

**Remedies Available For False Advertising Under
California Business & Professions Code §17500
And Section 43(A) Of The Lanham Act**

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REMEDIES AVAILABLE FOR FALSE ADVERTISING UNDER CALIFORNIA BUSINESS & PROFESSIONS CODE §17500 AND SECTION 43(A) OF THE LANHAM ACT

By Lawrence B. Steinberg and Alison G. Naidech¹

I. INTRODUCTION

A. WHAT CONSTITUTES FALSE ADVERTISING

1. What Constitutes False Advertising Under Section 17500

California's unfair competition law ("UCL") protects both consumers and competitors by promoting fair competition in commercial markets for goods and services. The text of the UCL competition law ("UCL") makes it unlawful:

“for any person, . . . corporation . . . or any employee thereof with intent directly or indirectly to dispose of real or personal property or to perform services . . . or to induce the public to enter into any obligation relating thereto, to make or disseminate . . . before the public in this state, . . . in any newspaper or other publication . . . or in any other manner or means whatever . . . any statement, concerning that real or personal property or those services . . . which is untrue or misleading, and which is known, or which by the exercise of reasonable care should be known, to be untrue or misleading”

Cal. Bus. & Prof. Code § 17500.

To state a claim for false advertising, the plaintiff must show that (1) the statements in the advertising are untrue or misleading and (2) the defendants knew, or by the exercise of reasonable care should have known, that the statements were untrue or misleading. *People v. Lynam*, 253 Cal.App.2d 959, 965 (1967).

A defendant's knowledge of the falsity of the advertisement is *not* an element of a Section 17500 offense, as it prohibits both negligent and intentional dissemination of misleading advertising. *Feather River Trailer Sales, Inc. v. Sillas*, 96 Cal.App.3d 234, 247 (1979); *People v. Forest E. Olson, Inc.*, 137 Cal.App.3d 137, 139 (1982); *Khan v. Med. Bd.*, 12 Cal.App.4th 1834, 1846 (1993). To succeed on the merits of a false advertising claim, the plaintiff need only show that members of the public are likely to be deceived. *Freeman v. Time, Inc.*, 68 F.3d 285, 289 (9th Cir. 1995). A recent case noted that “‘likely to deceive’ implies more than a mere possibility that the advertisement might conceivably be misunderstood by some few consumers viewing it in an unreasonable manner.” *Lavie v. Procter & Gamble Co.*, 105 Cal.App.4th 496, 498 (2003). Instead, the court explained it indicates that “the ad is such that it is probable that a

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significant portion of the general consuming public or of targeted consumers, acting reasonably in the circumstances, could be misled.” *Id.*

The proper standard to determine whether a claim is misleading is the “reasonable consumer” test. *Bank of the West v. Superior Court*, 2 Cal.4th 1254, 1267 (1992); *Lavie v. Procter & Gamble Co.*, 105 Cal.App.4th 496 (2003). Recent cases have held that consumer surveys are not required to prove deception. *Brockey v. Moore*, 107 Cal.App.4th 86, 99 (2003). The court may dismiss the matter if it determines that no reasonable consumer would have been misled by the alleged misrepresentation. *Haskell v. Time, Inc.*, 857 F.Supp. 1392, 1399 (E.D.Cal. 1994).

2. What Constitutes False Advertising Under The Lanham Act

Like Section 17500 of the UCL, Section 43(a) of the Lanham Act is designed to protect both consumers as well as competitors. Section 43(a) of the Lanham Act provides, in relevant part:

“(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any . . . false or misleading representation of fact, which --

. . .

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his 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 likely to be damaged by such act.”

15 U.S.C. §1125(a).

The elements for a false advertising claim under Section 43(a) are: (1) a false statement of fact by the defendant in a commercial advertisement about its own or another’s product; (2) the statement actually deceived or has the tendency to deceive a substantial segment of its audience; (3) the deception is material, in that it is likely to influence the consumer’s purchasing decision; (4) the defendant caused its false statement to enter interstate commerce; and (5) the plaintiff has been or is likely to be injured as a result of the false statement, either by a direct diversion of sales from itself to defendant or by a lessening of the good will associated with its products. *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134, 1139 (9th Cir. 1997).

The Lanham Act distinguishes between advertisements that are literally false and those that are literally true, but misleading. When the advertising is literally false, a court may grant relief without reference to the advertisement’s impact on the buying public. *In re Century 21 RE/MAX Advert. Claims Litig.*, 882 F.Supp. 915, 922 (C.D.Cal. 1994). Where a statement is not literally false, but is only misleading in context, proof that the advertising actually conveyed the implied message and thereby deceived a significant portion of the consuming public is required. *William H. Morris Co. v. Group W, Inc.*, 66 F.3d 255, 258 (9th Cir. 1995). The only exception

to this proof requirement arises when the plaintiff intentionally deceives consumers. *Harper House, Inc. v. Thomas Nelson, Inc.*, 889 F.2d 197, 209 (9th Cir. 1989) (citing *U-Haul Int'l v. Jartran, Inc.*, 793 F.2d 1034, 1041 (9th Cir. 1986) (presumption of actual reliance and deception is conditioned on the expenditure of substantial funds by the defendant)).

B. WHO HAS STANDING TO SUE?

1. Who Has Standing To Sue Under Section 17500

Both private individuals and public prosecutors have standing to sue under the UCL. However, as discussed below, the remedies available to each group are not the same.

2. Who Has Standing To Sue Under The Lanham Act

Unlike the standing issue under the UCL, the standing issue under the Lanham Act is unsettled and consists of cases with parallel fact patterns that have inconsistent and possibly irreconcilable holdings. What is clear is that consumers generally have no standing. *Colligan v. Activities Club of New York, Ltd.*, 442 F.2d 686 (2nd Cir. 1971). However, the courts and federal case law are split over the issue of who has standing when commercial litigants are involved because of the question of who is a competitor and what qualifies as a reasonable commercial interest.

