adbriefs

Current Legal Issues
Affecting the Advertising
Industry / Spring 2004

Covering Your Ads®

"Keying" Opens The Door to Claims

COURTS CONTINUE TO STRUGGLE with Internet advertising and new methods being used to deliver it. This is particularly true with respect to "keying", a process that delivers one company's advertising when the name or trademark of the company's competitor is entered as a search term in a search engine. For example, entering the search term "Honda" could trigger a Toyota pop-up ad or a "sponsored" Toyota listing in the corresponding search results. The question is whether it's legal to trigger banner ads, sponsored search result listings, or other advertising when a competitor's trademark is used as a search term.

Estee Lauder sought to answer that question in the negative when it brought suit in 1999 against The Fragrance Counter, a competitor, and the search engine Excite. In that case, Estee Lauder alleged that the purchase by The Fragrance Counter of the right to place banner advertisements keyed to Estee Lauder's marks on portal sites infringed Estee Lauder's trademarks. *Estee Lauder, Inc. v The Fragrance Counter, Inc. and Excite, Inc.*, 189 FRD 269 (SD NY 1999). The case settled when the defendants voluntarily agreed not to use the keywords at issue, leaving the legal issue unresolved.

A similar fact pattern provoked American Blind to sue Google earlier this year, while Google itself aimed to pre-empt mounting *(continued on page 8)*

Advertorials: Blurring the Line Between Advertising & Editorial

In an effort to attract increasingly scarce advertising dollars, several magazines are investing greater resources—and in some instances, their editorial staffs—to insure that special advertising sections more closely resemble a well-produced article than an advertisement. Special advertising sections—also called "advertorials"—have long appeared in newspapers and magazines, but the number of advertorials is increasing. According to a study by TNS Media Intelligence/CMR and the Publishers Information Bureau, while overall advertising page totals decreased by a half-percent from 1997 to 2002, the number of special advertising pages increased by almost 23 percent. As advertorials become increasingly commonplace in magazines and a growing number of editors are pitching in to help advertisers craft them, some critics contend that the line between editorial content and advertising has been crossed.

Earlier this year in an effort to revamp the image of its Treasure Island casino in Las Vegas as an adult hotspot, MGM Mirage pitted three popular men's magazines—*FHM, Maxim* and *Playboy*—against one another in a competition for $750,000 in ***(continued on page 10)***

