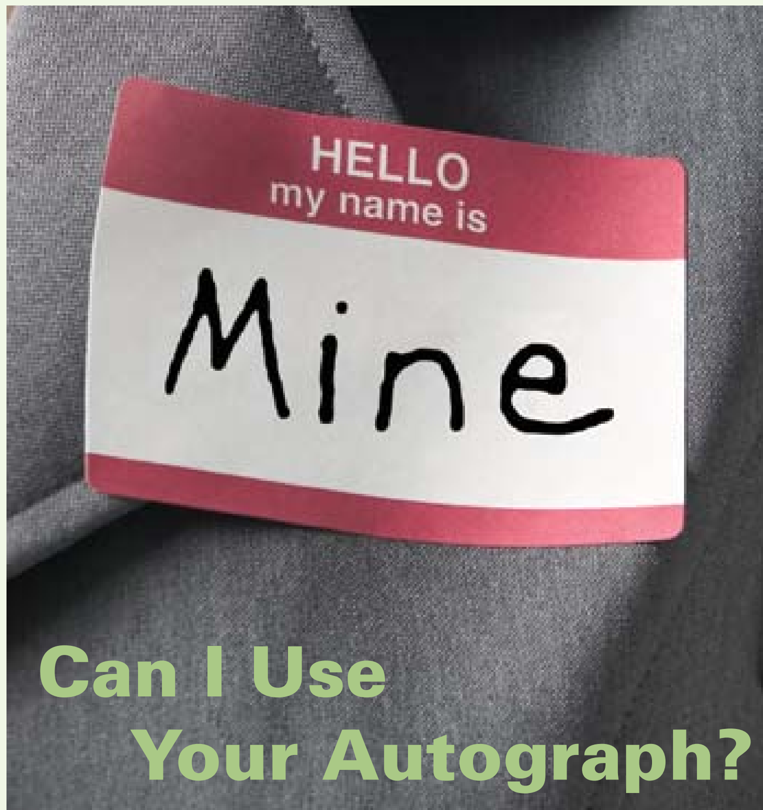
adbriefs

Current Legal Issues Affecting the Advertising Industry / Fall 2005

Covering Your Ads®



PUBLICITY PROTECTIONS ARE NOT ABSOLUTE, and the literal language of various state publicity laws (as well as the First Amendment) help to ensure that a person's name and likeness can still be used, without permission, in the context of news, public affairs, sports broadcasts, political campaigns and the like. Indeed, on a question certified to it by the Eleventh Circuit in *Erica Tyne et al. v. Time Warner Entertainment Company, L.P. et al.*, the Supreme Court of Florida recently reaffirmed the notion that the use of someone's name, voice or likeness in a motion picture will not support a publicity rights claim.

In hybrid contexts, however, where artistic or newsworthy expression is combined with commercial promotion, the issue of whether a use is commercial or non-commercial becomes murkier. Indeed, with the increasing presence of so-called advertorials, infotainment, video press releases, and some forms of branded entertainment, the line is continuing to blur between what is "commercial" and what is not, and consequently *(Continued on page 8)*

Good Place for a Pop-Up

In a long-anticipated decision concerning pop-up advertising on the Internet, the Second Circuit recently ruled that the use of a trademark in an unpublished directory of terms that trigger the delivery of contextually relevant advertising does not constitute "use" of the trademark under the Lanham Act.

In *1-800-Contacts v. WhenU.com, Inc.*, the plaintiff 1-800 sued WhenU alleging, *inter alia*, that WhenU infringed 1-800's trademarks in violation of the Lanham Act by causing pop-up ads for 1-800's competitors to appear on a user's desktop when the user accessed 1-800's website. WhenU, an internet marketing company, uses proprietary software to provide its subscriber's with advertising, in the form of "pop-up ads," that is relevant to their online browsing activity. WhenU used the www.1800contacts.com domain in an unpublished, internal directory of targeted website addresses in order to send competitors' ads to subscribers who might be looking at 1-800-Contacts' website. 1-800 claimed that the ad delivery confused consumers into believing that the advertiser who appeared in the pop-up ad was somehow affiliated with or endorsed by 1-800-Contacts. The S.D.N.Y. enjoined WhenU from delivering the ads, finding likely trademark infringement.

The Second Circuit reversed, vacated the injunction, and held (in the context presented) that the use of a web address in an unpublished directory of terms is analogous to an individual's private thoughts about a trademark, stating "Such conduct simply does not violate the Lanham Act . . ." With various so-called "spyware" proposals being debated at the state and federal level, however, and other legal theories against online ads still relatively untested, these issues will likely continue to pop up. ■

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Style Over Substance
Are Drug Ads Too Cool For Their Own Good?

Eight years after the FDA opened the gates for drug manufacturers to more easily market prescription drugs directly to consumers, a national debate is growing over the broad access drug companies have to the American public.

As drug ads barrage the airwaves and print media, a growing number of consumers, legislators and doctors are expressing concern that such widespread marketing is contributing to imprudent use of prescription medications and soaring healthcare costs. Some legislators are proposing new laws to rein in drug advertising and some doctors are in favor of preventing direct-to-consumer drug marketing entirely, while the industry hopes to preempt heightened regulation by reforming its practices.