“With the exception of the Seventh, Ninth and Tenth Circuits, the courts have held that the plaintiff and defendant need not always be in direct competition with each other for a plaintiff to have standing to sue for injunctive relief under § 43(a).” J. Thomas McCarthy, 4 McCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 27:32, 27-54 (4th Ed. 2002).

The Ninth Circuit previously held that a non-competitor has no standing, *Halicki v. United Artists Communications, Inc.*, 812 F.2d 1213 (9th Cir. 1987), but the scope of *Halicki* case has been narrowed and restricted to cases arising under the false advertising prong of Section 43(a). See, *Waits v. Frito-Lay, Inc.*, 978 F.2d 1093 (9th Cir. 1992).

In spite of the limitations placed on *Halicki*, there is still recent case law to support the proposition that only *competitors* have standing to sue under the Lanham Act, (*Barrus v. Sylvania*, 55 F.3d 468, 470 (9th Cir. 1995)) and that to qualify as a competitor in the traditional sense requires that the parties “endeavor[] to do the same thing and each offer[] to perform the act, furnish the merchandise or render the service better or cheaper than his rival” (*Summit Tech. Inc. v. High-Line Med Instr.*, 993 F. Supp. 918, 939 (C.D.Cal. 1996)). However, there are also cases which provide that a plaintiff has standing to pursue a false advertising claim if it can prove commercial injury based upon a misrepresentation about a product and that the injury was harmful to plaintiff’s ability to compete with the defendant, even if they were not competitors. *Coastal Abstract Service, Inc. v. First American Title Ins. Co.*, 173 F.3d 725 (9th Cir. 1999).

C. VICARIOUS LIABILITY

1. Vicarious Liability Under Section 17500

Although there is no such thing as vicarious liability under Section 17500, secondary liability may be predicated upon each individual person's participation in the unlawful acts constituting false advertising. *People v. Toomey*, 157 Cal.App.3d 1, 14 (1985). The courts have generally recognized six forms of secondary liability, namely: aiding and abetting, agency, conspiracy, furnishing the means for another's violations, respondeat superior and alter ego. *See generally*, Rutter Group, *Unfair Business Practices and False Advertising*, *Bus. & Prof. Code §17200*, §§ 6:6 - 6:51 (hereinafter "Rutter").

2. Vicarious Liability Under the Lanham Act

Joint and several tortfeasor liability is available under the Lanham Act under limited circumstances. However, it requires that the defendant "knowingly participate[] in [the] creation, development and propagation of the false advertising campaign . . ." *In re Century 21 RE/MAX*, 882 F.Supp. at 925 (citations omitted).

D. OVERVIEW OF THE VARIOUS REMEDIES AVAILABLE

1. Remedies Available Under Section 17500

A violation of Section 17500 is a misdemeanor, punishable by fine or imprisonment. *Cal. Bus. & Prof. Code §17500*.

Injunctive relief and restitution are also available to both private and public prosecutors under the UCL. *Id.* at §17535.

The remedies or penalties are cumulative. *Id.* at §17534.5. Thus, in *People v. Toomey*, , 157 Cal.App.3d 1 (1984), the court held that Sections 17205 and 17534.5 permit double-counting a single wrong in order to produce double fines. 157 Cal.App.3d 1, 22 (1984). *See also*, *People v. Dollar Rent-A-Car Sys., Inc.*, 211 Cal.App.3d 119, 132 (1989) (if same act is a violation of both §§17200 and 17500, court can assess \$2,500 penalty under each, for a total of \$5,000 per violation).

Attorneys fees are not directly available under the UCL, but may be appropriate where authorized by other statutes or by contract. Attorneys fees are often sought under the "private attorney general doctrine," codified by California Code of Civil Procedure § 1021.5.

2. Remedies Available Under the Lanham Act

A plaintiff who successfully establishes a violation of Section 43(a) of the Lanham Act may obtain injunctive relief and is entitled to recover, subject to the principles of equity, (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.

The court may treble any of these damages and, in “exceptional” cases, may award reasonable attorney fees to the prevailing party. 15 U.S.C. §§ 1116 and 1117(a).

II. CAL. BUS. & PROF. CODE §17500

A. INJUNCTIVE RELIEF

Section 17535 authorizes courts to enter injunctive relief against deceptive advertising:

“Any person, corporation, firm partnership, joint stock company, or any other association, or organization which violates or proposes to violate this chapter may be enjoined by any court of competent jurisdiction. The court may make such orders or judgments, including the appointment of a receiver, as may be necessary to prevent the use or employment by any person, corporation, firm, partnership, joint stock company, or any other association or organization of any practices which violate this chapter, or which may be necessary to restore to any person in interest any money or property, real or personal, which may have been acquired by means of any practice in this chapter declared to be unlawful. Actions for injunction under this section may be prosecuted by the Attorney General or any district attorney, county counsel, city attorney, or city prosecutor in this state in the name of the people of the State of California upon their own complaint or upon the complaint of any board, officer, person, corporation or association or by any person acting for the interests of itself, its members or the general public.”

Cal. Bus. & Prof. Code §17535.

1. Who Can Sue/Burden of Proof

Section 17535 permits actions for injunctions to be prosecuted in the name of the State of California by the Attorney General, any district attorney, any city attorney, any city prosecutors or by “any person acting for the interests of itself, its members or the general public.” Cal. Bus. & Prof. Code § 17535. When bringing such actions, however, both private persons and prosecuting authorities bear the burden of proving the advertising claims to be false or misleading. *Nat’l Council Against Health Fraud, Inc. v. King Bio Pharm., Inc.*, 107 Cal.App.4th 1336, 1344 (2003). (“Prosecuting authorities, but not private plaintiffs, have the administrative power to request advertisers to substantiate advertising claims before bringing actions for false advertisement, but the prosecuting authorities retain the burden of proof in the false advertising actions.”).

2. Threat of Continuing Harm

Unlike Section 17200, which was amended in 1992 to include past acts, Section 17500 was not so amended for false advertising claims. Thus, in order to obtain injunctive relief, the plaintiff must show that the objectionable conduct is likely to reoccur.