also in this issue

Exploitation: Getting Enough? / 2

Prescription Drug Makers Forced Into Marketing Rehab / 4

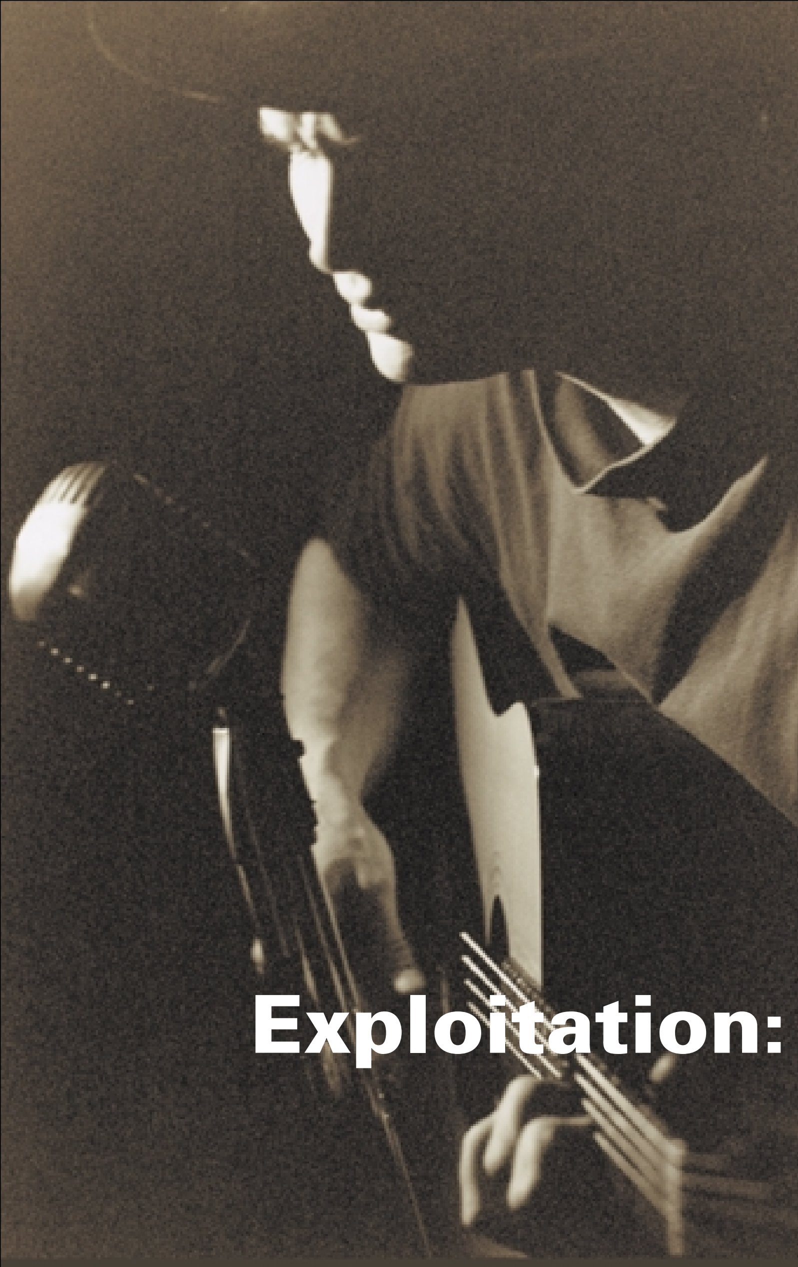
Ten Top Purchaser Influencers / 4

Wham, Bam, You Still CAN SPAM / 5

Do Your Products Measure Up? / 6

The 2003/2004 Cabernet Is An Excellent Vintage / 8

Moviemercials Get Two Thumbs Up / 11



Covering Your Ads Around the World

This Issue:
Contribution from the
United Kingdom

adbriefs

Guest Contributor: S.J. Berwin & Co.
222 Grays Inn Rd., London WC1X 8XF, United Kingdom

Exploitation: Are You Getting Enough?

THE MUSIC INDUSTRY IS CHANGING rapidly with new forms of exploitation becoming increasingly prevalent. For record labels and music publishers signing artists and songwriters, the main focus until recently was to achieve maximum album and single sales. However, traditional forms of exploitation are being eroded by on-line distribution and piracy (both on- and off-line) and record sales are declining.

But it's not all bad news. Legitimate on-line exploitation is beginning to take hold as the number of sites through which to legally download music increases and record companies and publishers establish viable business models for charging users for accessing music on-line.

How can rights owners of music and recordings maximize opportunities for exploitation in this climate? There are many ways of exploiting recordings other than as records. Placing music in advertisements is one very effective way to do so. Increasingly, the music and advertising industries are working together to maximize opportunities for the use of music in advertisements and the significant benefits that can bring.

Music is becoming ever more important to the marketing and advertising industries. It has been described as the "medium of choice" for these industries and the effectiveness of linking brands to particular artists (whether through advertising or other brand initiatives) is widely recognized. Agencies view the use of the right music in advertisements as key to selling their clients' products. Madonna and Missy Elliott have recently collaborated to promote GAP. Other examples are the use of the Left Field track "Phat Planet" in the Guinness/Surfers & Horses advertisement and Elvis Presley's "A Little Less Conversation" (remixed by JXL) in the Nike/2002 World Cup ads, leading to a worldwide hit and a chart topping single in the UK.

Using music in advertisements has many advantages for the rights owner. For instance, rights owners can use the significant marketing budgets of agencies and their clients to promote their music without any additional financial investment, whilst at the same time increasing their visibility, profitability and market share. The use of music in adverts can bring artists to the attention of a different audience and broaden their fan base. It can also assist

in “breaking” artists both domestically and in overseas territories.

There are two main ways to source music. One is to commission original music and the other is to license existing recordings, whether catalogue recordings, unreleased tracks by unsigned artists, or previously released tracks by artists signed to exclusive recording contracts. In the case of commissioned music, the usual approach taken by advertising agencies is to license the rights required without taking an assignment of copyright in either the sound recording or the music and lyrics and then to negotiate synchronization fees to encompass both recording and publishing rights. Further fees are payable if the advertisement is rolled out into different territories or the period of the license is extended, or indeed if a different usage is required (for example in a sequel or edited version of the original advertisement).

With existing recordings, similar terms have historically been applied in relation to the period of the license, the territory and the extent of rights. However, licensing fees have tended to be much higher, particularly in cases where tracks are instantly recognizable, where an artist has an established track record or where a key brand is being promoted. Recently, however, the business model for the use of music for advertising has begun to change.

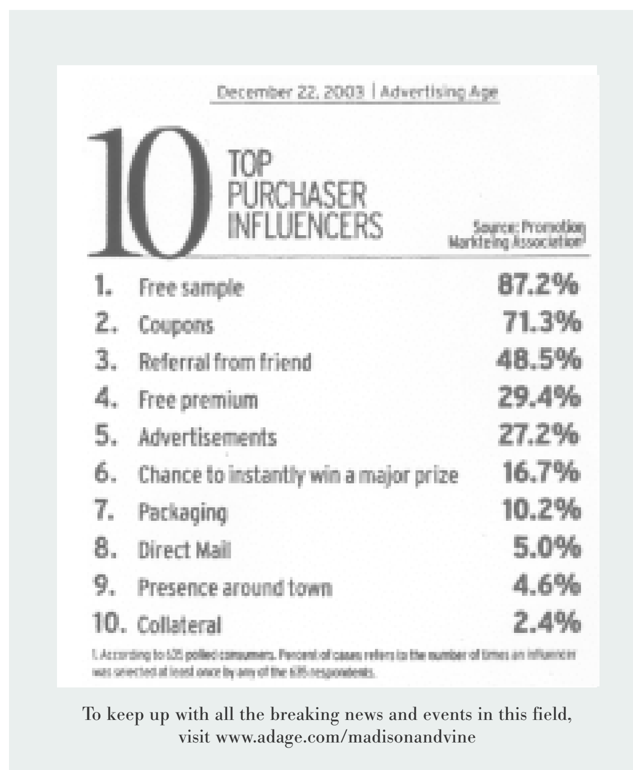
Increasingly, the music and advertising industries are working together to maximize opportunities for the use of music in advertisements and the significant benefits that can bring.

