 (Spring 1994); Petty, *supra* note 79.

126. *See* Klein, *supra* note 79, at 69.

127. *See* Horwitz & Levi, *supra* note 111, at 71.

128. *Id*. at 72.

129. *See* Klein, *supra* note 79, at 69.

130. *See* McCarthy, *supra* note 79, at 46.

131. *See* Horwitz & Levi, *supra* note 111, at 72.

132. *See* Keller, *supra* note 79, at 131.

133. *See* Klein, *supra* note 79, at 87.

134. *Id.*

135. *See* McCarthy, *supra* note 79, at 46.

136. *See* Klein, *supra* note 79, at 88.

hand, it continues to expand, "and will continue to do so, on a case-by-case basis."[137]

D. CURRENT ELEMENTS OF A SECTION 43(A) CLAIM

Although the elements of a section 43(a) false advertising claim vary somewhat among jurisdictions, it is widely accepted that plaintiffs must establish "five elements: (1) a false statement of fact that has deceived, or has the capacity to deceive, a not insubstantial segment of the target audience, (2) affecting interstate commerce, (3) in connection with commercial advertising and promotion, (4) that is material, and (5) that is likely to cause injury."[138] The false statement of fact element is the central issue in the case at hand.

IV. THE SECOND CIRCUIT COURT'S INCREASINGLY EXPANSIVE CONCLUSIONS ABOUT LITERAL FALSITY CLAIMS

A. PRIOR DECISIONS OF THE SECOND CIRCUIT

Prior to *Time Warner*, the Second Circuit recognized that an advertisement, if literally false, could violate section 43(a) of the Lanham Act and "be enjoined without reference to consumer reaction,"[139] and that falsity "extend[ed] to oral as well as visual claims."[140] Some courts went even further and recognized that, although "not all advertisements challenged under section 43(a) as literally false expressly state the alleged falsehood,"[141] the advertisements could still be "false by necessary implication."[142] However, the Second Circuit had declined to follow the "false by necessary implication doctrine" until its decision in *Time Warner*.[143]

The prior standard in the Second Circuit provided that if an advertisement was not literally false, it would need to "have a tendency to mislead, confuse or deceive" to violate the statute.[144] Whether an advertisement was deceptive or misleading was generally determined not by "its tendency or capacity to deceive . . . but by reference to evidence

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137. *Id*. (It should be noted here that Klein also predicted correctly that "section 43(a) is likely to extend so far as to conflict with the underpinnings of patent and copyright laws.").

138. *See* Keller, *supra* note 79, at 140–141.

139. *See* Keller, *supra* note 79, at 141, (citing McNeil-P.C.C., Inc. v. Bristol-Myers Squibb Co., 938 F.2d 1544, 1549 (2d Cir. 1991)).

140. *Id.* at 141 (citing Coca-Cola Co. v. Tropicana Prod., Inc., 690 F.2d 312, 317 (2d Cir. 1982)).

141. *See* Keller, *supra* note 79, at 141.

142. *Id*.

143. *See* Johnson & Johnson Vision Care, Inc. v. Ciba Vision Corp., 348 F.Supp.2d 165, 182 (S.D.N.Y. 2004).

144. *See* American Home Prod. Corp. v. Johnson & Johnson, 577 F.2d 160, 165 (2d Cir. 1978).

indicating that the public [would] be misled."[145] This evidence usually was presented in the form of consumer surveys.[146] In fact, for years, "courts and commentators . . . focused almost exclusively on consumer survey results as the only probative evidence that an implicit claim . . . misled the public."[147] This seems a very practical manner of determining whether such an implied claim of falsity actually deceived consumers.[148] Yet, the District Court for the Southern District of New York formally expanded the scope of what it would examine when faced with such an implicit claim in *McNeilab, Inc. v. American Home Prod. Corp.,*[149] which became the new standard of review for misleading or deceptive, yet true, statements. Although the *McNeilab* court maintained that a plaintiff "must adduce evidence (usually in the form of market research and consumer surveys) showing how the statements are perceived by those who are exposed to them,"[150] the surveys' conclusions are not binding on the court.[151] The court could also consider its own reaction to the statements:

> Though the court's own reaction to advertisements is not determinative, as finder of fact it is obliged to judge for itself whether the evidence of record establishes that others are likely to be misled or confused. In doing so, the court must, of course, rely on its own experience and understanding of human nature in drawing reasonable inferences about the reactions of consumers to the challenged advertising.[152]

The Second Circuit readily adopted this new viewpoint, when in *LeSportsac, Inc. v Kmart Corp.*[153] it took the position that consumer surveys are not required at all to prevail in a section 43(a) action.[154] The Second Circuit later held in *Johnson & Johnson Merck Consumer Pharm. Co. v. Smithkline Beecham Corp.* that the presumption that consumers are being deceived "may be engendered by the expenditure of substantial funds in an effort to deceive consumers and influence their purchasing decisions,"[155] and if this presumption arises, it "relieves a plaintiff of the burden of producing consumer survey evidence that supports a claim."[156]

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145. *See* Keller, *supra* note 79, at 141; *see also American Home Prod.*, 577 F.2d at 165 ("It is . . . well established that the truth or falsity of the advertisement usually should be tested by the reactions of the public.").

146. *See* Keller, *supra* note 79, at 141.

147. *Id*. at 142.

148. *But see id*., in which one scholar notes that "[a]lthough it is clear that consumer survey evidence at times may be the most persuasive evidence of an advertisement's tendency or capacity to deceive, it should not be the exclusive means of assessing implicitly false representations."

149. McNeilab, Inc. v. American Home Prod. Corp., 501 F.Supp. 517 (S.D.N.Y. 1980).

150. *Id.* at 525.

151. *Id*.

152. *Id*.

153. Lesportsac, Inc. v. K Mart Corp., 754 F.2d 71 (2d Cir. 1985).

154. *Id*. at 78.

155. *See* Johnson & Johnson Merck Consumer Pharm. Co. v. Smithkline Beecham Corp., 960 F.2d 294, 298–299 (2d Cir. 1992). This opinion further states that "once a plaintiff establishes

Under the "false by necessary implication doctrine," a district court evaluating whether an advertisement is literally false must analyze the message conveyed in full context, i.e., it must "consider the advertisement in its entirety and not engage in disputatious dissection."[157] In an effort to clarify the false advertising doctrine, the appellate court held that "an advertisement can be 'literally false, even though it does not explicitly mak[e] a false assertion, if the words or images, considered in context, necessarily and unambiguously imply a false message.'"[158]

B. THE DECISION IN TIME WARNER IS A DEPARTURE FROM THE COURT'S PREVIOUS DECISIONS

In a case such as *Time Warner*, the Second Circuit's prior decisions that the court could consider its own perceptions[159] and no longer required consumer surveys[160] are problematic. This is especially so since TWC sought both injunctive relief and an accompanying award for damages here.[161] In such an action, a finding of literal falsity to support injunctive relief is prejudicial when coupled with a damages claim. In most cases, such a finding is likely to force settlement of the damages claim. The import of this result is that defendants are not only deprived of having customers or market researchers weigh in on the deceptive nature of the advertisements, but of the benefit of having a jury decide whether the advertisements are literally false to support a damages claim. The Second Circuit's adoption of the "false by necessary implication" doctrine here goes one step further, mandating a finding of falsity based solely on the court's perception of the advertisement in its context and entirety.[162] And, when dealing, as here, with television advertisements, the court's presumption of deception based on the expenditure of substantial funds[163] is equally problematic, since this will be the case with virtually all television advertisements.

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deceptive intent, the burden shifts to the defendant to demonstrate the absence of consumer confusion." *Id.* at 299.

156. *Id*.

157. Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 157 (2d Cir. 2007). (citations omitted).

158. *See* '*Literally False,' 'Puffery' Clarified in Advertising Dispute Between Cable, Satellite TV Providers*, N.Y.L.J. Vol. 238, Aug. 15, 2001 (quoting in part *Time Warner Cable*, 497 F.3d at 149).

159. *See* Keller, *supra* note 79, at 141 (citing McNeil-P.C.C., Inc. v. Bristol-Myers Squibb Co., 938 F.2d 1544, 1549 (2d Cir. 1991)).