As a result, many pre-1992 cases are still good law when applied to claims for false advertising. *See e.g. Cal. Serv. Station etc. Ass'n v. Union Oil Co.*, 232 Cal.App.3d 44, 57 (1991) (“[i]njunctive relief will be denied if, at the time of the order or judgment, there is no reasonable probability that the past acts complained of will recur”); *accord, C. Pappas Co., Inc. v. E. & J. Gallo Winery*, 610 F.Supp. 662, 672 (E.D.Cal. 1985) (requiring continuing activity); *People v. Nat'l Ass'n of Realtors*, 120 Cal.App.3d 459, 476 (1981) (“where the injunction is sought solely to prevent recurrence of proscribed conduct which has, in good faith been discontinued, there is no equitable reason for an injunction.”).

3. Types of Injunctions

Temporary restraining orders and preliminary injunctions are available for claims for false advertising under Section 17500. However, there are several tactical decisions to be made before pursuing them. First is the bond requirement. As with actions in federal court, before a preliminary injunction or temporary restraining order can issue, the plaintiff must put up a bond. Ca. Civ. Pro. § 529. *See e.g., Abba Rubber Co. v. Seaquist*, 235 Cal.App.3d 1, 10 (1991) (bond is “an indispensable prerequisite to the issuance of a preliminary injunction”). Thus, in private actions against large corporations engaged in a massive false advertising campaigns, the bond requirement may be prohibitive for individual plaintiffs.

Preliminary injunctions are also entitled to a statutory preference in setting the matter for trial. California Code of Civil Procedure § 527(e) provides that when a party seeks a preliminary injunction, it “will be set for trial at the earliest possible date, and shall take precedence over all other cases, except older matters of the same character, and matters to which special precedence is given.” Ca. Civ. Pro. § 527(e). Thus, the trial process may be a lot faster if a preliminary injunction issues. The Code is silent as to what happens when a party seeks and fails to obtain a preliminary injunction.

The elements required to obtain a preliminary injunction mirror those required under federal law. The plaintiff must show a likelihood of success on the merits and that a balance of the equities tips decidedly in plaintiff's favor. *ABBA Rubber Co.*, 235 Cal.App.3d at 17. Section 17500 does not require the plaintiff to show that the issuance of a preliminary injunction would serve the public interest. *Cal. Ass'n of Dispensing Opticians v. Pearle Vision Center, Inc.*, 143 Cal.App.3d 419, 433-34 (1983).

Injunctions may not only prohibit conduct, but may also require affirmative actions by the defendant such as disclosures. For example, in *Consumers Union of U.S., Inc. v. Alta-Dena Certified Dairy*, 4 Cal.App.4th 963, 972-74 (1992), the Court of Appeal affirmed the lower court's injunction against false advertising. The injunction required the defendant to place a warning on all of its advertisements stating that there was no proof that pasteurization reduces the nutritional value of milk or that the risks of consuming raw milk outweigh any of its alleged

benefits. *Id.* The rationale for such an affirmative injunction was that “[a]n order which commands [a party] only to go and sin no more simply allows every violator a free bite at the apple.” *Id.* at 973.

B. RESTITUTION

Section 17535, authorizes courts to:

“make such orders or judgments, including the appointment of a receiver, as may be necessary to prevent the use or employment by any person, corporation, firm, partnership, joint stock company, or any other association or organization of any practices which violate this chapter, or which may be necessary to restore to any person in interest any money or property, real or personal, which may have been acquired by means of any practice in this chapter declared to be unlawful.”

Cal. Bus. & Prof. Code §17535.

1. Who Can Sue/Burden of Proof

Section 17535 permits recovery of restitution in either a law enforcement action or by a private party. *See e.g. Fletcher v. Security Pacific Nat’l Bank*, 23 Cal.3d 442, 449 (1979); *People v. Superior Court (Jayhill)*, 9 Cal.3d 283, 286 (1973). Restitution is an additional remedy which may be awarded regardless of whether an injunction issues. *ABC Int’l Traders, Inc. v. Matsushita Electric Corp.*, 14 Cal.4th 1247, 1252 (1997). Plaintiff need not prove either reliance or actual damage in order to obtain restitutionary relief. *Fletcher*, 23 Cal.3d at 449-50, 453; *People v. Toomey*, 157 Cal.App.3d. at 25-26.

The defendant’s ability to pay may impose a limitation on the amount of restitution a court may award. Rutter § 8:101. In *People v. Warnes*, 10 Cal.App.4th Supp. 35, 39 (1992), for example, a criminal prosecution was brought under section 17500. The appellate court held that the Equal Protection Clause “requires a court to grant a hearing on a defendant’s ability to pay restitution,” but “it does not require a trial judge [to] make a finding of ability to pay before ordering restitution.” *Id.* It is the defendant’s burden to prove an inability to pay. *People v. Morse*, 21 Cal.App.4th 259, 275 n. 29 (1993) (refusing to entertain an argument on appeal that a civil penalty and restitution order exceeded defendant’s ability to pay where it was not raised below).

Courts will not award a claim for damages that is disguised as a claim for restitution. *The Seibels Bruce Group, Inc. v. R.J. Reynolds Tobacco Co.*, 1999 WL 760527, *7 (N.D.Cal. 1999). In *Baugh v. CBS, Inc.*, 828 F.Supp. 745, 757-58 (N.D.Cal. 1993), the District Court dismissed a claim brought under section 17200 on the ground that what plaintiff was seeking was not restitution but was, in fact an impermissible claim for damages. Plaintiff had alleged that had suffered emotional distress and embarrassment by the defendant’s broadcast of an incident at her home and that she was entitled to “restitution” in that she wanted returned what was taken from her by the defendants. In rejecting this argument, the court said, “[u]nder Plaintiffs’ approach,

any damage claim could be converted into an argument for restitution. § 17203 plainly did not intend such a result.” 828 F.Supp. at 758.