Prior to 1997, the Food and Drug Administration maintained stringent guidelines that heavily restricted the ways in which prescription drug manufacturers could advertise their products. As a result, broadcast drug ads provided little information beyond the brand name to avoid having to squeeze lengthy risk information into a 30-second commercial. In response to consumer confusion and concerns that some ads might be misleading, the FDA revised its approach. Under the new guidelines, drug manufacturers are able to more fully explain their products' purposes in ads that include abbreviated versions of the risk information ordinarily detailed in full for print ads.

Since the revised guidelines were released, drug manufacturers have made a nearly fivefold increase in their advertising budgets, with television outreach receiving the largest allocations. In turn, consumers have become more exposed to available prescription medications than ever before. Results of a recently published study by Emory University School of Medicine found that, in 2001, an average television viewer in Atlanta was likely exposed to more than 30 hours of drug advertisements, about 10 hours of which were specifically for prescription drugs.

Some research suggests that the increase in drug advertising has had beneficial effects: improving communication between physicians and their patients, increasing disease diagnoses, helping to maintain patients' use of medications and working to eliminate taboos that surround certain illnesses. On the other hand, research also links the exponential growth of these ads to the sharply rising overall cost of healthcare, as consumers opt for brand name medications over their generic counterparts. There is additional concern that the advertisements encourage consumers to turn to prescription medications when they do not need them, should not take them or could use alternative, cheaper methods as treatments.

Some doctors are calling for the prohibition of direct-to-consumer drug advertising; they argue that manufacturers should only be able to market to members of the healthcare community. In the mean time, legislators have started proposing bills that would restore heightened restrictions on drug advertising. Two U.S. Senators are pushing legislation that would prevent drug manufacturers from building marketing costs into the pricing for products that are sold to federal health programs, such as Medicare. Other proposed bills would create a special FDA division that would review and approve advertisements before they are made public.

The FDA may further revise its advertising guidelines to make it harder for consumers to ignore a drug's adverse effects, whether potential or certain. One proposed idea would require that risk and benefit declarations about a medication be made in a headline or question and answer format, to better ensure the message is clearly communicated.

The drug companies are also beginning to respond. Bristol-Myers Squibb Co. has already announced that it will wait at least one year before marketing its new drugs directly to consumers, which would give healthcare professionals time to learn about new treatments in advance of the general public, and the Pharmaceutical Research Manufacturers of America recently released a voluntary code of conduct in an effort to circumvent the need for federal legislation. Without widespread compliance with the new code, however, drug companies may soon find themselves facing similarly strict consumer advertising regulations as they had eight years ago. ■

Napa County Gets Sideways with Whiny Winemaker

California Legislature and courts recently uncorked protective measures designed to protect the integrity of Napa County's enviable reputation in the wine industry.

"Because Napa Valley wine stands at the forefront of the state's wine industry, the Legislature has sought to protect the Napa Valley name by ensuring that wine bearing the name Napa or Napa appellation names are of the same high quality associated with grapes from that area." *Bronco Wine Co. v. Jolly*, 2005 WL 1244920, *19 (May 26, 2005). Enacted in 2000, Section 25241 prohibits companies from using the word "Napa" (or the name of any other federally recognized viticultural region within Napa County-i.e., Rutherford, St. Helena, etc.) on the label, packaging or advertising of any wine produced, labeled, bottled, offered for sale or sold in California, unless at least 75% of the grapes used to make the wine are from Napa County in general, or 85% of the grapes are from a viticultural region therein. The statute was designed to close a "loophole" created by federal law, which allows the use of geographic names on wine regardless of the origin of the grapes, as long as the name was in use before July 7, 1986 and the label states the true appellation of origin of the grapes. 27 C.F.R. § 4.39(i)(1)-(2).

Bronco Wine Company ("Bronco"), who claims to specialize in premium brands at bargain prices, owns the rights to the brand names "Napa Ridge," "Rutherford Vintners," and "Napa Creek Winery." Bronco uses these names in over 100 labels on wines that are made *entirely* of grapes from outside Napa County. Aware of the negative impact that Section 25241 could have on its business, Bronco challenged the statute on several grounds, asserting that it is federally preempted and unconstitutional in violation of Free Speech, the Commerce Clause, and the Takings Clause of the Fifth Amendment.

The California courts rejected all of Bronco's arguments. After holding that Section 25241 is not preempted, because it is permissibly stricter than the applicable federal law, the California Supreme Court remanded the case to the appellate level, where Bronco's remaining claims were denied and Section 25241 was deemed constitutional. *Bronco*, 2005 WL 1244920.

