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NEWSLETTER OF THE ADVERTISING, MARKETING & MEDIA PRACTICE GROUP OF MANATT, PHELPS & PHILLIPS, LLP

IN THIS ISSUE

France Approves Pulling Plug on Online Pirates

In April, we reported that French lawmakers had rejected a bill that would cut off the Internet access of users who continue to illegally download copyrighted content after receiving two warnings. As we predicted in that article, a few short weeks later, the bill, which had President Nicholas Sarkozy's strong support, was voted on again and passed.

The legislation creates a new government agency, the Hadopi (High Authority for the Diffusion of Works and the Protection of [Copy]rights on the Internet), which has the power to cut off Internet access of illegal downloaders for up to one year. Access will only be cut off if the accused violator fails to stop illegally downloading copyrighted material after receiving two warning emails and a certified letter. France's culture minister has estimated that the bill could result in 1,000 users a day losing their Internet connections.

Not only does the legislation mark the first time a government has given itself the power to end an Internet user's access to combat piracy, but it is also counter to an amendment adopted by the European Parliament shortly before the French bill passed. That amendment, promulgated in the beginning of May, provides that a user's Internet access may only be severed by court order.

Although the amendment currently does not prevent France from following its own anti–piracy law, that could change if the Council

UPCOMING EVENTS

June 4-6, 2009
American Advertising Federation National Conference 2009

Speaker: Jeff Edelstein

Crystal Gateway Marriott
Arlington, VA
for more information

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June 17-19, 2009
Personal Care Products Council

Speaker: Linda Goldstein

of the European Union adopts the amendment as written. Observers predict, however, that passage by the Council is unlikely.

Why it matters: While the new French law appears to be one of the most aggressive anti–piracy laws in the world, its future remains uncertain. In addition to the action taken by the European Parliament, the bill is susceptible to a court challenge because it does not provide accused violators with an opportunity to defend themselves in court. France's Socialist Party, which generally opposed the bill, has already taken it to the Constitutional Council for review. The Constitutional Council has the authority to reject legislation, although that happens infrequently.

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Google to Permit Trademark Terms in Search Ads

In a reversal of a longstanding policy, Google plans to allow advertisers to use trademark terms in search ads even if the advertiser does not own the mark or have the owner's explicit permission to use it—under certain conditions.

Currently, Google's AdWords program enables marketers to place ads on the results page generated by a user's search. These ads typically appear on top or to the right of the search results and are labeled as "sponsored links." Although Google had previously allowed for the use of trademark terms to trigger such ads, it has long prohibited the use of trademark terms from appearing in the copy of these ads, unless permitted by the trademark owner. Now, Google is loosening this restriction to allow retailers to use the names of brands they sell in their ads, as well as sellers of components or replacement parts. In addition, impartial informational Web sites will also be able to use trademark terms in their ads, regardless of the ownership of the mark; however, the reviews provided by those sites should be non–competitive and the sites are not supposed to sell or help sell goods or services that are competitive to those provided by the trademark owner.

The new rule, slated to go into effect on June 15, adds Google to a group of search engines, including Yahoo! and Microsoft, with more permissive rules for the use of trademark terms in search–generated ads. According to Google, its goal is to make its sponsored links less generic and, therefore, more effective, boosting click–through rates. There is a concern, however, that the new policy also means that trademark owners will have fewer

Vancouver, British Columbia
for more information

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June 18-19
ABA Antitrust Section's Consumer Protection Conference

Topic:
Use, Misuse, and Disregard of Evidence of Actual Confusion in Federal and State Regulatory Proceedings

Speaker: Christopher Cole

Georgetown University Law Center
Washington, D.C.
for more information

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June 25-26, 2009
Food and Drug Law Institute
Introduction to Drug
Law and Regulation:
A Program on Understanding How the Government Regulates the Drug Industry

Speaker: Ivan Wasserman

for more information

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recourses when their marks are used in ways they do not like.

Yet, it is important to note that many advertisers will still be prohibited from using trademark terms in their ad copy, including sites that sell counterfeit goods, retailers that primarily sell a competitor’s products, advertisers that criticize the trademarked brand, and those that do not send users to a landing page with a purchase option. Google will review the ad copy and the landing page of each search ad to verify that the marketer is permitted to use the brand name in its ad text.

Why it matters: The new policy adds a layer of complication to Google’s AdWords program and requires brand owners to be more vigilant in protecting the integrity of their trademarks.