2. The Court’s Power To Issue Restitution

The California Supreme Court has determined that “a court of equity may exercise the full range of its inherent powers in order to accomplish complete justice between the parties, restoring if necessary the status quo ante as nearly as may be achieved.” *People v. Superior Court (Jayhill)*, 9 Cal.3d at 286.

The express language of the statute grants the trial court with what has been dubbed by the courts as the “cleansing power” to order restitution to effect complete justice. *Fletcher v. Security Pacific Nat’l Bank*, 23 Cal.3d at 449.

3. Restitution/Disgorgement

There has been some confusion in the case law with respect to the remedy of restitution and disgorgement under the UCL. The big question has been whether non-restitutionary disgorgement of profits is available to plaintiffs under the UCL. The answer appears to be no. In the recently decided case of *Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal.4th 1134 (2003), the California Supreme Court, in the context of a case brought under Section 17200, decided that disgorgement of profits that is not restitutionary in nature is not an available remedy in an *individual action* under the UCL. 29 Cal.4th at 1152. The reasoning of the *Korea Supply* court would appear to equally apply to an action under Section 17500, and at least one trial court has already applied the principal to a representative class action for false advertising. *See, Park v. Cytodyne Technologies, Inc.*, San Diego County Superior Court, 2003 WL 21283814 (May 30, 2003).

Thus it appears that despite the broad-sweeping language of the UCL, courts will not force a defendant to “disgorge” all monies earned in connection with the false advertising. To do so would, in effect, create a remedy for damages which is impermissible.

4. Remedies Not Available

Most significantly, damages are not recoverable for a claim of false advertising under the UCL by either public or private individuals. *Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal.4th 1134, 1150-51 (2003) (nonrestitutionary disgorgement remedy sought by plaintiff closely resembles a claim for damages, something that is not permitted under the UCL). *See also, Chern v. Bank of America*, 15 Cal.3d 866, 875 (1976) (dismissing plaintiff’s cause of action for damages under 17500 because “plaintiff’s relief is limited to the filing of action for an injunction”).

Likewise punitive damages are not recoverable by public prosecutors under Section 17536. *People v. Superior Court (Jayhill)*, 9 Cal.3d at 287 (finding no punitive damages in an action brought by the Attorney General).

There is no express right to recover attorneys fees under Section 17500. *See Shadoan v. World Savings & Loan*, 219 Cal.App.3d 97, 108 n. 7 (1990); *Pachmayr Gun Works, Inc. v. Olin Mathieson Chem. Corp.*, 502 F.2d 802, 810 (9th Cir. 1974). However, recovery of attorneys fees may be appropriate where authorized by statute or contract. *Reynolds Metals Co. v. Alperson*, 25 Cal.3d 124, 127 (1979). One of the most commonly used theories used by successful plaintiffs in UCL cases to obtain attorneys fees is the “private attorney general doctrine,” codified by California Code of Civil Procedure § 1021.5. This statute provides that an attorney fee award may be entered if: (1) the action “has resulted in the enforcement of an important right affecting the public interest”; (2) a “significant benefit” has been “conferred on the general public or a large class of persons”; (3) “the necessity and financial burden of private enforcement are such as to make the award appropriate”; and (4) the fees “should not in the interest of justice be paid out of the recovery, if any.” There is at least some support for the proposition that attorneys fees are not appropriate under Section 1021.5 where the plaintiff acts out of his own financial interest. *See, California Licensed Foresters Ass’n v. State Board of Forestry*, 30 Cal.App.4th 562 (1994). Generally speaking, a prevailing defendant is not entitled to an award of attorneys fees under the UCL. *See, Walker v. Countrywide Home Loans, Inc.*, 98 Cal.App.4th 1158, 1169 (2002).

C. CIVIL PENALTIES

Section 17536 provides that:

“Any person who violates any provision of this chapter shall be liable for a civil penalty not to exceed two thousand five hundred dollars (\$2,500) for each violation, which shall be assessed and recovered in a civil action brought in the name of the people of the State of California by the Attorney General or by any district attorney, county counsel, or city attorney in any court of competent jurisdiction.”

Cal. Bus. & Prof. Code § 17536.

1. Who Can Sue/Burden of Proof

Civil penalties may be recovered only by public law enforcement officials, not private litigants. Section 17536; *See also Kasky v. Nike, Inc.*, 27 Cal.4th 939, 950 (2002), *cert. granted sub nom, Nike, Inc. v. Kasky*, 123 S.Ct. 817 (2003), *cert. dismissed as improvidently granted*, 123 S.Ct. 2554 (2003) (No. 02-575). As in civil cases generally, the burden of proof is preponderance of the evidence. *United States v. Regan*, 232 U.S. 37, 48 (1914). The People, however, do not have to prove that any of the victims of the practice actually relied or suffered actual damages as a result. *Toomey*, 157 Cal.App.3d at 23.

2. How They Are Calculated

Section 17536 was amended in 1992. Prior to the amendment, the statute did not define the term “violation” for purposes of imposing the \$2,500 civil penalty “for each violation.” That was changed in 1992, effective January 1, 1993. The 1992 amendment added the following five factors to evaluate the amount of the civil penalty to be awarded:

“The Court shall impose a civil penalty for each violation of this chapter. In assessing the amount of the civil penalty, the court shall consider any one or more of the relevant circumstances presented by any of the parties to the case, including, but not limited to, the following: the nature and seriousness of the misconduct, the number of violations, the persistence of the misconduct, the length of time over which the misconduct occurred, the willfulness of the defendant’s misconduct, and the defendant’s assets, liabilities, and net worth.”

Cal. Bus. & Prof. Code §17536.