The appellate court concluded the following: (1) Section 25241 is not an impermissible restriction on speech because "federal and state regulators, the wine industry, and the general public view the origin of the wine as a significant factor affecting its quality and consider the use of a geographic brand name misleading where the wine is not made with grapes grown in the named geographical area," and inherently misleading speech is not protected speech. *Bronco*, 2005 WL 1244920 at *12; (2) There is no Commerce Clause violation because Section 25241 does not discriminate against out-of-state wineries, California has legitimate interests in protecting its consumers from confusion and in maintaining the premium reputation of Napa County wines, and there is only an indirect effect on interstate commerce because the statute applies to the producers or bottlers of the wine, not the merchants who sell it; and (3) Section 25241 does not constitute an impermissible taking of Bronco's property because it is still free to use the brand names, as long as it adheres to the appellation requirements.

Now that the constitutionality of Section 25241 is firmly established, changes in the dynamics of California's wine industry are imminent. Napa County grape prices are likely to increase, while the value of Napa appellation brand names may take a blow because of the limitations that now come with them. Conversely, it is possible that the new protection afforded the premium reputation of Napa County wines could result in higher prices for such brand names, as sometimes seen in premium niche markets. Companies such as Bronco will be forced to change their business strategies and decide whether to change their brand names and use non-Napa grapes, or to maintain their current brands using predominantly Napa fruit. Finally, and perhaps most importantly, consumers may finally be cured of the delusion that they can actually buy quality wine for $3.99 a bottle. ■

Jingle All the Way

RHYME, RHYTHM, AND REPETITION. As every seasoned kindergarten teacher knows, kids remember more when they associate information with catchy music. And adults have proven no different. From the A-B-C melody to the Oscar Mayer bologna tune to Apple's use of "Vertigo" by U2 to advertise the iPod, we have been surrounded since childhood by music linked to products. And while these jingles may seem ubiquitous in our world of mass media, there are numerous economic and legal factors that should be considered before fusing marketing and music.

For jingles, there are several yellow brick roads leading to the Emerald City of every successful ad campaign-product sales. The most affordable route calls for an advertising agency to commission a jingle for use in a commercial. The agency will have a particular message it wants to convey and will request bids from music suppliers to compose an original song. Under section 201(b) of the Copyright Act, the composer's work is deemed a work made for hire-the agency will pay the composer a "creative fee" for the original writing and recording of the music while the advertising agency will own all copyrights in the composition. A creative fee for a single 30 second commercial can range anywhere from $1,500 to $15,000 depending on the number of musicians hired and the current studio rental rates. The result is a clear delineation of rights for both composer and agency and a simple payment scheme void of rates, royalties, and lawyers.

However, what original jingles gain in simplicity they lose in potential advertising strength. An original jingle is a new tune that is not instantly recognized by audiences. Viewers must gain an attachment to the music through repeated exposure that ideally results in a secondary meaning joining song and product. However, such linkage may ultimately prove elusive, with not every jingle establishing itself like Dr. Pepper's "I'm a Pepper" or Folger's "The Best Part of Waking Up."

To get around such issues, agencies may want to use an already popular song in an advertising campaign. While this option is admittedly more expensive than commissioning an original jingle, it sidesteps the problem of recognition and often easily melds product with tune. However, such benefits are not without costs, as both the legal and economic landscapes grow significantly more complex when well known songs are used as advertising jingles.

Pursuant to section 106(1) of the Copyright Act, the music publisher and/or songwriter of a popular song hold the exclusive right of reproduction to their composition. An agency that wishes to use the tune or lyrics of this song-but not necessarily the original sound recording-will need a synchronization license from the music publisher. The price tag of such licenses largely depends on the popularity of the song being used and the type of commercial the song appears in. Other factors affecting price include whether the song is used in the foreground or background, how much of the popular song is used, the anticipated length of the ad campaign, and the territory in which the commercial is shown. However, once these factors are determined and negotiated, synchronization licenses typically have no limit as to the number of times a commercial may be broadcast during the license term.

The final option in ad jingles is the use of an original sound recording of a popular song. Under section 201(b) of the Copyright Act, record companies typically own the master recordings to artists' songs released on their labels, and an advertising agency will need to clear a master use license from a record company before it uses a sound recording. The rates of a master use license vary with the popularity of the desired song, and each license must be negotiated on an ad hoc basis. And while this coupling of synchronization and master use licenses makes this the most expensive jingle option, it also promises instantaneous traction with consumers. The average price tag hovers around $75,000 for use of a preexisting song in a national commercial, although some payments have reached far higher. "Stand by Me" as used by Citibank and "You'd Be So Nice to Come Home To" as used by Chanel perfumes each commanded fees above $500,000. But it was Microsoft who showed just how valuable a popular song can be to a national advertising campaign-the software giant licensed the Rolling Stones' "Start Me Up" for the launch of Windows 95 and Madonna's "Ray of Light" for Win-

Depression Drug Warning is a Real Bummer

The Food and Drug Administration recently issued an advisory to all manufacturers of antidepressant drugs to include a "black box" label and expanded warnings alerting health care providers to the increased risk of suicide in the treatment of children and teens. The warning was made as a result of studies which led the FDA to conclude that in some cases human intake of antidepressants may lead to more suicidal thoughts or actions in the first few months of treatment. In particular, children and teens suffering from bipolar illness, or even young people with a family history of bipolar illness, or with relatives that have attempted suicide, are warned that they should consult their physician to discuss the increased risks of treatment. Doctors are urged by the FDA to discuss the antidepressants with patients before prescribing them, and to see patients at least once a week during the first month of treatment and bi-weekly for one month thereafter.