Advertising agencies and their clients are increasingly vocal in expressing their dissatisfaction at paying significant license fees for limited uses when they are providing substantial marketing and promotional support to the artists and their labels. Agencies are now looking to acquire broader rights in return for the perceived added value they are bringing to the music used in their clients’ ads, including taking an assignment of rights where music is unpublished and/or where a sound recording of a commissioned work is delivered; requiring a license for all media (including for example, mobile phone and internet usage) and for all promotional purposes; paying significantly reduced synchronization fees; and seeking a participation in any ongoing exploitation of the track, by way of an override on record sales.

The most significant of these changes is likely to be the proposal that an agency should take an assignment of copyright in original music and lyrics and seek to act as the music publisher. Whilst this would be limited to a single song assignment, the agency would then be in a position to retain a percentage of any publishing income arising from the exploitation of the underlying work. Where music is commissioned, the agency might look to take 50% of publishing income (in line with current practice for commissioned music in the film industry). However, even where existing unpublished music is acquired, agencies might seek to retain 40% of publishing income on a receipts basis under this model.

Clearly, this is a different approach to the model that’s been used in the past and it has a number of implications for artists and music publishers. Many would argue that agencies are not equipped to act as publishers. A publisher should be seeking to maximize income for its writers but arguably, it would be difficult for a publisher affiliated with an agency to do so whilst at the same time acting in the best interests of that agency’s clients (by negotiating reduced licensing fees). Nor are agencies best equipped to exploit music other than in advertisements. At the same time, this new model would not be suitable where an agency wishes to use a released track that has already achieved a degree of success and recognition. In this instance, the rights owners of the sound recording and underlying work would insist on an appropriate fee being paid for certain limited uses only (as has historically been the case).

Nevertheless, going forward, artists and songwriters who are not yet subject to exclusive publishing contracts may choose to embrace this new business model, given the added exploitation opportunities it could bring. ■



December 22, 2003 | Advertising Age

10 TOP PURCHASER INFLUENCERS

Source: Promotion Marketing Association

Rank	Influencer	%
1.	Free sample	87.2%
2.	Coupons	71.3%
3.	Referral from friend	48.5%
4.	Free premium	29.4%
5.	Advertisements	27.2%
6.	Chance to instantly win a major prize	16.7%
7.	Packaging	10.2%
8.	Direct Mail	5.0%
9.	Presence around town	4.6%
10.	Collateral	2.4%

To keep up with all the breaking news and events in this field, visit www.adage.com/madisonandvine

Prescription Drug Makers Forced Into Marketing Rehab

MOTIVATED BY THE RAPIDLY RISING COSTS of prescription drugs and the corresponding burdens placed on governments, employers and patients, civil groups and government regulators across the country are increasingly investigating the marketing practices of the makers and marketers of prescription drugs. Their charges include that certain prescription drug manufacturers illegally gave financial grants and other items of value to their doctors and other customers; that they marketed their drugs for uses which were not approved; and that they submitted false pricing information to the government forcing Medicaid to overpay for their products.

Many of the largest drug companies in the industry have been the target of these investigations.

Many of the charges and cases against the drug companies have come out of the U.S. Attorney's office in Boston, Massachusetts, which has become particularly known for its aggressive and successful prosecutions of pharmaceutical companies. In two successfully prosecuted cases, one drug company was found to have given doctors free samples of a drug, and then helped the same doctors obtain government reimbursements for the free doses; another drug company was found to have schemed to re-label bottles of its antibiotic in order to hide the lower prices that it was charging another HMO.

If the investigations and claims continue, these drug companies face severe financial penalties, or even what their representatives deem the "death penalty"—when the government bars a corporation's prescription drugs from the federal Medicare and Medicaid programs, a move which could be devastating to such corporation's business. However, despite large settlements that have been reported, no major pharmaceutical company to date has been excluded from Medicare or Medicaid.

Another result of these claims and investigations is that the drug companies must reform their advertising and marketing practices and may have to subject such practices to strict monitoring. At least one major drug manufacturer has settled with the government by entering into a "corporate integrity agreement", in which the drug manufacturer in question agreed to have its marketing practices monitored by the government. In response, other companies have proactively announced changes in their sales and marketing practices.

