912 Advertising Law Boot Camp

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Faculty Biographies

Robin Dunson Benton

Robin Dunson Benton is senior counsel - marketing and telephony operations for Cox Communications, Inc. in Atlanta. Cox is a Fortune 500 company and provides an array of advanced digital video, high-speed Internet, and telephony services to more than 5.9 million total residential and commercial customers. Ms. Benton's responsibilities include providing legal counsel and advice on marketing/advertising laws; marketing related contracts (ad agency, sponsorship, and telemarketing agreements, etc.); contests and sweepstakes; rebates; coupons; gift certificates; telemarketing laws (including Do Not Call); and telephone operations and contract issues.

Prior to joining Cox, Ms. Benton served as counsel for SBC/Ameritech (now known as AT&T) for the consumer business unit, SecurityLink® alarm monitoring division and the consumer products division; and as counsel for AT&T Corporation with a focus on marketing law and regulatory litigation and also as a corporate and finance associate at Jones, Day, Reavis & Pogue.

Ms. Benton served on the board of ACC's Georgia Chapter and was its vice president programs and sponsorships, programs chairperson, and programs committee member. Ms. Benton is also a member of Women In Cable and Telecommunications and the National Association for MultiEthnicity in Communications.

Ms. Benton graduated from Bradley University, Cum Laude, with a B.S. and from Harvard Law School where she was on the editorial board of the BlackLetter Journal.

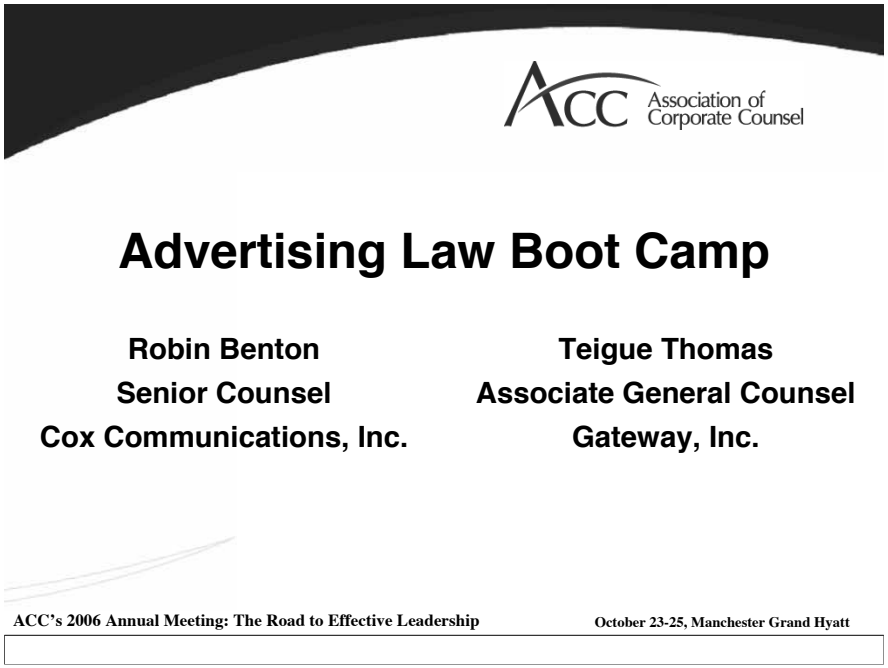
Teigue Thomas

Teigue Thomas is associate general counsel at Gateway, Inc. in Irvine, California. Her responsibilities include corporate governance, regulatory and labor issues as well as the negotiation and drafting of contracts.

Prior to jointing Gateway, Ms. Thomas was senior counsel at Zurich Financial Services in Boston where she was lead trial counsel in a variety of state and federal litigation matters.

Ms. Thomas has been a featured speaker at local and national conferences. She is the former president of ACC's San Diego Chapter and was previously named one of the San Diego's most outstanding professionals under 40.

Ms. Thomas received a B.A. from Bucknell University and is a graduate of the New England School of Law, where she was an editor of the law review.



Welcome recruits!

- This is a fast-moving, broad overview
- Like most areas, advertising law has many in-depth requirements.
- Goal for today: provide you with a broad-based familiarization and tools to handle the basics.
- Today's focus is US-centric. If you're advertising outside the US, the rules may be dramatically different.
- Because of the volume of material we want to get through, we'll hold questions to the end.

The prerequisites . . .

- Know the products at least as well as your clients do
- Understand that counseling on advertising law is often more art than black letter law
  - clients will want fast answers
  - stay on top of the law and the enforcement trends with the FTC, NAD, class actions, key AGs
  - Ads are always on a fast track - you probably won't get away with "I'll research that" very often
- Educate your clients on key points of the law and engage in a dialogue to get to the best solution
- Don't be the "no" factory – explain the "why" and provide alternate solutions

Taking it to the next level . . .