A "black box" warning is the most severe prescription medication warning located at the top of the manufacturer's label instructions provided to doctors. It must be surrounded by a black box and printed in bold, setting forth the increased risk of suicidal thoughts and behavior and encouraging patients to weigh this risk against the benefits of use of the drug by children. The "black box" classification also prohibits the manufacturer from taking out "reminder ads" that remind health care providers of the availability of particular medications. At the time the FDA issued this warning, only ten FDA approved drug products for children had been issued "black box" warning advisories.

The FDA's warning also includes a "Patient Medication Guide" (MedGuide), consisting of FDA approved information for patients and provided by pharmacies with each prescription medication filled or refilled. In addition, the FDA will apply "Unit of Use" packaging, a method of preparing a medication in an original container, sealed and pre-labeled by the manufacturer, and containing sufficient medication for one normal course of therapy. This packaging ensures that patients receive a MedGuide with every prescription or refill for all antidepressants.

Although no suicides occurred in the FDA's trials, the risk of suicidal thinking or behavior in children and adolescents being treated was twice the placebo risk during the first few months of treatment. Despite these findings, the FDA is not taking initiatives to prohibit the use of antidepressant drugs by children, much to the dismay and anger of the many parents who have lost their children after being treated with these drugs, and who blame the FDA for realizing the risks too late. On the other hand, manufactures and some doctors expressed concern that this warning will reduce the number of children that would benefit from use of antidepressants. The new warning recognizes this need while advising close supervision of young patients as a way of reducing the risk of suicidal behavior. ■

dows XP to the tune of $12 million each.

In a world of growing schedules and shrinking time, advertisers must be creative in attracting consumer interest and ultimately moving products. Distractions are legion and attention spans short, but a successful advertisement that incorporates music may be just the right way to jingle all the way to sales and eventual success. For more information on the legal issues surrounding commercial jingles, please contact the Advertising Law Group at Sheppard, Mullin, Richter & Hampton. ■

Stadium Naming Rights Deals

Will Your Rows Still Smell As Sweet By Another Name?

CONSIDERING THAT COMPANIES craving public attention are willing to pay upwards of $80 million dollars in order to secure stadium naming rights, its no wonder that sports teams are jumping at the opportunity to take advantage of this revenue stream that did not even exist a little over a decade ago. However, there are many issues and ramifications that must be carefully considered and negotiated before a sports team should enter into a naming rights agreement, as doing so on the wrong terms may result in being stuck with a name that neither the team nor the fans are happy with.

In the first instance, sports teams should closely evaluate any company with which they intend to partner. Ending up with the wrong partner can result in quite a bit of embarrassment and loss of goodwill. Never was this clearer than during the Enron scandal, which ultimately lead the Houston Astros baseball team to change the name of their stadium from Enron Park to Minute Maid Park. Sports teams should make every effort to understand the stability, prospects and reputation of any company attempting to associate its name with the organization to reduce the risk of becoming embroiled in a scandal or bankruptcy proceeding. Ultimately, sports teams may find it preferable to partner with a traditional blue chip company whose continued existence is more certain, rather than fledgling companies or companies that are more sensitive to market fluctuations such as dot-commers.

Notwithstanding the team's best efforts to uncover the smoking gun during the diligence process, it is of course still possible that the team's corporate partner may eventually find itself in trouble, especially in light of the long term nature (often ten years or more) of naming rights deals. It is therefore vital that the naming rights agreement contain appropriate contractual restrictions in order to prevent the company from engaging in unwanted activities. The agreement must also provide the team with the right to terminate the relationship (in addition to its entitlement to money damages) in the event that restrictions are not adhered to.

Perhaps the most important provision to include in the agreement is a so-called "morals clause". As indicated by its name, a morals clause would restrict the corporate partner from engaging in immoral activities. While morals clauses should include a non-limiting list of as many bad acts as can be imagined, the clause should also be phrased generally to account for those unthinkable scenarios, which somehow seem to occur more often than is probable.

The financial distress of a company can also result in negative consequences for the team. For example, Adelphia Communications had agreed to pay $30 million dollars for the naming rights to the Tennessee Titans' football stadium, but since Adelphia entered into bankruptcy protection in 2002, the Titan's have been left without a corporate partner and their stadium is now simply known as the "Coliseum". To guard against the dangers of insolvency, the naming agreement should contain financial assurances similar to those contained in traditional bank loan agreements. While it may be difficult for the company to agree to the full laundry list of covenants found in such loan agreements, at the very least the contract should require the company to maintain debt-to-equity ratios.

Similarly, the agreement should restrict the company from engaging in M&A transactions that could lead to the company becoming associated with or controlled by a person or entity who the team would not otherwise agree to partner with. In Philadelphia, where both the Flyers hockey team and the 76ers basket-

ball team play, a naming rights deal was originally consummated with Core States, who was subsequently acquired by First Union, which then, nearly immediately, merged with Wachovia. While Wachovia may be an excellent partner, it certainly was not who the Flyers or 76ers thought they were signing on with.