As the prescription drug industry seeks to change restrictions on direct to consumer prescription drug advertising, the current message that the government is sending seems to be clear: the government will take prescription drug marketing practices and advertising efforts as seriously as the industry wants its customers to take them. ■

Wham, Bam, You Still CAN SPAM

The federal CAN-SPAM Act has been in effect since the first of the year, and email marketers are still grappling with its requirements in various contexts. In passing the Act, Congress found that "unsolicited commercial electronic mail is currently estimated to account for over half of all electronic mail traffic, up from an estimated 7 percent in 2001, and the volume continues to rise. Most of these messages are fraudulent and deceptive in one or more respects." The CAN-SPAM Act, rushed into law in order to address these concerns and pre-empt more onerous and troubling state legislation, regulates unsolicited commercial email, or "spam", but does not prohibit it outright; at least not yet.

The definition of "commercial electronic mail" under the Act includes both solicited and unsolicited email. As a result, the new requirements apply in varying degrees to all commercial email, regardless of whether the recipient has affirmatively or passively agreed or asked to receive the type of message being sent.

Commercial email is generally defined to include those emails whose primary purpose is the "commercial promotion of a commercial product or service". The Act's general requirements for commercial emails include:

1. prohibiting false or misleading transmission information;
2. providing conspicuous notice of the right to opt-out and inclusion of a functioning internet-based mechanism that a recipient may use to request not to receive future commercial email messages from the sender (importantly, if the email is sent in the course of a "routine conveyance", where the email is automatically generated through a technical process after a person other than the sender has identified the recipient or provided the recipient's email address, the Act recognizes that an opt-out feature is impractical and, therefore, does not require an opt-out in that context, which is an important point to keep in mind in evaluating the feasibility of certain refer-a-friend and other online marketing activities);
3. clear and conspicuous identification that the message is an advertisement (the Act does not require specific language [such as "ADV" in the subject line], so marketers may choose how to describe the email as an advertisement, and this requirement does not technically apply to emails that are sent to recipients who have opted in to receive them); and
4. a valid physical postal address for the sender. There are also specific requirements for implementing an effective opt-out program that will be deemed to satisfy these requirements.

Importantly, "transactional or relationship" emails are expressly excluded from the definition of what constitutes "commercial email" under the Act.

Under the Act, a "transactional or relationship message" is one whose primary purpose is to:

1. facilitate, complete or confirm a prior business transac-

(continued on next page)

Spam (continued from page 5)

tion that the recipient has previously agreed to enter into with the sender;

2. provide warranty, product recall, safety or security information about a product or service used or purchased by the recipient;

3. notify the recipient of changes in the terms or features of an ongoing commercial relationship, such as a subscription, membership, account, loan or other comparable ongoing commercial relationship involving the ongoing purchase or use by the recipient of products or services offered by the sender;

4 provide information directly relating to an employment relationship or related benefit plan in which the recipient is currently participating; or

5. deliver goods or services, including product updates or upgrades that the recipient is entitled to receive from a previously approved transaction.

As a result, an email message that qualifies as a "transactional or relationship" message need not meet the technical requirements otherwise applicable to commercial email under the Act. In addition, a transactional or relationship email may contain advertising for related goods or services, so long as the "primary purpose" of the message is transactional. The FTC is charged with refining and defining the nuances of this definition over the next several months, and the "grey areas" will be subject to varying interpretations until then.

Violations of the CAN-SPAM law include both civil and criminal penalties, notably a fine of $250 per violation (calculated on a per-email basis) up to a maximum of $2 million dollars (tripled where the violation is deemed willful), and can carry jail sentences of up to 5 years in prison. Notably, the ability to bring suit under the CAN-SPAM act is limited to the State's attorney generals, the FTC and other specified government agencies, and Internet service providers such as AOL and Earthlink, which recently filed suit under the Act against persistent spammers. This limitation is important, but it presumably won't take long for plaintiffs attorneys to discover a cause of action for violation of CAN-SPAM under California Business & Professions Code § § 17200 et seq.

As a final point that's sure to play itself out more in the coming months, the FTC is charged with studying the feasibility of a do-not-spam registry under the CAN SPAM Act. Given the recent decision upholding the Do Not Call Registry, a Do Not Spam Registry may be a few clicks away.

Whether the CAN-SPAM Act will actually stop illegitimate spam remains to be seen, but given the requirements of this law and the penalties associated with violations, every commercial establishment that uses email as a means to advertise and promote its products and services would be wise to comply with its provisions. ■

Do Your Products

Measure Up?

What you put on your packaging label matters. It distinguishes you from your competitors, it educates and entices your customers, and it's legally regulated based on what you say and what you're selling.

UNDER ONE SUCH LAW, the Fair Packing and Labeling Act (FPLA), the Federal Trade Commission (FTC) and the Food and Drug Administration (FDA) have issued regulations requiring that certain disclosures be made directly on the packaging of various "consumer commodities". As some packagers and labelers have found out, failing to follow these requirements can result in costly packaging recalls or worse.