- Be a quick turn around artist!!!
- Be solution-oriented: If you're telling your client what won't work, give them suggestions for what will.
- Be accessible: clients will need your input outside of working hours – make sure they can reach you.
- Be visible: sit in on the Marketing team's staff meetings and get to know them.
- Be understandable: clients don't want legal memos or lengthy explanations. However, they will want to understand your reasoning so don't just mark up the copy.
- Be clued in: understand your clients' risk tolerance.

Intranet site

Standard disclosures (updated regularly)
- when triggered
- differences for print, web, TV and other media
- any type size or other special requirements

Trademark list and guidelines

Consent orders or other agreements affecting ads

Approval Checklists

Training presentations and materials

Form agreements and releases
- Sponsorship Agreement
- Giveaway Request Form
- Evaluation Unit Agreement
- Model Release
- Testimonial Release

Guidelines on common issues

Advertising Lawyer Mantra . . .

Bring me into the ad development process whenever you want . . . but bringing me in at the last minute is at your peril!

What Makes an Advertisement Deceptive?

- FTC Policy Statement on Deception: Ad which is deceptive contains a statement – or omits information
  - That is likely to mislead consumers acting reasonably under the circumstances; and
  - Is "material" (i.e. important to a consumer's decision to buy or use the product).
  - Full text appended to *Cliffdale Associates, Inc.,* 103 F.T.C. 110, 174 (1984)
- In order to controvert allegations of deception, it is critical to ensure that all advertising claims are appropriately substantiated.

Who cares if an ad is deceptive?

- FTC: primary regulatory body for ads with national scope
- State AG offices: handle local/regional advertising
- Competitors: may challenge deceptive advertising through
  - ad industry self-regulatory process
  - challenges through media outlets
  - federal lawsuits under the Lanham Act
- Consumer Class Actions
- PR implications of having ads found to be deceptive

Substantiation

Substantiation: overview

- Prior substantiation requirement
- General standard: "reasonable basis"
- Claims requiring higher levels of substantiation: "Competent and Reliable Scientific Evidence"

Prior Substantiation Requirement

- FTC Act and Federal/State laws require substantiation for advertising claims **prior to** running advertising (known as the "*Pfizer* Standard")
- Substantiation requirement applies to all reasonable interpretations of claims in ad copy and visuals
  - Express Claims: claim specifically stated
  - Implied Claims: evaluation of "net impression" required. May require consumer perception studies
- **Trend alert**: All involved with the ad must ensure compliance, not just the advertiser.

How much substantiation is enough? The "reasonable basis" standard

- Generally, the "reasonable basis" standard applies which requires only that you have a reasonable basis for making the claim. The degree of substantiation necessary is determined by factors such as:
  - the type of product/service,
  - the type of claim,
  - the consequences of a false claim, and
  - what the industry or experts generally find reasonable.
- **Always** consider what understanding the average consumer would "take away" from the ad – don't just look at the words used (i.e. look at "express" and "implied" claims)

Claims Requiring Higher Levels of Substantiation

- Establishment: If your ad says "tests prove" or "experts agree" – be ready to produce the tests/experts.
  - Even someone in a "white lab coat" or similar representation can cause the claim to be deemed an establishment claim.
- Comparative claims: if you state that your product is superior to or as good as a competitor, you'd better have tests demonstrating that!
- Dietary, medical, health, and safety claims
  - The FTC is especially concerned about these claims due to the risk of consumer injury.

What higher level substantiation is needed? "Competent and Reliable Scientific Evidence"

- Per the FTC this means "tests, analyses, research, studies, or other evidence based on the expertise of professionals in the relevant area that has been conducted and evaluated in an objective manner by persons qualified to do so, using procedures generally accepted by others in the profession to yield accurate and reliable results."
- Existing substantiation standards are given deference (e.g. FDA, broadcast standards, industry standards).

Benchmarks: "Competent and Reliable Scientific Evidence"

- Well-Controlled Scientific Studies – beware doing these in-house due to the perception of bias.
- Demonstrated Statistical Significance
- Meets Scientific Standards in the Relevant Field
- Comparative claims: if comparing to defined competitors, just test competing products. If claiming absolute superiority in a crowded industry, demonstrating superiority over 85% of the leading market competitors is a rule of thumb (unless you know of others which are superior).