This amendment was supposed to codify existing case law. See *People v. National Ass’n of Realtors*, 155 Cal.App.3d 578 (1984); *People v. Superior Court (Olson)*, 96 Cal.App.3d 181 (1979). Thus, pre-1992 case law is relevant to ascertaining how the courts will construe the new requirements.

a. The Nature And Seriousness Of The Misconduct

In *People v. National Association of Realtors*, the court held that the amount of monetary gain a defendant receives may act as an indicia of the amount of penalty to be awarded. 155 Cal.App.3d at 586. In computing the penalty, the courts can take into account subsequent inflation. *Id.* In *People v. Morse*, the court considered the revenues generated from the unlawful practice when fashioning an award of restitution and civil penalties. 21 Cal.App.4th 259, 272 (1993). The defendant argued that the relevant determinate should have been his net profits, not total revenue. *Accord, People v. Cappuccio, Inc.*, 204 Cal.App.3d 750, 765 (1988) (affirming civil penalty of \$73,000 based on evidence of gross income). The court rejected this argument. See Rutter § 8:62.

b. The Number of Violations

People v. Superior Court (Jayhill), 9 Cal.3d 283, 289 (1973), is the seminal civil penalty case. In *Jayhill*, the People claimed that 25 separate misrepresentations were made to each prospect by door-to-door book-sellers, which, under the law should total \$62,500 per victim. The Supreme Court disagreed, holding that the penalty can never exceed \$2,500 “per victim.” The per-victim test has become the accepted standard. See *People v. Toomey*, 157 Cal.App.3d at 23 (\$300,000 total penalty, with half of it for violating §§17200 and 17500, and half for violating the preliminary injunction, amounting to 20 cents per violation.) Assessing civil penalty awards in cases where print or media advertisements are at issue, raises several issues concerning the per victim rule.

In *People v. Superior Court (Olson)*, 96 Cal.App.3d 181 (1979), the People argued that under the “per-victim” test the penalty should be based on the publisher’s circulation numbers. The *Olson* court should held that a single edition of a newspaper is at minimum one violation and can be as many additional violations as there are persons who actually read the advertisement or who purchased the good or service. *Id.* at 198.

In *People v. Morse*, 21 Cal.App.4th 259 (1993), the court set out a special rule for targeted, as opposed to mass appeal solicitations. For targeted solicitations, the “victim” determination for civil penalty purposes is the number of solicitations sent. In *Morse*, the defendant-lawyer was found to have violated Section 17500 4 million times. Citing *Jayhill*, the Court of Appeals affirmed the trial court’s determination that the number of “victims” is the number of advertisements (here, homestead solicitations) that were mailed to consumers and not the number who received and read them or who responded. *Id.* at 272-73. The *Morse* court found the decision in *Olson* to be inapposite to the facts presented in *Morse* and declared the *Olsen* rule applicable only where there is a general, mass appeal solicitation involved. *Id.*

In *People v. Beaumont Investment, Ltd.*, ___ Cal.App.4th ___ (Sixth App. Dist. Aug. 11, 2003) (No. H021971), the Court of Appeal affirmed the trial court’s finding of 14,124 statutory violations arising from two different patterns of conduct on defendants’ part. “The [trial] court concluded that each time defendants forced a tenant to accept the conditions of a long-term dealer lease, they violated the unfair practices law. (Bus. & Prof. Code, § 17200.) The [trial] court found 154 violations on that basis. The [trial] court next addressed the defendants’ monthly collections of rent. The [trial] court determined that each time defendants collected “above-Ordinance” rent under the long-term leases, they violated both the unfair practices law and the false advertising law. (Bus. & Prof. Code, §§ 17200, 17500.)” The Court of Appeal rejected defendant’s argument that, under *Jayhill* and its progeny, the court was required to calculate the number of violations on a “per victim” basis rather than on a “per act” basis. Citing *Olson*, *supra*, the court concluded, “[t]he trial court’s method of calculating violations thus is ‘reasonably related to the gain or the opportunity for gain achieved by’ defendants’ unlawful scheme.” Slip Op. at 29.

c. The Persistence Of The Misconduct

It appears that the courts have adopted an evaluation for the “persistence of the misconduct” factor similar to the number of violations factor. In *People v. Nat’l Ass’n of Realtors*, the appellate court held that “[e]ach act is subject to separate punishment.” 155 Cal.App.3d 578, 585 (1984). Thus it appears that this statutory factor could serve as a basis for arguing a mitigation in penalty. For example, evidence that a party took remedial precautions, should be admissible as to the amount of the penalty even if not admissible to disprove the underlying violations. See Rutter at §§ 8:67.

d. The Length Of Time Over Which The Misconduct Occurred

The authors have not located any post-1992 cases, discussing this factor and at least one commentator has noted that it is unclear how this element differs, if at all, from the previous factor. Rutter at § 8:68. *But see*, *People v. Beaumont Investment, Ltd.*, ___ Cal.App.4th ___ (Sixth App. Dist. Aug. 11, 2003) (No. H021971) (stating, without discussion, that the defendant’s course of unlawful conduct continued over a period of 13 years).

e. The Willfulness Of The Defendant's Misconduct

Even though Section 17500 is a statute that imposes liability without intent, it is clear that the legislature intended that courts take into account and differentiate intentional acts and practices versus merely inadvertent ones when evaluating the civil penalty amount. Courts should treat multiple violations deserving identical treatment the same, and those that have caused greater or lesser harm differently if all other relevant factors are equal. *People v. Nat'l Ass'n of Realtors*, 155 Cal.App.3d at 587; Rutter 8:69.

f. The Defendant's Assets, Liabilities, And Net Worth

Prior to the 1992 amendment, courts were permitted to take into account the defendant's wealth, when assessing civil penalties. *People v. Cappuccio, Inc.*, 204 Cal.App.3d 750 (1988); *People v. Toomey*, 157 Cal.App.3d at 25. Under the amendment, the courts now must take this factor into account. Rutter § 8:70.

In *City and County of San Francisco v. Sainez*, 77 Cal.App.4th 1302, 1319 (2000), the appellate court held that substantive due process "allows inquiry into a defendant's full net worth, not just the value of the particular property at issue in the case." In that case, the penalty of \$663,000 was 28.4% of the defendant's net worth. *Accord, Balmoral Hotel Tenants Ass'n v. Lee*, 226 Cal.App.3d 686, 696 (1990); *but see Adams v. Murakami*, 54 Cal.3d 105, 117-118 (1991), (plaintiff who failed to introduce evidence of defendant's net worth is not entitled to recover punitive damages because the absence of that evidence, said the Court, deprives the appellate courts of the ability to conduct a meaningful review of the award on grounds of excessiveness). The question then arises whether the relevant determinant is gross revenue, net revenue, profit, or some other measure.