160. *See* Lesportsac, Inc. v. K Mart Corp., 754 F.2d 71 (2d Cir. 1985).

161. *See* Plaintiff's First Amended Complaint, 2007 WL 672192 (S.D.N.Y., Jan. 17, 2007).

162. *See* Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 157 (2d Cir. 2007). (citations omitted).

163. *See* Johnson & Johnson Merck Consumer Pharm. Co. v. Smithkline Beecham Corp., 960 F.2d 294, 298–299 (2d Cir. 1992).

The decision in *Time Warner* also lessened the required showing for irreparable harm here,[164] which goes to the element of causation of injury to the plaintiff. It is well recognized that a plaintiff need not prove the existence of an injury caused by the defendant to prevail in a section 43(a) action.[165] A plaintiff must provide proof of a "reasonable basis for the belief that the plaintiff is likely to be damaged as a result of the false advertising."[166] To do so, a plaintiff must demonstrate that it, and defendant, are "competitors in a relevant market,"[167] and that there is "a logical causal connection between the alleged false advertising and its own sales position."[168] Although in *Time Warner* the court required a showing of "irreparable harm," which would seem to be a higher standard than "likely to be damaged," the court's basis for finding such harm seems even more relaxed than its basis for finding likely harm previously. In *Time Warner,* Judge Chester J. Straub, writing for the panel,[169] said that "[t]he likelihood of irreparable harm may be presumed where the plaintiff demonstrates a likelihood of success in showing that the defendant's comparative advertisement is literally false and that given the nature of the market, it would be obvious to the viewing audience that the advertisement is targeted at the plaintiff, even though the plaintiff is not identified by name."[170] There need not be any showing whatsoever of a causal connection between the alleged false advertising and its own sales position. It seems that, in effect, proof of literal falsity here almost mandates a finding of irreparable harm.

A third holding, though less important to the analysis in this note, is that "[t]he category of non-actionable 'puffery' encompasses visual depictions that, while factually inaccurate, are so grossly exaggerated that no reasonable consumer would rely on them in navigating the marketplace."[171]

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164. *See* Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144 (2d Cir. 2007); *see also* Beth Bar, *2nd Circuit Seeks the Truth in Ad Dispute*, THE LEGAL INTELLIGENCER Vol. 236, No. 30, Aug. 13, 2007.

165. *See* Johnson & Johnson v. Carter-Wallace, Inc., 631 F.2d 186, 190 (2d Cir. 1980).

166. *Id*. The court also distinctly noted that "[i]f such a showing is made the plaintiff will have established a reasonable belief that he is likely to be damaged within the meaning of s[ection] 43(a) and will be entitled to injunctive relief, as distinguished from damages, which would require more proof." *Id*. This is significant since many cases involving claims based on television commercials today, including *Time Warner*, are cases in which both injunctive relief and damages are sought simultaneously. This lesser standard of proof with regard to damages is applied to the injunctive portion of the suit, and the result often forces settlement of the damages portion of the suit, effectuating a *de facto* application of the lesser standard of proof to the damages claims.

167. *Id*.

168. *Id*.

169. *See* Bar, *supra* note 164.

170. *See* Time Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 148 (2d Cir. 2007).

171. *Id*. at 148.

V. IMPLICATIONS INVOLVED WITH THE SECOND CIRCUIT'S NEW INTERPRETATION OF SECTION 43(A) OF THE LANHAM ACT

There are several implications involved with the Second Circuit's latest interpretation of section 43(a) of the Lanham Act, to be discussed herein. To begin, the evolution of this Act's interpretation increasingly favors plaintiffs. As such, instead of protecting consumers, the Act has become a tool for competitors. Moreover, the more often suits are filed under the Act, the more costs of advertising are rising, further reducing the benefits of advertising to consumers. Finally, consumers and defendants alike are harmed when plaintiffs are able to prevail on the merits in a preliminary injunction action, forcing settlement without trial on a concomitant damages claim.