Comparative Claims – General Requirements

- Not misleading
- Goods are of like grade and quality
- Compares material, relevant, verifiable and representative features of goods
- Does not confuse consumer as to source or identity of product
- Treats other products consistent with manufacturer's use directions
- Compares products under equivalent conditions
- Ensure comparison of same models/releases
- Accurately reflects results of comparison
- Does not denigrate or take unfair advantage of reputation of competitor's trademark, trade name or activities

Trap for the unwary . . .
"we don't need substantiation – this is just puffery"

- What puffery is: A statement incapable, or virtually incapable, of being objectively proven - reasonable people would not take as a serious claim.
  - Examples: BMW: the ultimate driving machine." Words like "great," "amazing," "powerful," "gorgeous."
  - Attractive because it does not require substantiation and is a defense against charges of false or deceptive advertising claims
- What puffery is not: whatever your marketing department can't/doesn't feel like getting substantiation for (despite their insistence that the claim is "just puffery"!!)
- This is a very narrow exception! When in doubt, get substantiation!

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Trap for the unwary: Testimonials "we don't need substantiation – this is just our customer's opinion/experience"

- **Claims made via testimonials are held to the same substantiation standards as claims made "directly" by the advertiser.**
- **Customer experience must be typical/what the average customer would expect to experience, unless conspicuously disclosed otherwise.**
  - **Only exception is if the statement is clearly set forth as opinion which no reasonable person would rely upon ("In my opinion, this is the best product on the market").**
- **<u>Trend alert</u>: spokespeople being held personally accountable (e.g. Steve Garvey).**

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Advertising and Substantiation Online

Claim Substantiation Online

- Standards and requirements aren't any different for online vs. offline advertising. What is different is the way in which the information can be conveyed.
- Study or testing data can be posted in entirety. The more the consumer has the opportunity to read the actual data themselves, the less susceptible the advertiser is to allegations that an ad is misleading.
- Endorsement and testimonial disclosures can be handled through the use of hyperlinks or pop-ups and additional information can be conveyed, thereby making the overall presentation more credible.
    - Example: "Results not typical" can be hyperlinked to more information on typical result data
- Disclosures which would normally be presented in a footnote or on-screen super can be presented through use of a clearly-labeled hyperlink – resulting in a cleaner look to the main page.

Clear & Conspicuous on the Web: Use of Hyperlink Disclosures

The hyperlink must be:

- clearly identified as a hyperlink;
- labeled to convey the nature and relevance of the information it leads to;
- next to or on the same page as the triggering information it leads to, without the need to scroll down; and
- set up to take the consumer directly to the disclosure upon clicking.

Banner Ads

- More leeway is given in presenting banner ads due to the limited space and the ability for the consumer to click through to more info.
- While material conditions and limitations of the offer must appear on the banner, additional details can be presented on the landing page the banner links to. Disclosures should always be "one click away."

Disclaimers

Modifying Ad Claims with Disclaimers

- Learn the lingo: “supers” “mouse type” “the legal mumbo jumbo”
- Disclaimers can be used to limit, qualify or explain accurate claims
- Disclaimers cannot be used to contradict a misleading claim
- The FTC, NAD, and Courts frequently find disclaimers ineffective to modify claims
  - Often due to poor legibility or improper location
- Clear and conspicuous – would the average consumer have the opportunity to notice and read
- Placement: material vs. non-material disclosures
- TV: Standards are different for network vs. cable

General Rules for Effective Disclaimers

- Disclaimers must be clear and conspicuous
- Disclaimers must appear in close proximity to claims being modified
- Follow network guidelines for TV disclaimers
  - Type size
  - Contrast
  - Length time on screen

Telemarketing

Telemarketing

- Despite many marketers' perception that "dialing for dollars" is OK – this is a heavily regulated area with fines of up to $25K per violation!
- State specific requirements (e.g. registration, limits on hours of the day, record keeping, disclosures)
- All telemarketers must adhere to the federal do not call list, state do not call lists and must maintain internal do not call lists.
- Great resource: American Teleservices Association: www.ataconnect.org.

Email Campaign Regulations

Email Campaign Regulations: CAN-Spam

- In January of 2004 the bill known as "Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 or **CAN-Spam Act** was put into effect.
- This law generally takes precedence over the individual state laws and significantly clarifies and simplifies what we need to do to be compliant when sending email marketing.

CAN-Spam – main provisions

- The email's "From," "To," and routing information – including the originating domain name and email address – must be accurate and identify the entity initiating the email.
- Subject lines must not be deceptive or mislead the recipient about the contents or subject matter of the message.
- The email must give recipients a clear, easy to use method to opt-out from receiving further email communications. Opt-out requests must be honored within 10 business days.
- The email must be clearly identified as an advertisement and include the sender's valid physical postal address.

Email Campaign Regulations - Penalties

- Includes both criminal and civil penalties
- allows suits by the Federal Trade Commission (FTC), State Attorneys General, Internet Service Providers and private class actions.
- State Attorney General penalties can be as high as $2 million -- more if the offense includes certain aggravating violations.
- Internet Service Providers can sue in federal district court for $100 per illegal e-mail message up to a maximum of $1 million; more under certain circumstances.