In *People v. Morse*, 21 Cal.App.4th 259 (1993), the court looked at the revenues generated from the unlawful practice in assessing an award of restitution and civil penalties. The court rejected the defendant's argument that the relevant determinant should have been his net profits, not total revenue. *Accord, People v. Cappuccio, Inc.*, 204 Cal.App.3d at 765 (affirming civil penalty of \$73,000 based on evidence of *gross income*).

In *Boyle v. Lorimar Productions, Inc.*, 13 F.3d 1357, 1360 (9th Cir. 1994), however, the Ninth Circuit held that under California law governing, how punitive damages may be calculated, "only net, not gross, [revenue] figures are relevant." The Ninth Circuit noted, however, that the California Supreme Court expressly reserved this issue in *Adams*.

Note that where multiple defendants are found jointly and severally liable, civil penalties may be imposed on a joint and several basis. *People v. Bestline Products, Inc.*, 61 Cal.App.3d 879, 922 (1976); *People v. Witzerman*, 29 Cal.App.3d 169, 180-181 (1972) (court can order joint and several liability for civil penalty along with defaulted defendants).

3. Civil Penalties Are Mandatory In Nature

The 1992 amendment codified the rule exposed in *People v. Custom Craft Carpets*, 159 Cal.App.3d. 676, 686 (1984), that it is error for the court not to impose civil penalties in some

amount where a violation of Section 17200 is proven. Specifically, Section 17536 now reads: “The court *shall* impose a civil penalty for each violation of this chapter.” Cal. Bus. & Prof. Code § 17536 (emphasis added).

III. LANHAM ACT

A. INJUNCTIVE RELIEF

“Injunctive relief is the remedy of choice for trademark and unfair competition cases, since there is no adequate remedy at law for the injury caused by a defendant’s continuing infringement.” *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1180 (9th Cir. 1988).²

While many injunctions simply prohibit a particular conduct, some may require the defendant to take affirmative steps to avoid deceptive conduct, such as corrective advertising. *Rhone-Poulenc Rorer Pharmaceuticals, Inc., v. Marion Merrell Dow, Inc.*, 93 F.3d 511 (8th Cir. 1996) (ordering corrective advertising to doctors adequately explaining the differences between the parties’ products); *Alpo Petfoods v. Ralston Purina Co.*, 720 F.Supp. 194 (D.D.C. 1989), *aff’d in part, rev’d in part, remanded*, 913 F.2d 958 (D.C.Cir. 1990) (ordering defendant to send corrective information to those who had previously received its false advertising).

Other injunctions may require the defendant to recall product, issue customer refunds or revise packaging. *Tisket-A-Tasket Group Inc. v. H.S. Craft Manufacturing Co.*, 1999 WL 1390321 (S.D.Ind. 1999) (ordering recall of ornamental lights); *Sensory Research Corp. v. Pasht, Inc.*, 192 U.S.P.Q. 168 (S.D.N.Y. 1976) (ordering defendant to cancel unfilled orders until defendant changed his advertising); *Walt Disney Productions v. Kusan, Inc.*, 204 U.S.P.Q. 284 (C.D.Cal. 1979) (requiring defendant to print and mail new decals to retailers to be affixed to games).

Motions for preliminary injunctions and temporary restraining orders (“TRO”) are common in false advertising cases. The Ninth Circuit requires the party moving for a preliminary injunction to show either: (1) a combination of probable success on the merits and the possibility of irreparable injury without such injunction, or (2) that serious questions exist on the merits and the balance of hardships tips sharply in the moving party’s favor. *Smart Inventions, Inc. v. Allied Communications, Corp.*, 94 F.Supp.2d 1060, 1064-65 (C.D.Cal. 2000) (citations omitted). The standard to obtain a TRO is the same as for a preliminary injunction. *California Independent System Operator Corp. v. Reliant Energy Services, Inc.*, 181 F.Supp.2d 1111, 1126 (E.D.Cal. 2001).

A plaintiff does not need to prove the element of injury when seeking injunctive relief. *Southland Sod Farms*, 108 F.3d 1134, 1145 (9th Cir. 1997); *Harper House, Inc. v. Tomas Nelson, Inc.*, 889 F.2d 197, 210 (4th Cir. 1999). Rather, injunctive relief is available under the

² In false advertising cases brought under Section 43(a) of the Lanham Act, courts frequently rely on Lanham Act authority arising out of claims other than for false advertising. *See. e.g., -Haul v. Jartran*, 793 F.2d 1034, 1042 (9th Cir 1986). Thus, the cases cited in this article include other types of unfair competition actionable under the Lanham Act, and are not limited to strictly false advertising cases.

Lanham Act provided the plaintiff can that the advertisement has misled, confused or deceived the consuming public. *Southland Sod*, 108 F.3d at 1140.

Voluntary cessation of activity is not a ground for the denial of a preliminary injunction. *Sierra On-Line, Inc. v. Phoenix Software, Inc.*, 739 F.2d 1415 (9th Cir 1984) (granting preliminary injunction even though defendant voluntarily stopped use of the mark). The Ninth Circuit has held that it was an abuse of discretion for a district court to refuse to grant a permanent injunction based on plaintiff's failure to produce evidence demonstrating that defendant planned to sell the objectionable items. *Polo Fashions, Inc. v. Dick Bruhn, Inc.*, 793 F.2d 1132, 1135-36 (9th Cir, 1986) ("If the defendants sincerely intend not to infringe, the injunction harms them little; if they do, it gives [plaintiff] substantial protection of its trademark.").