A. PLAINTIFFS ARE INCREASINGLY FAVORED IN SECTION 43(A) CLAIMS

As a result of the expanding interpretation of what an actionable claim is under section 43(a), currently several aspects of section 43(a) litigation are preferential to plaintiffs. *Time Warner* is another resounding example of this trend. First, as exemplified by *Time Warner*, plaintiffs no longer must show that the public actually believed the statements in the challenged advertisements.[172] Second, the burden of proof is not actual harm.[173] As a result, a plaintiff is merely required to show that plaintiff and defendant are actually competitors.[174] In such a situation, a defendant can be found liable under section 43(a) for unfair competition without even naming the plaintiff.[175] Third, courts rush straight to judgment for the plaintiff on a lowered standard for injunctive relief, without considering whether there exist differing interpretations when literal falsity applies.[176] In the end, many cases are forced into settlement.[177]

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172. *See Time Warner Cable.*, 497 F.3d at 153. "When an advertisement is shown to be literally or facially false, consumer deception is presumed, and the court may grant relief without reference to the advertisement's actual impact on the buying public." *See also* Coca-Cola Co. v. Tropicana Prod., Inc., 690 F.2d 312, 317 (2d Cir. 1982).

173. *Time Warner Cable*, 497 F.3d at 161. (Internal quotations omitted). "We have resolved that a plaintiff need not point to an actual loss or diversion of sales to satisfy this requirement."

174. *Id.* at 162. "The presumption of irreparable injury is properly limited to circumstances in which injury would indeed likely flow from the defendant's objectionable statements, [for example] . . . [when] the plaintiff is an obvious competitor with respect to the misrepresented product." *See also* Ortho Pharm. Corp. v. Cosprophar, Inc., 32 F.3d 690 (2d Cir. 1994).

175. *Time Warner Cable*, 497 F.3d at 162. "[T]he fact that the commercial does not name plaintiff's product is not necessarily dispositive." *Id.*

176. *See* McCarthy, *supra* note 79, at 74. For further discussion, see *infra* note 214, and accompanying text.

177. *See* Arthur Best, *Monetary Damages for False Advertising*, 49 U. PITT. L. REV. 1 (Fall 1987).

B. CLAIMS OF UNFAIR COMPETITION WILL MORE OFTEN BE USED AS A COMPETITOR TOOL AND NOT FOR CONSUMER PROTECTION

There is a definite trend in Lanham Act section 43(a) toward its use as a competitive tool, and away from its use for true consumer protection.[178] As attorneys saw section 43(a)'s potential for supporting claims, they "began pushing the courts to apply it to more and different types of false advertising and unregistered trademark infringement. The federal [judiciary] . . . responded enthusiastically."[179] It has become a "much-used and potent statute," for attorneys and competitors alike.[180] "In recent years, there has been a dramatic increase in the number of such suits brought by competitors."[181] On the heels of the 1988 revision, one scholar wondered whether "section 43(a) [would] be used anticompetitively to quash advertising to the detriment of consumers,"[182] since competitors have a "much stronger incentive to sue" than consumers.[183] Yet, it was also noted that, as is relevant here, competitors "presumably have greater expertise than consumers concerning the quality of the goods in question and how consumers are likely to interpret advertising claims. Therefore, they can more readily identify and prove false advertising claims."[184] However, this "competitors as experts" phenomenon in the false advertising arena is a dangerous and slippery slope, as evidenced in *Time Warner*, wherein the interpretation of literal falsity was once again expanded. It has also been argued that "smaller competitors, unable to match the advertising expenditures of larger firms, may find it less expensive to challenge the advertising content of the larger firm in court than to mount a counter-advertising campaign."[185] However, as evidenced here, in the plethora of drug-company actions of late, and in cases such as *U-Haul*,[186] which quashed a small competitor,[187] it is usually the big competitors waging these wars and knocking out other big competitors.