The FPLA is designed to prevent unfair or deceptive packaging and labeling of many household consumer commodities and allow true comparisons between similar commodity-type products. "Consumer commodity" is defined to include any food, drug, device or cosmetic and any other product which is customarily produced for sale for consumption by individuals or which is expended in the course of personal care or services ordinarily rendered in the household. Examples of consumer commodities are breakfast cereal, shampoo, and dishwashing detergent. There are many exceptions to this broad definition, including products distributed for industrial or institutional use, tobacco products, prescription drugs, alcoholic beverages, and toys. But exception from the FPLA usually means other packaging and labeling regulations apply.

In any event, the FPLA and corresponding regulations require the packaging of covered consumer commodities to bear a label with the following information:

1. *A statement identifying the commodity.* If the common name of the commodity has been specified by federal law or regulation, that name must be used. In the absence of such guidance, the common or usual name should be used. If there is no common name, the manufacturer should use an appropriately descriptive term such as a statement of function.
   The statement of identity must be on a part of a label that is examined under normal and customary conditions during a retail sale, must be in a type size and positioned so it is easy to read and understand, and must be generally parallel to the base on which the package rests when it is displayed as intended.
2. *A statement of the name and place of business of the manufacturer or distributor.* If the commodity is not manufactured by the person whose name appears on the label, the name must be qualified by a phrase that reveals the connection that person has with the commodity, such as "Manufactured for ______" or "Distributed by ______".
   The statement of the name and place of business must be conspicuously placed, and the name used should be the actual corporate name. If the commodity is manufactured by an individual, partnership, or association, the manufacturer should use the name under which the business is conducted. The statement of place of business should be the place where the commodity is actually manufactured or distributed. It's ok to use the principal business address instead, as long as the principal address is not misleading. For example, if a bottled water manufacturer has a principal place of business in Arrowhead, California, but actually obtains and bottles its water in Los Angeles, California, it would arguably be misleading to use the principal place of business because consumers would be led to think that the water came from Arrowhead.
3. *A statement of the net quantity of contents in terms of weight or mass, measure, or numerical count.* The weight of the packaging should be excluded when calculating the net quantity of the commodity. In addition, if the commodity is in distinct usable units made up of one or more components or ply (e.g., facial tissue), the statement of net quantity must include the number of ply and the total number of usable units.
   The declaration of net quantity must be on the part of the label that is most likely to be displayed, presented, shown, or examined under normal and customary retail sale conditions, and must be in a font size that is easy to read. It must be separated from other printed label information appearing above or below or to the right or left of the declaration and should not include any term qualifying a unit of weight or mass, measure, or count such as "jumbo quart," "when packed," "minimum," or words of similar import.
4. If the label represents the number of servings, uses, or applications obtainable from the package, a statement of the net quantity per serving, use, or application.

Many products that are exempt from the FPLA nevertheless fall within the scope of the weights and measures laws of the individual states. Many of these state laws track the FPLA, but it is always a good idea to seek legal counsel about the state laws applicable to your products' labels and packaging. ■

Keying Complaints (continued from page 1)

complaints and has sought resolve the legal issue once and for all by seeking a declaratory judgment that keying against third party trademarks is legal. In light of the Ninth Circuit's recent decision in *Playboy Enterprises v. Netscape Communications*, however, Google and other search engines and portals will have more difficulty successfully making that argument.

Playboy had sued Netscape and Excite in 1999 on nearly the same facts as *Estee Lauder. Playboy Enters., Inc. v Netscape Communications Corp.*, 55 F Supp 2d 1070 (CD Cal 1999). Playboy alleged that the selling of Playboy's trademarks, "Playboy" and "Playmate," as keywords in exchange for banner advertisements for unrelated adult entertainment companies violated its trademark rights under the Lanham Act.

Playboy introduced evidence that the adult-oriented banner ads displayed on the defendants' search results pages were often graphic in nature and were either confusingly labeled or not labeled at all. In addition, the buttons on the banner ads directed users to "click here", with click through rates used to evaluate the success, or lack thereof, of a particular ad.

In denying Playboy's motion for a preliminary injunction, the district court began by observing that Playboy and Playmate are generic terms, in addition to being protected trademarks. Because Playboy had failed to show that the use of Playboy and Playmate as keywords by Netscape and Excite constituted a trademark use, as opposed to use of the word in a generic sense, Playboy had not demonstrated that defendants had used its trademarks in commerce, as required under the Lanham Act.

The district court added that even if Playboy had been able to show commercial use of its trademarks by defendants, it would still not have prevailed in its suit for trademark infringement because trademark infringement requires a showing of likelihood of confusion, and Playboy had presented no empirical evidence of confusion or of an intent by defendants to profit by confusing consumers.

The district court also found that defendants' keying practice had not diluted Playboy's trademark. The court found no blurring because Playboy presented neither evidence that defendants used its trademark nor evidence that defendants' use of the keywords at issue caused any severance of association between Playboy and its use of the marks.