The foregoing example also highlights the need to prohibit the company from changing its corporate name without the team's consent, whether such renaming is in connection with an M&A transaction, bankruptcy restructuring, or otherwise. Frequent name changes not only may result in time and expense commitments necessary to change the signage and merchandise, but may also cause derision among fans. When the home of the San Francisco Giants baseball team was changed from Pacbell Park to SBC Park, so many fans complained that, in order to soften the blow, season ticket holders each got $100 ballpark replicas bearing the SBC Park logo at a stadium giveaway.

While the issues mentioned above may be difficult to negotiate with the corporate partner, no issue is likely to be more hotly contested than the ownership and use of the newly created trademark. The corporate partner will of course believe that, since the trademark merely joins their corporate name with a generic word like stadium, field, or park (e.g., FedEx Field, the Staples Center, and Miller Park), the company should own the trademark without restriction. This stance would be supported in situations where the company sponsors two different stadiums, such as in the case of American Airlines who has acquired naming rights for the homes of the Dallas Mavericks basketball team (American Airlines Center) and the Miami Heat basketball team (American Airlines Arena).

However, the team's ownership of the trademark means, in the event of the corporate partner's bankruptcy and/or dissolution, the team could continue to control the name, and thereby prevent its valuable intellectual property from becoming subject to a complicated bankruptcy process or auction. Also, the team may want to include a phrase or term in the mark to remind fans of its tradition, such as the Denver Broncos football team and Invesco agreeing to name the stadium Invesco Field at Mile High in commemoration of former Mile High Stadium.

Finally, the sports team is the one that has to live and work under the shadows of the trademark and make sure that the brand name is accepted by its fans. Given the supposed emphasis on the sanctity of sports in our culture, the team thus may have the greater interest in preserving the goodwill and pristine reputation of the trademark. Even if the trademark is to be owned by the company, the team should make every effort to retain consent rights over certain uses of the trademark including, perhaps, restrictions on ambush marketing the fans may find annoying or campaigns or images that are lewd or do not correspond to the image of the franchise. ■

BREAKING NEWS

Court Applies Prop. 64 to False Advertising Class Action

Many California Courts have been looking at whether California's Proposition 64 (requiring "injury in fact" to maintain an unfair competition claim) applies to cases pending in November 2004 when it was passed. However, few have had the opportunity to apply it to the underlying claims. On June 17, 2005, the San Diego Superior Court did just that and held in *Riney v. The Safeway Companies, et al.*, No. GIC 830538 that a false advertising class action plaintiff must plead that he saw and relied on the challenged advertising in order to state a claim. This imposes an initial subjective inquiry before the traditional objective inquiry of whether the challenged advertising is deceptive.

The plaintiff in *Riney* brought a false advertising action against Safeway based upon language at Safeway's point of sale displays for gift cards. The gift cards sold in these displays were issued by a number of different retailers. Riney sued both "on behalf of the general public" and as a class action plaintiff. However, he described himself as the "bearer" of a Gift Card, representing a class of "bearers". Safeway challenged Riney's complaint in part on the ground that as a "bearer" he (and the class) did not necessarily see the advertising about which he was complaining, since the signage was at the point of sale, not at the point of redemption. Riney argued, based upon pre-Proposition 64 cases, that actually viewing the advertising and relying on it was not a necessary element and that he was merely required to prove that it was deceptive to the public. The Superior Court, however, agreed with Safeway and ruled that one who was merely a "bearer" could not maintain a complaint. The Court required Riney to file an amended complaint alleging actual injury, i.e. that he was a purchaser of a specific card, and saw and relied upon the advertising in purchasing that card. Absent such an allegation, the Court indicated that it would dismiss the case.

This is the construction that was intended by the voters in passing Proposition 64, but this appears to be the first case interpreting Proposition 64's application to a false advertising class action. Where courts had held pre-Proposition 64 that a false advertising claim could establish a claim based only on an objective element (deceptiveness), plaintiffs must now plead and prove that they (and the members of any purportedly class) actually saw and relied upon the challenged advertising. ■

Can I Use Your Autograph? (continued from page 1)
which types of uses require permission and which do not.

For example, in a *bona fide* article about fashion, a magazine could almost certainly list the names of celebrities seen wearing a particular designer's clothes, assuming the report were true. It could even feature photographs of those celebrities caught wearing the clothes in public. But what if the article was online and featured hypertext links to places where the designer's clothes could be purchased? Moreover, what if the designer paid to be mentioned in the article? Or paid for the article to be written in the first instance?

These different scenarios are being debated by editorial and sales staffs across the country in terms of editorial integrity. They're also being debated by the FTC, state AG's and consumer watchdog groups like *Commercial Alert* in terms of what constitutes false and deceptive advertising. And we could soon see a celebrity take another run at the issue from a publicity rights perspective, as actor Dustin Hoffman did a few years back, ultimately without success.