B. MONETARY RELIEF

Unlike injunctive relief, proof of injury is essential to an award of monetary relief under the Lanham Act. *Harper House*, 889 F.2d at 210 (rejecting plaintiff's claim for monetary damages under the Lanham Act because plaintiff failed to demonstrate that the defendant's false advertising caused the plaintiff injury). However, the Ninth Circuit amended this position in *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1411 (9th Cir. 1993), when it determined that a court could, in its discretion, fashion relief including monetary relief based on the "totality of circumstances." *But see, William H. Morris Co. v. Group W, Inc.*, 66 F.3d 255, 258 (9th Cir. 1995) (denying damages for lost profits finding that plaintiff failed to prove causation).

1. Defendant's Profits

Three rationales support an award of the defendant's profits under U.S.C. § 1117(a). They are: (1) as a measure of plaintiff's damages; (2) if the party liable is unjustly enriched, or (3) if necessary to deter willful infringement. J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 30:59 at 30-113 (4th ed.).

In the Ninth Circuit, to recover the defendant's profits under the theory of unjust enrichment, the plaintiff must demonstrate some kind of intentional conduct on the defendant's part which shows an attempt to reap the harvest of another's advertising. *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 123 (9th Cir. 1968), *cert denied*, 391 U.S. 966 (1968); *Lindy Pen Co.*, 982 F.2d at 1406 (refusal to award profits was appropriate because plaintiff's mark was weak and defendant's infringement unintentional).

When a plaintiff seeks profits as a measure of its damages, however, willfulness is not required. *Adray v. Adry-Mart, Inc.*, 68 F.3d 362, 366 (9th Cir. 1995), *amended, reh'g en banc, denied*, (9th Cir. 1996) (requiring a finding of willfulness appropriate where plaintiff conceded that he did not seek to recover the defendant's profits as a measure of his own lost sales). Unlike other Circuits, the Ninth Circuit does not require proof of actual confusion or actual injury to recover an infringer's profits. *Gracie v. Gracie*, 217 F.3d 1060, 1068 (9th Cir. 2000) ("[a] showing of actual confusion is not necessary to obtain a recovery of profits"). The rationale for

this rule appears to be that the remedy does not flow from the plaintiff's injury, but rather from the defendant's unjust enrichment and the need for deterrence.

Some courts used to require that the parties compete directly, and in the same geographical market, in order to award the defendant's profits. However, the Ninth Circuit specifically rejected this requirement in *Maier Brewing Co. v. Fleischmann Distilling Corp.*, when it concluded:

“It would seem fairly evident that the purpose of the Lanham Act can be accomplished by making acts of deliberate trademark infringement unprofitable. In the case where there is direct competition between the parties, this can be accomplished by an accounting of profits based on the rationale of a returning of diverted profits. In those cases where there is infringement, but no direct competition, this can be accomplished by the use of an accounting of profits based on the unjust enrichment rationale. Such an approach to the granting of profits would, by removing the motive for infringements, have the effect of deterring future infringements. The courts would therefore be able to protect the intangible value associated with trademarks and at the same time be protecting the buying public from the more unscrupulous members of our economic community.”

390 F.2d at 123.

Once the plaintiff has shown its entitlement to defendant's profits, it need only establish defendant's gross profits from the illegal activity with reasonable certainty. *Lindy Pen Co. v. Bick Pen Corp.*, 982 F.2d at 1408. Thereafter, the defendant bears the burden of showing all elements of costs or deductions claimed. 15 U.S.C. § 1117. See *Maier Brewing Co.*, 390 F.2d at 123.

2. Plaintiff's Actual Damage

In some circumstances, the plaintiff may be awarded damages in addition to the defendant's profits. This double recovery is appropriate in cases where the parties do not compete directly, because the defendant's profits are being awarded under a theory of unjust enrichment and not as a measure of the plaintiff's loss. Courts will not, however, award damages and profits together, when such an award would result in over-compensation. *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 408 F.Supp. 1219, 1241 (D.Colo. 1976), *aff'd*. 561 F.2d 1365 (10th Cir. 1977), *cert. dismissed*, 434 U.S. 1052 (1978).

a. Plaintiff's Lost Profits

A majority of the courts require proof that consumers were actually deceived or misled in order to recover plaintiff's lost profits. Specifically, when a plaintiff seeks money damages for infringement or false advertising, the plaintiff must introduce evidence of actual confusion.

Resource Developers, Inc. v. Statue of Liberty-Ellis Island Foundation, Inc., 926 F.2d 134, 139 (2d Cir. 1991). This can be proven by the testimony of buyers or customer survey. However, in *PPX Enterprises, Inc. v. Audiofidelity Enterprises, Inc.*, 818 F.2d 266, 273 (2d Cir. 1987), the Second Circuit found that the jury's finding of actual confusion was supported by clear evidence that the misrepresentations were "patently fraudulent." Based on this blatant falsity, the Second Circuit concluded that customer testimony or survey evidence was not required. *Id.* Under this rule, actual confusion will be inferred from intentional deception.

The Ninth Circuit takes a somewhat different approach on this issue. In *Lindy Pen*, the Court expressed a distinct preference for precedent from other circuits which permit recovery of damages "based on [the] totality" of the circumstances. *Lindy Pen*, 982 F.2d at 1411-12. Here, in the absence of proof of actual confusion, evidence that one distributors switched the products is credible proof of the fact of damage. However, in *Lindy*, the Court determined that the plaintiff had failed to present sufficient proof of the amount of damage. *Id.*

b. Corrective Advertising

In certain circumstances, a plaintiff may be able to recover the actual or estimated cost of corrective advertising to remedy the false or misleading advertising.

Where the plaintiff has already expended funds on a corrective advertising campaign, it is relatively simple for the court to evaluate the cost. For example, in *U-Haul International v. Jartran, Inc.*, the Ninth Circuit awarded the plaintiff 13.6 million dollars, which reflected the amount the plaintiff had spent in corrective advertising, even though it was over twice the cost of the original advertisement by the defendant. 793 F.2d 1034, 1037 (9th Cir. 1986). A more difficult task, however, arises when the award is for future corrective advertising.