Finally, the district court found no tarnishment of Playboy's trademark because Playboy had failed to present evidence showing, again, that defendants had used Playboy's trademarks and, furthermore, that such use tarnished Playboy's trademarks.

The district court later granted defendants' motion for summary judgment, and Playboy appealed. *Playboy Enterprises, Inc. v Netscape Communications Corp.*, 2000 WL 1308815 (C.D.Cal. Sep 13, 2000) (No. CV 99-321-AHS).

The Ninth Circuit reversed, finding that genuine issues of material fact precluded summary judgment against Playboy on both its trademark infringement and dilution claims. *Playboy Enterprises, Inc. v Netscape Communications Corp.*, 354 F.3d 1020, 69 U.S.P.Q.2d 1417, 4 Cal. Daily Op. Serv. 317, 2004 Daily Journal D.A.R. 427, 9th Cir.(Cal.), Jan 14, 2004. Describing the initial interest confusion test articulated in *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.2d 1036 (9th Cir. 1999), the appellate court explained that initial interest confusion is customer confusion that leads to initial interest in a competitor's product. Although dispelled before an actual sale occurs, initial interest confusion impermissibly capitalizes on the goodwill associated with a mark and is therefore actionable trademark infringement.

Turning to the eight-factor *Sleekcraft* test used by the Ninth Circuit to determine the likelihood of confusion, the appellate court credited Playboy's theory that, by keying adult-oriented advertisements to Playboy's trademarks, the defendants had actively created initial interest confusion because the un-labeled advertisements instructing users to "click here" appear immediately after the user types in Playboy's marks, causing users to click believing that they will be connected to a Playboy website. Holding that Playboy had presented evidence showing that its marks had attained secondary meaning, that the use of the words being keyed against were identical to Playboy's marks, that the defendants had selected the marks intending to confuse Internet users, and that the click-through rates indicated that such tactic may have been effective, the court held that a genuine issue of material fact existed as to the likelihood of confusion and re-

May a search engine include trademarks in the list of search terms that it keys to? Estee Lauder sought to answer that question in the negative when it brought suit in 1999 against The Fragrance Counter, a competitor, and the search engine Excite.

The 2003/2004 Cabernet Is An Excellent Vintage

If some winemakers and grape growers get their way, federal rules governing vintage wine labeling may be loosened.

"Vintage wine" is wine labeled with the harvest year of the grapes used to produce it. Under existing U.S. regulations, at least 95% of a vintage wine must be derived from grapes harvested in the calendar year listed on the label.

By contrast, both Australia and the European Union, which are the two largest exporter of wines to the U.S., require that only 85% of the grapes used to produce a wine be from the year designated on the label. Other significant players in the world wine markets, including South Africa and Chile, have requirements of as little as 75%.

Given that U.S. standards for vintage wine labeling are so stringent, particularly in comparison with those of other countries, it is no surprise that proposals to relax the 95% requirement have been kicked around for years. But the issue recently took on a higher profile when the board of directors of the Wine Institute, arguably the California wine industry's most influential lobbying organization, voted on a proposal to petition the Alcohol and Tobacco Tax and Trade Bureau to allow up to 15% of a vintage wine to be derived from grapes harvested outside the vintage year. Although the proposal failed by a vote of 18 to 16 (with one abstention), interest in the proposal was high enough for a compromise proposal to be sent to the Wine Institute's public policy committee for review.

The compromise would create a two tiered system whereby the current 95% requirement would continue to apply to vintage wines labeled with an appellation that is a viticultural area (i.e. a wine region, such as Carneros, that is not defined by political boundaries) but an 85% requirement would apply to those with an appellation that is a county or state or is otherwise not a viticultural area.

Some arguing in favor of the change have noted that an 85% requirement would allow for the production of better wine by, for example, allowing wine from a relatively poor harvest to be improved through the addition of higher quality wine from a better harvest. Opponents of the proposal have argued, on the other hand, that a reduction in the 95% requirement would create a perception among consumers that quality is being compromised.

Although some have been outspoken on the vintage labeling issue, many industry players are taking a wait and see approach. Industry associations other than the Wine Institute have stayed away from taking a formal position on the issue, and appear unlikely to take it up until a proposal, if any, is generated by the Wine Institute.

Nevertheless, with the continuation of the grape glut and the destabilization of wine prices, economic pressures may lead some winemakers and grape growers to pursue changes in vintage labeling regulations, and any such changes could open up new comparison claim opportunities for winemakers and grape growers alike. ■

versed the grant of summary judgment.

Importantly, the appellate court pointed out that the defendants had done nothing to alleviate the confusion caused by the un-labeled banner ads and suggested that if a banner advertisement clearly identified its source or, even better, overtly compared Playboy products to the advertiser's own, no confusion would occur.