So what was it about Dustin Hoffman's suit against the publisher of Los Angeles Magazine that doomed his claim to failure in *Hoffman v. Capital Cities/ABC, Inc.*? Readers may recall that Hoffman brought that suit claiming that the Magazine violated his state law publicity rights and his rights under Section 43(a) of the Lanham Act when the Magazine used, without his permission, a still photograph of Hoffman from the motion picture "Tootsie," in which an American flag and Hoffman's head remained as they appeared in the original still from the movie, but Hoffman's body and his original long sleeved red sequin dress were replaced by the body of a male model in the same pose wearing a spaghetti-strapped silk evening dress and high heeled sandals. The text on the page read: "Dustin Hoffman isn't a drag in a butter-colored silk gown by Richard Tyler and Ralph Lauren heels." Hoffman brought suit.

The line is continuing to blur between what is "commercial" and what is not, and consequently which types of use require permission and which do not.

The District Court entered judgment in favor of Hoffman. The Ninth Circuit reversed, holding that the Magazine's use of Hoffman's Image was not pure commercial speech and thus was entitled to the full protection of the First Amendment. Reciting the "common sense" distinction between speech that does no more than propose a commercial transaction and other varieties of speech, the Ninth Circuit explained that "common sense tells us this is not a simple advertisement and therefore the Los Angeles Magazine's publication of the altered 'Tootsie' photograph was not commercial speech." Accordingly, the court held that the Magazine's non-commercial use of the Tootsie photograph was entitled to the full protection of the Constitution and directed that judgment be entered for Los Angeles Magazine.

Just two months later, however, in *Downing v. Abercrombie & Fitch*, 265 F.3d 994 (9th Cir. 2001), the Ninth Circuit determined that the use of a photograph in the context of a clothing catalogue, which also contained articles tailored to the catalogue's surfing theme, was less like the protected use in *Hoffman* and more akin to a simple advertisement. Abercrombie is a clothing retailer that sells casual apparel for men and women through stores nationwide and also through its subscription catalogue, the "Abercrombie & Fitch Quarterly". The Quarterly contains photographs of models wearing Abercrombie's garments as well as pictures of the clothing displayed for sale. In addition, approximately one quarter of each issue is devoted to stories, news and other editorial pieces. The Spring 1999 Quarterly contained a section entitled "Surf Nekkid", which included an article recounting the history of surfing. Abercrombie also included a 700 word story entitled "Your Beach Should Be This Cool," describing the history of a famous California surfing beach. The following page exhibited the photograph of the plaintiffs from the 1965 Makaha International Surf Championship in Hawaii. The two pages immediately thereafter featured t-shirts that were replicas of the t-shirts worn by the surfers in the photograph.

The surfers depicted in photograph sued Abercrombie & Fitch for using the photograph without their permission, asserting statutory and common law commercial misappropriation claims under California law, and also asserting Lanham Act claims. The District Court granted summary judgment in favor of Abercrombie, concluding that its use of the photograph constituted expression protected under the First Amendment. The Ninth Circuit disagreed.

Under the facts presented, it appeared to the Court that Abercrombie used the plaintiffs' photograph "essentially as window-dressing to advance the catalogue's surf theme." The Quarterly did not explain that the plaintiffs were legends of the sport and did not in any way connect the plaintiffs with the story preceding the photo. Distinguishing *(continued on page 11)*

~~BUYER~~ SELLER BEWARE:
The Perils of Online Advertising

It's 2:00 a.m. Do you know where your ad is? Online advertising has become big business in recent years with online ad sales reaching a staggering 2.8 billion in the first quarter of 2005 alone. With roughly 67% of Americans connected to the Internet, advertisers are understandably drawn to the powerful lure of the ether. In 2004, Americans spent $69 Billion buying items over the Internet and predictions estimate that the number will easily exceed $100 Billion within the next few years. Unlike with traditional print media, however, advertisers don't have much control over where their ads are being placed online. In fact, the majority of Internet advertising is handled through brokers who place ads on web sites based on the demographic information of the site's visitors and little else.

Beside the enormous volume of consumer traffic on the Internet, the ability to target specific, identifiable groups of people and deliver tailored advertising content to them is an irresistible draw for advertisers. Saturation is greater and brand identification is stronger in this environment. The global reach of the Internet has facilitated the development of robust online communities, where people from different geographic areas are able to come together and embrace their similarities. It has also spawned topical discussions with lively debate on current events. Today, "blogging" has grown rapidly in popularity and "bloggers" share their opinions on a variety of topics to anyone willing to read them. "Blogs" (short for Weblogs) can be personal, political, or merely topical. Some are witty and acerbic commentaries, but many are simple narratives or personal views on a subject. Most are obscure, some have cult followings, and a rare few have achieved national or international recognition. Whatever they are, a good number of blogs are generating substantial traffic to their sites.

Online chat-rooms, where people with similar interests can meet and exchange ideas, is another popular forum for Internet users. Many service providers host topic specific chat rooms designed to provide community for their members. AOL, for example, has hundreds of chat rooms ranging from book lovers to car enthusiasts, gender specific groups, racial specific groups, location specific groups, people who love to dance salsa…the list goes on and on. For advertisers, these forums are a gold mine of demographic specific consumers waiting to purchase their products.