The seminal case awarding monies for prospective corrective advertising is *Big O Tire Dealers, Inc. v. Goodyear Tire and Rubber Co.*, 408 F.Supp. 1219 (D.Colo. 1976). The District Court, on post trial motions, upheld a jury verdict of 2.8 million dollars based on the amount of advertising the plaintiff would need to engage in corrective advertising. 561 F.2d 1365 (10th Cir. 1977). The district court had instructed the jury to measure the amount of damages as the difference between the value of the plaintiff's trademark good will before and after the defendant's infringement. The purpose was to put the plaintiff back in the position it would have been, but for the infringement. The court then instructed the jury to consider the amount necessary for the plaintiff to spend on an advertising campaign to eliminate market place confusion and to educate consumers. The jury's award was based, in part, on the plaintiff's previous year's advertising expenditures. The Court of Appeals, however, determined that the 2.8 million dollar award was too much and adopted a 25 percent ratio, use by the Federal Trade Commission which is based on 25 % of the past year's budget on corrective advertising. 561 F.2d at 1376.

Although some courts have taken the position that the plaintiff must prove that it was financially unable to conduct a corrective advertising campaign before trial, this argument has been rejected by the Ninth Circuit. *Adray v. Adray-Mart, Inc.*, 68 F.3d 362, 366 (9th Cir. 1995) ("We see not reason to so limit the availability of essentially compensatory damages.").

3. Treble Damages

The Lanham Act confers authority on the court to increase damages, up to three times, and to increase or decrease an award of profits, by any amount, if the court determines that the profit recovery is either “inadequate or excessive.” 15 U.S.C. § 1117(a). The only limit on this award is that the award “shall constitute compensation and not a penalty.

Treble damages are appropriate in the event that compensatory damages are inadequate to deter future infringing conduct. *PepsiCo v. Triunfo-Mex, Inc.*, 189 F.R.D. 431, 431 (C.D.Cal. 1999). Where damages have been increased, it is usually premised on some sort of willful or knowing infringement. In *U-Haul Intern., Inc. v. Jartran, Inc.*, 601 F. Supp 1140 (D.Az. 1984), *aff'd in part, rev'd in part, modified in part*, 793 F.2d 1034 (9th Cir. 1986), the court doubled a \$20 million damage award where the court found that the defendant had engaged in willful and malicious false advertising.

C. ATTORNEY’S FEES AND COSTS

Section 1117(a) authorizes courts to award attorneys fees to the “prevailing party” in “exceptional” cases. 15 U.S.C. § 1117(a). Exceptional circumstances may be found where the non-prevailing party’s case is “groundless, unreasonable, vexatious or pursued in bad faith.” *Gracie v. Gracie*, 217 F.3d 1060, 1071 (9th Cir. 2000). Attorneys fees will be awarded in false advertising cases where the court determines that the defendant engaged in deliberate false advertising. *BASF Corp. v. Old World Trading Co.*, 41 F.3d 1081, 1099 (7th Cir. 1994).

An award of fees to the “prevailing” party applies equally to defendants and plaintiffs. *Gracie*, 217 F.3d at 1071 (the exceptional circumstances standard applies to prevailing defendants as well as prevailing plaintiffs under the Lanham Act); *Cairns v. Franklin Mint, Co.*, 292 F.3d 1139, 1159 (9th Cir. 2002) (affirming district court’s award of 2, \$208,000 to defendant in false endorsement case under the Lanham Act); *Stephen W. Boney, Inc. v. Boney Servs., Inc.*, 127 F.3d 821, 827 (9th Cir. 1997) (denying attorneys fees to the prevailing defendant because, even though the case revealed animosity between litigating brothers, the case was not frivolous and it raised debatable issues of law and fact).

The basis for an award of attorneys fees to a prevailing defendant is that the plaintiff has either initiated or pursued the litigation “vexatiously” or “unjustifiably.” Use of litigation for an ulterior competitive motive may also justify an award of attorneys fees. One court awarded the defendant’s attorney fees after determining that the plaintiff’s claims had no substance and that the suit was filed as a “competitive ploy.” *Mennen Co. v. Gillette, Co.*, 565 F.Supp. 648 (S.D.N.Y. 1983) *aff'd without op.*, 742 F.2d 1437.

Section 35(a) permits the plaintiff to collect the costs of the action. Unlike an award of attorneys fees, the Lanham Act does not limit taxable costs to “exceptional cases, but makes costs “one of the routine elements of a prevailing plaintiff’s recovery.” *Bowmar Instrument Corp. v. Continental Microsystems, Inc.*, 497 F.Supp. 947, 961 (S.D.N.Y. 1980).

IV. CONCLUSION

Whether to bring a claim under the Lanham Act or the UCL, or both, will be determined by who the plaintiff is and what type of relief is sought. When choosing to sue under the UCL or the Lanham Act, keep the following in mind:

- The Lanham Act is only available to private plaintiffs and, specifically, in the Ninth Circuit is limited to “competitors.” The case law is unclear, and varies from Circuit to Circuit, as to exactly what constitutes a sufficient competitor relationship to give a plaintiff standing under the Lanham Act. The UCL has no such “competitor” standing requirement. Thus, under the UCL, an individual may sue on behalf of himself or herself, as a competitor or consumer, or on behalf of the public.
- Although the Lanham Act and the UCL both provide for injunctive relief, civil penalties are only available under the UCL. Likewise, violation of Section 17500 may be a misdemeanor.
- Private plaintiffs should be aware that the Lanham Act authorizes a wide variety of monetary relief which is unavailable under the UCL. Under the UCL, plaintiffs may only recover restitution. However, under the Lanham Act, plaintiffs are entitled to an award of the defendant’s profits, plaintiff’s actual damages (in the form of plaintiff’s lost profits and for corrective advertising) and, in certain instances, treble damages.
- The Lanham Act also permits the recovery of attorneys fees and costs for the prevailing party. The UCL generally does not, though other theories of recovery, such as the “private attorney general” doctrine may provide a basis of such an award to a prevailing plaintiff.