The *Playboy v. Netscape* case has now been settled, but other disputes on this issue continue. Court decisions to date are only the first steps in understanding and addressing the legal issues inherent in advertising on the Internet. We can be sure that new interpretations of old laws, and entirely new laws, will be coming soon as innovative online marketers seek to take advantage of all the opportunities the Internet offers. ■

Advertorials (continued from page 1)

advertising revenue. MGM Mirage offered each of the magazines an opportunity to create a marketing campaign comprised of print advertising and internet and party components. A key component of *FHM*'s winning strategy was the creation of a glossy four-part 24-page advertorial spread that began its run in the October 2003 issue and continued through *FHM*'s January 2004 issue. Although it is estimated that *FHM* would have earned approximately $1.5 million in revenue had it sold 24 separate advertising pages to MGM Mirage rather than the $750,000 it earned for the four-part special advertising section, *FHM* threw its weight—and the weight of its fashion editor—behind its efforts to win MGM Mirage's advertising dollars. The result is a glossy spread of photographs and "articles" featuring the adventures of three hipsters on a mission for fun at the Treasure Island casino. While MGM and Treasure Island reportedly couldn't be happier with the outcome of the advertorial and its collaboration with *FHM*, such collaborations are precisely what raises the ire of those who believe that too many magazines are pushing the envelope—and placing their journalistic integrity in jeopardy—in an effort to woo advertising dollars.

FHM is not alone in its willingness to work directly with an advertiser to prepare a special advertising section. In its July 2003 issue, *Maxim* magazine's editorial staff produced a special advertising section for Miller Lite that chronicled the transformation of a dull business trip into an adventure—courtesy of a few bottles of Miller Lite beer. And the April 2003 issue of *Men's Journal* magazine featured a special advertising section sponsored by Dewar's Scotch which was very similar in layout and design to the magazine's editorial content and which displayed the name of the magazine in conjunction with the Dewar's Scotch logo.

Guidelines promulgated by the American Society of Magazine Editors (ASME) prohibit collaborative activities that, in its view, go too far in blurring the line between content and ads. In addition to prohibiting the involvement of editorial staff members in projects prepared by magazine publishers for advertisers, the guidelines state that:

- The content of special advertising sections should be sufficiently distinct from the magazine's editorial material, so readers can distinguish editorial content from sponsored content;
- Each text page of a special advertising section must be completely and conspicuously identified as a message paid for by advertisers;
- Special advertising sections should be labeled with the words "advertising," "advertisement," "special advertising section" or "special advertising supplement";
- The layout, design, typeface and literary style of special advertising sections should be distinctively different from the publication's normal layout, design, typefaces and literary style;
- The publication's name or logo should not appear as any part of the headlines or text of special advertising sections, except when advertising the magazine's own products and services; and
- Advertising pages should not be placed adjacent to related editorial material in a manner that implies editorial endorsement of the advertised product or services nor may an advertiser's name or logo be used on any editorial pages to suggest advertising sponsorship of those pages.

Penalties for violating the ASME guidelines include ineligibility for National Magazine Awards and the ousting of the publication's editor from the ASME. In practice, however, the ASME rarely sanctions publishers who do not adhere to the guidelines, and generally allows publishers to police themselves. A rare exception occurred in 1997 when Time, Inc.'s *This Old House* Magazine was stripped of its National Magazine Award nominations after it featured an editorial article stating that the article was "brought to you by Ace Hardware," which the ASME considered to be an implication that the magazine was endorsing a product.

If not done correctly, advertorials could expose the publisher and the magazine to much more than the ire of the ASME. Advertorials gone bad could expose the magazine to claims for false advertising and publicity rights violations. The Federal Trade Commission Act prohibits false advertising, which is loosely defined as advertising that is misleading in a material respect, either because it is affirmatively deceptive or because it fails to reveal facts that are material in light of the representations being made. Misrepresenting, directly or indirectly in an advertorial, that a product has been independently reviewed or evaluated, when such is not actually the case, arguably violates the FTC Act and the corresponding "little FTC Acts" that have been enacted in every state. On the flip side of the blurring line, the commercial use of a person's name, voice, and/or likeness (either through a photograph or drawn depiction, or through a visual illustration that depicts such individual's "persona") without authorization raises state law right of publicity issues. As Dustin Hoffman and others have argued (thus far without ultimate success), an editorial piece that looks more like an advertorial is more akin to commercial speech, so the unauthorized use of a celebrity or other third party's image in that context could support a right of publicity claim.

As magazine editors continue to push the envelope and aid in the creation of special advertising sections, magazine editors and advertisers alike should be aware that without careful consideration, the line between advertising and editorial content can be easily blurred. At the very least, such blurring can affect editorial credibility, and at worst, may result in liability. ■

Moviemercials Get Two Thumbs Up

Commercials, commercials, commercials. We love commercials. From internet pop-up ads, to endless product placements in movies and on TV, to advertisements shown before movie trailers, advertisers are finding more and more ways to sneak commercials into our life. And now we're adding one more item to the list, the "moviemercial". Rather than creating themed merchandise based on a film, movie producers are starting with the product and figuring out the film later. The moviemercial seems to be an excellent means for toy makers to boost lagging toy sales, diluted as a result of, among other things, the increased popularity the Internet and video games. Similarly, riding on the coattails of a toy's goodwill provides movie producers with access to an established audience base and otherwise helps to distinguish their project from the myriad of choices in the movie market place. G.I. Joe, Hot Wheels, Bionicle toys, Super Soaker squirt guns and My Little Pony are among the concepts being developed in Hollywood's current crop. With such powerful synergies, it may seem odd that the moviemercial hasn't played a bigger role in Hollywood's history. However, this marriage is not without its problems, as issues surrounding incongruent business models, merchandising rights, creative control, and broadcast/content restrictions each present significant negotiating obstacles in deals between studios and toy companies.