However, the poorly regulated landscape of the Internet presents serious perils for the online advertiser. Not only is the uncertainty about where ads might be placed a major concern for advertisers, but the inability to control the content created by the over 680 million worldwide internet users is creating a serious conundrum for Madison Avenue. The fast and loose, interactive nature of many web sites, blogs, and chat-rooms keeps eyeballs on the screens longer, but conservative brands can ill afford to have their name associated with controversial or simply offensive materials.

During the 2004 U.S. Senate Race, for example, South Dakota Representative John Thule found that his campaign ads were running on a site for male escorts. Cendant Corp.'s Cheaptickets felt compelled to remove all of its advertising from Gawker Media after that company launched a travel blog, Gridskipper, that covered topics such as eating psychedelic mushrooms in Amsterdam or finding an escort service in Prague. The enormity of the problem, however, was brought into full focus recently when Internet titan Yahoo! shut down all of its user-created chat-rooms after several powerful advertisers pulled all advertising from Yahoo! after discovering banner ads in chat-rooms with names like "Girls 13 and Under for Older Guys."

E-commerce has become a permanent feature of the U.S. economy and advertisers are not likely to flee merely because of these isolated occurrences. However, these incidents do highlight the growing need for advertisers to know exactly where their ads are being placed and for content providers to provide better information about the placement of the ads. For blogs, help is already available. Blogads.com tracks blogs that have dedicated readerships and have been in existence for at least six months and can help match advertisers with appropriate content. While there are no guarantees as to what ultimately ends up on the screen, advertisers at least have a better idea of who they are getting into business with and can make more informed decisions. Chat-rooms, however, pose a more difficult problem both for advertisers and the content providers. Because many chat-rooms are user-created, online providers have little control over the content. The dilemma, of course, is that these user-created chat-rooms are often demographic specific and can represent a gold-mine for the advertisers. Targeted ads to teens, or car enthusiasts, or people with active lifestyles are much more affective than the traditional, shotgun approach of broad demographic ads. But the risks are tremendous, as the Yahoo! incident illustrates. Perhaps a niche will emerge for brokers who specialize in user-created chat-rooms. Until then, however, advertisers may shy away and focus their efforts only on chat-rooms that have been created by and monitored by the online providers. ■

Advertising

in Portugal

Advertising in Portugal is mainly regulated by public law.

Besides the public entities (Consumer Institute and police and administrative authorities), which are the ones with control and sanctioning powers, there are three private entities which regulate advertising in Portugal: the Civil Institute of Advertising Auto-discipline – ICAP, the Portuguese Association of Advertising Agencies – APAP and the Portuguese Association of Direct Marketing – APMD. Each has issued a Code of Conduct or Lawful Practices in the advertising business. They act as a subsidiary and complementary part of the advertising control. They can also arbitrate conflicts when called upon to do so by the Consumer Institute.

Advertising in Portugal is ruled by several major principles: lawfulness; identification; truthfulness; and respect for consumer rights. Claims on the origin, nature, composition, properties and acquisition conditions of the advertised goods and services must be exact and provable, at all times, before the competent authorities, when requested. Also, the Advertising Code forbids all wrongful advertising (any advertising that, in any way, and due to its wrongful character, induces or can possibly induce a mistake to its addressee, or that may harm a competitor), independently of economic damages.

Moreover, comparative advertising (the one which explicitly or implicitly identifies a competitor or the goods or services offered by a competitor) is only permitted when, independently of the media used, it meets the following requirements: a) It is not wrongful; b) It compares goods or services that correspond to the same needs or have the same objectives; c) It objectively compares one or more essential, pertinent, provable and representative characteristics of those goods and services, among which the price is included; d) It does not generate confusion between the advertiser and a competitor or between trademarks, corporate names, other distinctive signals, goods or services of the advertiser or of a competitor in the market; e) It does not discredit or depreciate trademarks, corporate names, other distinctive signals, goods, services, activity or situation of a competitor; f) It refers, in all cases of products with designation of origin, to products with the same name; g) It does not take inappropriate advantage of a trademark, commercial name or other distinctive signal of a competitor or of the designation of origin of competing products; h) It does not present a good or service as being an imitation or a reproduction of a good or service which brand or corporate name is protected.

There are no regulations with respect to price advertising. Only the truthfulness principle applies. The prices advertised must correspond to the ones practiced by the advertising company. Any special offer must be mentioned, as well as the period of validity of the offer and applicable special conditions.

Furthermore, it is necessary to bear in mind the Advertising Code rules concerning, essentially, the criteria of misleading publicity. According to the Publicity Code, the advertising of a contest or promotion must refer to all of its main aspects and may not induce the consumers that a prize will be obtained regardless of any monetary compensation as well as mention the number of the authorization of the administrative entity that authorized it.