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California Courts Shut Out Spam Suits

California has one of the strictest spam laws in the country, allowing consumers and others to sue alleged spammers in court, and providing for damages up to $1,000 per message.

In two recent rulings, however, state and federal California courts have taken much of the bite out of the statute, deciding in both cases that state law was preempted by the federal CAN–SPAM Act.

In the beginning of May, a Los Angeles state judge granted summary judgment for defendant ValueClick, in a case brought against ValueClick by Internet Service Provider Hypertouch. Although Hypertouch alleged that ValueClick violated California’s anti–spam law by sending at least 45,000 emails with false headers and misleading subject lines, the court found that Hypertouch could only identify 23 emails that came from ValueClick.

More importantly, the court ruled that the federal CAN–SPAM Act preempted the lawsuit because Hypertouch had not proven fraud. As the judge explained, the CAN–SPAM Act supersedes state statutes, with the exception of laws barring “falsity or deception” in messages. The court found that this exception applies only to “fraudulent” messages, thus requiring, in addition to a showing of falsity, proof that the plaintiff relied on the false messages and, as a result, suffered monetary damages.

The Los Angeles superior court ruling came on the heels of a decision by a U.S. District Court in San Francisco dismissing a class action lawsuit against Reunion.com on similar grounds. In that case, four consumers complained that Reunion.com sent emails that appeared to have come from friends, but in fact were from the site itself. Reunion.com argued that because it had obtained the members' permission before emailing their friends, its messages were not misleading. It also argued that the plaintiffs had not alleged any actual harm. The court agreed, finding that the California law can only apply where there is a "cognizable injury."

In contrast, at least one California federal district court has ruled that an ISP could sue under state spam laws without showing actual fraud. In that case, a U.S. District Court in the Northern District of California found that Asis Internet Services could move forward with its spam case alleging that Consumer Bargain Giveaways falsified header information, without alleging that people lost money in reliance on the false information. It is worth noting that in the ValueClick decision, the court, citing ValueClick's reply brief, found that Hypertouch could not establish either the elements of fraud or a claim for "deception as utilized in the FTC Act," which would be required under the decision in the Asis case.

Why it matters: If other courts follow the two recent rulings, plaintiffs in California will probably have to prove "actual fraud"—a tough hurdle to overcome. As a result, it may become very difficult for consumers to bring lawsuits under California's anti–spam law. Although companies can still be found liable for false emails under the CAN–SPAM Act, the federal law does not give individual consumers the right to sue the sender.

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American Apparel to Pay Woody Allen $5 Million Over Ad Spat

On the morning that the trial was to begin, American Apparel and Woody Allen announced that they had agreed to settle the lawsuit brought by Allen over the clothing company's use, on billboard ads and on a Web site, of an image of Allen dressed as a rabbi, taken from his film *Annie Hall*. Under the terms of the settlement, American Apparel's insurance company, which apparently controlled the litigation, agreed to pay Allen $5 million.

Allen had sued the company for $10 million. The director said the use of the image was unauthorized, violated his long-standing policy of not making commercial endorsements, and damaged his reputation. In a deposition late last year, he described the ads as "sleazy" and "infantile."

American Apparel, which is known for its provocative advertising and the controversial persona of its founder and CEO Dov Charney, countered that the use of the image did not have a commercial purpose and was meant to be a parody, and thus was protected by the First Amendment. It also fought back in the press, telling the Associated Press that it planned to raise the issue of Allen's affair with his now wife Soon–Yi Previn, the adopted daughter of his former companion, Mia Farrow. "Certainly, our belief is that after the various sex scandals that Woody Allen has been associated with, corporate America's desire to have Woody Allen endorse their product is not what he may believe it is," an American Apparel lawyer told the press.

On the day the settlement was announced, Charney, who has been the subject of sexual harassment suits brought by members of his staff, also defended the billboard ads in a post on the company's blog, writing that he and Allen had both been the subject of unfair scandals in a celebrity–centered culture. He also claimed that the ads had been misunderstood. Charney wrote that: "I appreciate Woody Allen's work, but I also appreciate the First Amendment. Let's not forget that Woody Allen himself has referenced many public figures over the course of his long career, often for the purpose of parody, such as Fidel Castro in the movie *Bananas*."

Outside the courthouse, Allen, reading from a statement, told reporters, "Threats and press leaks by American Apparel designed to smear me did not work, and a scheme to call a long list of witnesses who had absolutely nothing to do with the case was also disallowed by the court."