To begin with, the studio model for a motion picture deal has not traditionally made a lot of sense for a toy company from an economic perspective. Toy companies simply were not interested in an option fee and exercise price that amounts to a few hundred thousand dollars, as it would not make a significant difference to their bottom line. However, when viewing the licensing opportunity as a vehicle to drive sales—like a large scale product placement—toy companies suddenly become less concerned with ability to gain significant returns from the movie itself.

A second issue of concern is merchandising rights. Of course, a toy company would expect to retain merchandising rights in connection with any toy-themed film in which it participated, as the sale of such merchandise is its core business. Nevertheless, merchandising rights associated with a film can provide a significant source of revenue for movie studios, particularly with respect to projects targeted at children. A studio is likely to require some form of revenue sharing relationship in order to get the deal done. A possible compromise would be to allow the studio to share in any revenue earned above an agreed upon baseline, in an effort to gauge sale increases or "lift" resulting from the picture. This solution may also help to align the parties interests, as the studio will be incentivized to allocate more money to the P&A spend if it can expect higher returns resulting from merchandise sales. Another alternative would be to bifurcate picture merchandising and "classic" character merchandising and separately define whether, and if so how, each party is entitled to participate in each stream.

Control over creative matters is perhaps one of the biggest points of contention in these deals, and perhaps the one with no immediately apparent solution. Clearly, since toy companies have not historically been in the business of making movies, it would seem bizarre for a studio to give the toy company approval over creative elements, particularly because what makes a good movie is not always what helps sell toy product. But the toy company does have some interest in controlling how its brand is depicted. The creative control issue is only amplified if the toy company assumes that the real benefit of making the movie is not the movie proceeds themselves, but the possibility of increased product sales, as the interests of the studio and the toy company become even more divergent.

Finally, significant content restrictions in the United Kingdom, which prohibit program length commercials for toys that are already on the market, and television advertising restrictions in the United States, which (among other things) prohibit commercials for toys related to a program during the program itself, need to be considered in determining whether, and if so how, the film or movie being contemplated can be exploited once produced.

Legal regulations and business obstacles abound in the getting deals done between studios and toy manufacturers, but the positive impact moviemercials can have on both parties' bottom lines will continue to drive interest in creating these relationships and protecting the parties' respective interests. ■

adbriefs

is a publication of Sheppard, Mullin, Richter & Hampton LLP and is authored by its Advertising Law Group. It is intended for informational purposes only and should not be taken as legal advice. For more information on its covered topics, please contact any member of our team pictured at right. If you have a colleague who would like to be added to our mailing list, please email the contact information to one of our Group members.

Sheppard, Mullin, Richter & Hampton LLP has offices in these cities:

LOS ANGELES	(213)620-1780
WEST LOS ANGELES	(310)824-0097
SANTA BARBARA	(805)568-1151
SAN FRANCISCO	(415)434-9100
WASHINGTON, D.C.	(202)218-0000
ORANGE COUNTY	(714)513-5100
SAN DIEGO	(619)338-6500
DEL MAR HEIGHTS	(858)720-8900

WWW.SHEPPARDMULLIN.COM

save the date

Robert Darwell and Benjamin Mulcahy will be panelists discussing Promotional Tie-Ins and Branded Entertainment at the ACI Advertising Law Conference, May 17-18, 2004 in Chicago

SHEPPARD MULLIN
SHEPPARD MULLIN RICHTER & HAMPTON LLP
ATTORNEYS AT LAW

Robert A. Darwell
Phone: (310) 824-5801
rdarwell@sheppardmullin.com

Benjamin Mulcahy
Phone: (310) 824-7558
bmulcahy@sheppardmullin.com

Demery Swaigler
Phone: (213) 617-4208
dswaigler@sheppardmullin.com

Michael Holland
Phone: (310) 824-0188
mholland@sheppardmullin.com

Chris E. Jaenike
Phone: (415) 774-2964
cjaenike@sheppardmullin.com

Ann J. Maron
Phone: (310) 824-7427
amaron@sheppardmullin.com

Tawnya Wojciechowski
Phone: (714) 513-5100
twojciechowski@sheppardmullin.com

Kathyleen A. O'Brien
Phone: (213) 617-4230
kobrien@sheppardmullin.com

Craig Cardon
Phone: (415) 774-2967
ccardon@sheppardmullin.com

Guest Contributor:
Nigel Palmer
nigel.palmer@sjberwin.com