As for limitations to advertising they are made in respect of certain products or services like:

- Advertising alcohol is forbidden both in radio and television between 7am and 22.30pm. Also, it is only permitted when: it is not specifically addressed to underaged, and particularly does not show them consuming those beverages; it does not encourage excessive drinking; it does not despise non-consumers; it does not suggest success, social achievement or special capacities deriving from consumption; it does not suggest the existence of therapeutic properties or stimulating and sedative effects in alcoholic beverages; it does not associate the consumption of these beverages with exercise or driving; it does not underline alcohol as a positive quality.
- Advertising to tobacco is forbidden in all kinds of media, notwithstanding special regulations that may permit it. The advertising of tobacco products at international sports car events, namely Formula 1 racing, is presently authorised by Decree-Law n.º 178/2000, until December 31st, 2005.
- Advertising to prescription drugs and treatments is forbidden with exception to technical publications addressed to doctors and other health care professionals.

adbriefs — This Issue: Contribution from Portugal

Covering Your Ads Around the World

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• Advertising to games of chance is forbidden if it is the main object of the advertising message (with the exception of the Santa Casa da Misericórdia de Lisboa).

• Advertising to automobiles is forbidden whenever it contains: a) Situations or suggestions of use of vehicle that may threaten the personal safety of the user or third parties; b) Situations or suggestions of use of vehicle damaging to the environment; c) Situations of infringement of the Traffic Code Rules, including speeding, reckless driving, non-use of safety devices and disrespect for signalling or pedestrians.

• Advertising to "miracle" products is forbidden, notwithstanding special regulations that may permit it.

Other main restrictions are the prohibition of advertising that: a) depreciatively uses institutions, national or religious symbols or historic characters; b) stimulates or appeals to violence, as well as any other illegal or criminal activity; c) is against human dignity; d) contains any discrimination in terms of race, language, territory of origin, religion or gender; e) uses, without consent, the image or words of any person; f) uses obscene language; g) encourages harmful behaviours to the protection of the environment; h) has as object ideas of union, political or religious content.

Also, according to the Advertising Code, children may only be used in ads as main characters if there is a direct relation between them and the product/service sold.

Moreover, the reference to third parties trademarks must be duly authorised by the trademark owners, once that they have the exclusive and property of the trademark According to the Publicity Code, advertising infringements may be punished with fines and withdrawal of ads. Furthermore the Code foresees the possible of indemnity based on civil liability.

The Advertising Code sets forth monetary penalties for various infractions. In addition, the following accessory penalties may also be imposed: seizure of the goods used in the infringement; temporary interdiction, up to a maximum of two years, of the advertising activity; deprivation of subsidies or benefits from public entities; closure of the facilities where the advertising activity is held or cancelling of licences. The decision may also be made public through publication in newspapers at the infringers expenses. Finally, interim measures to stop advertising that may endanger the health, security, the rights of its addressees, of the underage or of the public, may also be requested independently of intention or real damage.

In conclusion, the Portuguese Advertising Code closely tracks the European Directives on Advertising, and has an extensive and detailed regulation on most aspects of advertising, together with monetary and accessory sanctions that, unfortunately, do not always dissuade the infringers of misusing a legitimate and most efficient way of promoting their products and services. ■

cover story

Can I Use Your Autograph? *(continued from page 8)*

Hoffman, the Court held that where Abercrombie itself used the plaintiffs' images in its catalogue to promote its clothing, Los Angeles Magazine was unconnected to and received no consideration from the designer for the gown depicted in the article in question in *Hoffman*. Further, while Los Angeles Magazine merely referenced a shopping guide buried in the back of the Magazine that provided stores and prices for the gown, Abercrombie placed the plaintiffs' photograph on the page immediately preceding the t-shirts that were being shown for sale, which t-shirts were replicas of the t-shirts worn by the plaintiffs in the photograph. Based on these factors, the Court concluded that Abercrombie's use was much more commercial in nature and, therefore, not entitled to the full First Amendment protection accorded to Los Angeles Magazine's use of Hoffman's image.

The juxtaposition of those two cases could be explained as simply as saying that the traditional media speaker – Los Angeles Magazine – was protected in *Hoffman* while the traditional advertiser – Abercrombie – in *Downing* was not. Using the parlance of the judicial test, that's just "common sense". But the media landscape is evolving so that that things like t-shirts, cereal boxes, and various other online and offline media that have not traditionally been the vehicles by which ideas, opinions and information are disseminated are increasingly becoming more accepted as a place to learn information, and the general public is increasingly conditioned to expect a certain level of marketing influence over the news and entertainment programming it consumes. Indeed, in a Staff Opinion Letter issued earlier this year, the FTC denied a petition by watch-dog group *Commercial Alert* that would have required product placements in television shows to be identified by an on-screen, real time superscript reading "ADVERTISEMENT", essentially characterizing product placement as something to be expected. In an era where marketers are getting more and more creative in pursuing the ever-elusive "engagement" metric, the perception and expectation of brand influence will likely begin to affect the general thinking about what does and does not constitute commercial speech for purposes of publicity law. At that point, there is an opportunity for the paradigm to switch so that the traditional advertiser like Abercrombie could actually communicate messages like the one it included in the Quarterly without risking a publicity rights claim. ■

adbriefs

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save the date

September 17, 2005:
Benjamin Mulcahy will appear on a panel entitled "The Value of Celebrity Brands in Brand Integration" at the Digital Hollywood Conference in Santa Monica, California.

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