As evidenced by the popularity of claims between drug companies in this arena, it is clear that they incentivize competitor suits. One scholar notes that "[e]stablished companies, particularly those selling parity products, often find it beneficial to stretch the truth. For example, some commentators have estimated that every 1% increase in market share created by advertising for over-the-counter drug companies increases sales

178. *See* McCarthy, *supra* note 79, at 52.
179. *Id.*
180. *Id.*
181. *See* Goldman, *supra* note 79, at 488.
182. *See* Petty, *supra* note 79, at 381–382.
183. *Id.* at 382.
184. *Id.*
185. *Id.* at 383.
186. U-Haul Int'l, Inc. v. Jartran, Inc., 793 F.2d 1034 (9th Cir. 1986).
187. *Id*.

by $15 million."[188] He further notes, "[i]t is inevitable that some consumers will be misled by commercial advertising. Given the time and space limitations of the various media outlets, advertising copy is necessarily incomplete."[189]

"As competitors continue to expand the limits of section 43(a) by using the statute to monitor how rivals market their products through advertising, increasingly interesting legal issues will arise . . . One thing is clear: The expansion of false advertising law will keep going, and going, and going . . . ."[190] Today, "the proper use and scope of section 43(a) has become an important issue in the traditional battle between the competing policies of fair competition and free competition. Before passage of the Lanham Act, such issues were largely played out in the context of state common law. [Now], the battleground is section 43(a)."[191]

In addition, seeking injunctive relief is relatively quick and cheap for plaintiffs, whereas in many cases it is extremely disruptive to the defendant.[192] Therefore, a competitor can succeed in enjoining an adversary's advertising "within months or even weeks of filing suit,"[193] which is obviously extremely costly to television advertisers, and another competitive incentive to file such suits.

Time Warner is a prime example of using section 43(a) of the Lanham Act as a competitor tool. DIRECTV counsel argued quite persuasively that "the motivation behind [TWC's] Motion for Preliminary Injunction is not to enjoin false and misleading advertising, as it contends."[194] "Rather, [TWC] seeks to impermissibly prevent DIRECTV from engaging in truthful, accurate commercial speech regarding the nature of its products and services so that [it] can obtain a competitive advantage in the marketplace."[195] DIRECTV further contended that TWC "cannot point to a single statement . . . that is literally false,"[196] nor has TWC shown "evidence of actual consumer confusion" to prove that the advertisements are "likely to mislead."[197] Furthermore, as noted by DIRECTV, the Second Circuit had not adopted the "doctrine of falsity by necessary

188. *See* Petty, *supra* note 79, at 388.
189. *See* Goldman, *supra* note 79, at 488 n.2.
190. *See* Keller, *supra* note 79, at 157.
191. *See* McCarthy, *supra* note 79, at 74.
192. *See* Petty, *supra* note 79, at 392.
193. *Id*.
194. *See* DIRECTV, Inc.'s Opposition to Plaintiff's Motion for a Preliminary Injunction at 4, Time Warner Cable, Inc. v. DIRECTV, Inc., (S.D.N.Y. Jan. 17, 2007) (No. 06 Civ.14245), 2007 WL 672191.
195. *Id*.
196. *Id*.
197. *Id*.

implication,"[198] so TWC's attempt to argue that the "overall message of the advertisements is literally false"[199] was misplaced.[200]

Counsel for DIRECTV argued in its Second Circuit briefing that TWC "concedes, as it must, that none of the advertisements makes any actual comparison between DIRECTV's HD programming and that of cable."[201] This makes it impossible for the literally false argument to hold. Therefore, the Second Circuit needed to expand its interpretation of section 43(a) to include and adopt the doctrine of false by necessary implication.

DIRECTV alleged that TWC's true motivations for seeking preliminary injunctions in the case were to "attempt to exercise editorial control over all of DIRECTV's advertisements."[202] This motivation is exemplified by the fact that TWC "agreed not to sue DIRECTV over the Jessica Simpson commercial if DIRECTV changed the tagline to remove reference to cable . . . . Yet . . . after DIRECTV made the only change requested by TWC, it ask[ed] th[e] Court to enjoin the revised commercial."[203] DIRECTV counsel argued that the "scope of the requested injunction [was] hopelessly overbroad, vague and unconstitutional," since it sought not only "to enjoin the advertisements at issue," but asked the Court "to issue a blanket injunction preventing DIRECTV from engaging in any future advertising that may criticize Time Warner Cable's or cable's picture or audio quality in any form, even concededly inferior analog, regardless of the truthful nature of such advertisements."[204] Further, "the First Amendment prohibits Time Warner Cable from silencing its competitors from truthfully informing the public of the deficiencies in its products and services."[205] Also, counsel pointed out that TWC was at the time engaging in the very same activity it sought to enjoin by "running its own advertisements falsely stating that DIRECTV is obsolete and prone to excessive outages."[206]

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198. *Id*. *See also* Johnson & Johnson Vision Care Inc. v. Ciba Vision Corp., 348 F.Supp.2d 165, 182 (S.D.N.Y. 2004).