Mr. Charney told reporters that his insurance company had forced him to settle. "I'm not sorry for expressing myself," he said. "I wish him the best with his career, and I am looking forward to his next film."

Why it matters: In his statement, Allen said he had been informed that his settlement was the highest amount ever to be paid to settle a lawsuit that alleged violations of New York's right to privacy law. As a result, it is certainly possible that the settlement will, as Allen hopes, "discourage American Apparel or anyone else from ever trying such a thing again."

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Ramirez Suspension Raises Morals Clause Question

A mere two months after the Los Angeles Dodgers inked a new, two–year, $45 million guaranteed deal with power hitter Manny Ramirez, the slugger got hit with a 50–game suspension for using a banned performance–enhancing substance.

The suspension puts the Dodgers in a tough spot. There's no doubt that Ramirez, who at the time of his suspension had a .348 batting average, six home runs, and the highest on–base percentage in the National League, is a major asset to the team. Yet, there is also no doubt that the Dodgers are dreading the media frenzy and constant scrutiny the team will face once Ramirez returns.

Nonetheless there's little chance the Dodgers will—or even can—cut ties with Ramirez. Although the Dodgers do not have to pay Ramirez his salary—about $8 million—during his suspension, MLB's Joint Drug Agreement prevents them from terminating his contract altogether on the basis of the drug use. Section 8.L of the Joint Drug Agreement, a testing and penalty program that was entered into as a result of collective bargaining between players and owners, provides that: "All authority to discipline Players for violations of the Program shall repose with the Commissioner's office. No Club may take any disciplinary or adverse action against a Player (including but not limited to a fine, suspension, or any adverse action pursuant to a Uniform Player's Contract) because of a Player's violation of the Program." Under the agreement, the penalty for a first–time drug violation is a 50–game suspension.

Generally, baseball contracts, including the Dodgers' contract with Ramirez, contain "morals clauses." For example, under the Uniform Player's Contract, a team has the right to terminate a contract with a player if that player "shall at any time fail, refuse, or neglect to conform his personal conduct to the standards of good citizenship and good sportsmanship." Elsewhere, the contract provides that the player must "obey the Club's training rules, and pledge himself to the American public and to the Club to conform to high standards of personal conduct, fair play, and good sportsmanship."

However, the Dodgers almost certainly cannot use a morals clause to terminate their deal with Ramirez because the Joint Drug Agreement forbids any "adverse action against a Player" because of a drug violation, and individual player contracts cannot lessen this protection, which was negotiated collectively.

Why it matters: The Joint Drug Agreement is in place until December 2011. Until that time, owners have no choice but to deal with the risk of more steroids scandals. After the agreement expires, team owners and MLB may try to negotiate for more options in dealing with steroid–abusing players in the future.

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Moviemaker Sued Over Product Placement

When a company pays you $50,000 to have its product placed in your film, it's probably a good idea to ensure that the product actually makes an appearance in what is ultimately aired.

That's the lesson a professional poker player turned moviemaker may have to learn the hard way, after allegedly failing to plug a product as promised in his movie *Deal*.

In a complaint filed in California Superior Court in Los Angeles, Gambling Times Inc. alleged that Scott Lazar, a pro poker player and the executive producer of *Deal*, agreed to give the company a "highly visible" product placement in the film, in exchange for a $50,000 investment. Although the company apparently made the investment, according to the complaint, all the footage containing the product was edited out (or never existed in the first place). As a result, the product never appeared in the final film.

Gambling Times is seeking $1,000,000 in damages, nearly 13 times the $78,000 the film reportedly earned worldwide in its 2008 release.

Why it matters: Product placement lawsuits, like the placements themselves, appear to be on the rise. Recent suits include one that basically presents the flip side of Gambling Times' case. Earlier this year, Millennium Films sued a watch manufacturer for allegedly failing to pay $50,000 after one of its watches was worn by Al Pacino in the film *Righteous Kill*. When dealing with product placements, advertisers and filmmakers need to be concerned about whether they get what they pay for, or pay for what they get. In addition to ensuring that the product placement paid for is shown in the final version of the film or show if the product placement agreement requires that, both sides should be concerned about how the product is portrayed, even (or especially) where there is no agreement. In 2007, NBC Universal settled a lawsuit with Emerson Electric Co. over its use of the company's InSinkErator in an episode of *Heroes*. In the show, a bloody and mangled hand comes out of an InSinkErator. Emerson alleged that the depiction of the product tarnished its image.

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