199. *See* DIRECTV, Inc.'s Opposition to Plaintiff's Motion for a Preliminary Injunction at 4, Time Warner Cable, Inc. v. DIRECTV, Inc., (S.D.N.Y. Jan. 17, 2007) (No. 06 Civ.14245), 2007 WL 672191.

200. Counsel for DIRECTV referred to another District Court decision to make the assertion that "[s]hould the Court even consider the doctrine of necessary implication, Time Warner Cable must show that the Revised Simpson Commercial is 'susceptible to *no more than one* interpretation' and that this interpretation is false." (emphasis added) *See id*. at 14, (quoting Johnson & Johnson-Merck Consumer Pharm. Co. v. Procter & Gamble Co., 285 F.Supp.2d 389, 391 (S.D.N.Y. 2003)). *See also Ciba Vision*, 348 F.Supp.2d at 182–184.

201. *See* DIRECTV, Inc.'s Opposition to Plaintiff's Motion for a Preliminary Injunction at 4, Time Warner Cable, Inc. v. DIRECTV, Inc., (S.D.N.Y. Jan. 17, 2007) (No. 06 Civ.14245), 2007 WL 672191.

202. *Id*. at 5.

203. *Id.*

204. *Id*.

205. *Id*.

206. *Id*.

Overall, it is clear that TWC's motivation in filing this suit was not to protect consumers, but to injure its competitor DIRECTV. TWC took advantage of the Second Circuit's liberal interpretation of section 43(a) of the Lanham Act, and was even successful in expanding that interpretation.

C. COSTS OF ADVERTISING WILL RISE, REDUCING THE BENEFITS OF ADVERTISING TO CONSUMERS

Expansion of the enforcement of section 43(a) is not "cost-free": it "may chill useful, informative advertising; often involving significant litigation costs; and may produce anticompetitive results."[207] It is well recognized that "[i]nformational advertising increases buyer knowledge about the price, quality and benefits of various products, thus reducing consumers' search costs and the total costs to consumers of transacting business."[208] And, advertising "induces sellers to improve the quality of their goods."[209] "Advertising may also reduce barriers to entry [into the market] and improve product offerings by allowing the new entrant to quickly gain market awareness and acceptance."[210]

Despite one scholar's conclusion that "although the variety of alternative enforcement mechanisms reduce[s] the need for competitor actions, competitor actions provide benefits that no other policing tool provides,"[211] he also notes that alternative enforcement mechanisms are many: Consumers, the Federal Trade Commission, State Attorneys General, the National Advertising Review Board, and the television networks are all alternative enforcement mechanisms.[212] Accordingly, "[i]t is important to create critical breathing space for legitimate comment and criticism about products and services. On the other hand, there is a need for a meaningful state or federal remedy against intentional falsification of facts about a product that demonstrably causes a loss of sales."[213] In the case at hand, there was no evidence presented to suggest that there was intentional falsification of facts or that there would be any loss of sales, since none was required.

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207. *See* Goldman, *supra* note 79, at 490.
208. *Id.* at 491.
209. *Id.* at 492.
210. *Id.*
211. *Id.* at 491.
212. *Id.* at 504.
213. *See* McCarthy, *supra* note 79, at 74.

D. NO ACTUAL HARM NEED BE SHOWN FOR A PLAINTIFF TO BE AWARDED DAMAGES, WHILE THE THREAT OF A LARGE DAMAGE AWARD WILL FORCE SETTLEMENT

Even though a plaintiff must show "actual consumer confusion or deception"[214] to get money damages, judges may award double or treble damages without the plaintiff having to demonstrate any intent to defraud or malicious interference with business practices.[215] "While the usual remedy obtained is an injunction, occasionally large damage awards have been recovered," including huge punitive damage awards.[216] Until *U-Haul,* "most plaintiffs who allege[d] false advertising violations under the Lanham Act [were] only able to enjoin defendants from falsely advertising."[217] The allowance of damages has created a "tremendous incentive for firms to aggressively litigate Section 43(a) false advertising claims."[218] This also arguably forces settlement, which is not necessarily good or fair to the defendant. In fact, a settlement, the terms of which are undisclosed,[219] did result in this case, separate and apart from the equitable portion of the suit,[220] and a spokesperson for TWC confirmed in press reports that it "came several weeks before" the Second Circuit upheld the District Court judge's preliminary order "that DIRECTV stop airing televised ads featuring Jessica Simpson and William Shatner, because they seemed misleading."[221] Further, as noted by DIRECTV and TWC officials, "their settlement made the ruling moot."[222] However, "the written decision

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214. Normally, for injunctive relief, "plaintiffs must demonstrate a likelihood of deception or confusion on the part of the buying public caused by the false description or representation." PPX Enter., Inc. v. Autofidelity Enter., Inc., 818 F.2d at 271. *See also* Coca-Cola Co. v. Tropicana Prod., Inc., 690 F.2d 312, 316 (2d Cir. 1982). While, to establish "entitlement to damages for violation of section 43(a)" a plaintiff "must establish actual consumer confusion or deception resulting from the violation." *PPX Enter., Inc.*, 818 F.2d at 271. However, as noted herein, this standard was relaxed in the Second Circuit in *PPX Enter*. *See id.* at 272.

215. *See* U-Haul Int'l, Inc. v. Jartran, Inc., 793 F.2d 1034 (9th Cir. 1986).

216. *See* McCarthy, *supra* note 79, at 57 ("One of the largest awards in any false advertising case was the $40 million award in the 1986 U-Haul case in the Ninth Circuit. Finding the defendant a commercial privateer engaged in predatory false comparative advertising, the court awarded $20 million in damages and another $20 million in increased and punitive damages, plus attorney fees.").

217. *See* Waltzer, *supra* note 125, at 979.

218. *Id*.

219. *See* Bar, *supra* note 164 ("Jade L. Ekstedt, DIRECTV's public relations manager, and Alexander Dudley, senior director for corporate communications at Time Warner Cable, confirmed that the parties have reached a settlement. Both, however, declined to elaborate on its terms."); "Time Warner Cable Settled a lawsuit against DIRECTV alleging . . . ," CONSUMER ELECTRONICS DAILY, Aug. 10, 2007 ("DIRECTV and Time Warner Cable officials . . . wouldn't disclose the terms [of their settlement].").

220. *See* Bar, *supra* note 164.

221. *See* "Time Warner Cable Settled a lawsuit against DIRECTV alleging . . . ," CONSUMER ELECTRONICS DAILY, Aug. 10, 2007.

222. *Id*.

may have wider implications for other companies deciding how to portray competitors in their advertising."[223]

VI. PROPOSED SOLUTIONS AND CONCLUSION

The decision in *Time Warner* will only serve to incentivize competitors and encourage not only more lawsuits, but more competitive commercials. Although competitive advertisement has several advantages for consumers, those advantages come not from competitors pointing fingers at each other, but from providing information to the public about products and services that they offer, whether new to the market or old. The Second Circuit's approach in *Time Warner* "likely will result in decreased information to the consuming public about alternative brands and new products, which rely heavily on advertising to create a market share."[224] Courts should be conscious of the new competitive tools that they give with each new expansion of section 43(a) of the Lanham Act and realize that litigation in this arena has really come full circle. After seeing big business march in time and again and quash new entries into the market, courts, and especially the Second Circuit, should tighten their interpretation of section 43(a) and consider the import their decisions will have on the marketplace and individual consumers. Section 43(a) should strive to protect consumers—not big businesses like TWC.

Cynda E. D'Hondt[*]

223. *See* Larry Neumeister, *Appeals Court Upholds Ad 'Puffery' Warner Had Sued DIRECTV For Distorting Its Service*, SAN JOSE MERCURY NEWS, Aug. 10, 2007.

224. *See* Waltzer, *supra* note 125, at 973.

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