Fax Marketing

- Under the Junk Fax Prevention Act of 2005, in order to send marketing materials by fax, the advertiser must have an established business relationship (EBR) with the recipient prior to sending the fax, and must have received the recipient's fax number pursuant to that relationship.
  - Under FCC rules, an EBR is: "a prior or existing relationship formed by a voluntary two-way communication between a person or entity and a business or residential subscriber with or without an exchange of consideration, on the basis of an inquiry, application, purchase or transaction by the business or residential subscriber regarding products or services offered by such person or entity, which relationship has not been previously terminated by either party."
- Obtaining fax numbers: The advertiser with an EBR with a customer can obtain the fax number either from its customer directly or from a publicly available directory or Web site. If the EBR existed prior to July 9, 2005 and the advertiser also possessed the fax number at that time, the advertiser may send fax advertisements to that recipient regardless of how the number was obtained.
- The first page of all fax communications must contain a cost-free method of opting out from future solicitations. Opt out requests must be honored within 30 days.

Cutting Edge Marketing Methods

- Branded Entertainment
- Product Placement
- Cell phone text message marketing
- Gorilla/Ambush Marketing
- Blog marketing

Sweepstakes and Contests

Avoid the Lottery!

- Only states are authorized to run a lottery, which consists of the following elements:

  (1) Prize, (2) Chance, and (3) Consideration

  You must eliminate one of these elements to run a lawful promotion.
- **Sweepstakes** eliminate the element of consideration. This is done by offering free entry or, if a purchase or other consideration is generally required to enter, by offering an alternate method of entry, such as by sending in a postcard, visiting a store for an entry or entering via email or website.
  - Store visits, Internet access, and normal postage are generally deemed to not constitute consideration.
- **Contests** eliminate the element of chance by determining winners based on their performance or skill.

Sweepstakes: Key Rule Provisions

All sweepstakes must have official rules which cannot change once the sweepstakes has begun. Key provisions:

- No purchase necessary (stated prominently).
- Restrictions (e.g. age, residency, any exclusions).
- Start and end dates.
- A complete explanation of how a person can enter the promotion.
- An alternate means of entry where the main means of entry is through purchase or other method constituting consideration.
- Number of times each person/household can enter.
- Odds of winning.
- Description of the prizes and approximate value
- How winners will be selected (generally: random drawing) and notified.
- Sponsor's name and address.

Also a good idea to include a dispute resolution provision and/or a statement that the sponsor's decisions on eligibility and winners are final.

Sweepstakes: special state registration requirements

- In Florida and New York sponsors are required to register all sweepstakes where the total retail value of all the prizes is greater than $5,000.
- Rhode Island has similar requirements for retail store sweepstakes with prizes over $500 in Rhode Island for retail store promotions.
- When applicable, a registration from must be filed along with $100-$150 fee and (in NY and FL) a bond must be posted in an amount equal to the total value of all prizes.
- NY and FL also require winners list to be submitted within 60 days of completion; RI requires that the list of winners be available upon request for 6 months.

Sweepstakes: Required filings

- Forms and details available at the following:
  - New York: **http://www.dos.state.ny.us/corp/pdfs/mrgoc.pdf**
  - Florida: **http://www.800helpfla.com/info_businesses.html#sweeps**.
  - Rhode Island: **http://www3.sec.state.ri.us/corps/GC/games.html**
- You must advise winners that they are responsible for all taxes and issue a W-9 for all prizes over $600.

Sweepstakes: General Advertising Rules

- The advertising for the promotion must fairly and accurately represent the nature of the promotion - including the prizes available.
- The advertising for the promotion must be consistent with the official rules for the promotion.
- The following is required in all advertising for games of chance.
  - NO PURCHASE NECESSARY. A PURCHASE WILL NOT IMPROVE YOUR CHANCES OF WINNING. VOID WHERE PROHIBITED. (This must be first.)
  - Deadline date
  - Reference to availability of completed rules
  - Any material eligibility restrictions
  - Official rules - required for promotional materials distributed in the state of FL
  - Age eligibility requirements
  - Listing of excluded states/locations
- In a "teaser" ad (advertising which merely informs consumers about a promotion), the official rules are not required. If no means of entry is stated, a simple no purchase necessary declaration, a deadline date and referral to rules should be sufficient.

Promotions Directed to Children

Complying with COPPA

- The Children's Online Privacy Protection Act (COPPA) regulates the collection of personal information from children on the Internet.
- COPPA applies to promotions directed to children under the age of 13 or promotions which are likely to appeal to children under 13.
- To comply with COPPA, web site operators must place privacy and parental notices and obtain parental or guardian consent to collect personal information, among other requirements
- **ALERT**: penalties for violation are severe! On 9/7/06 the FTC announced that blogging website xanga.com would be fined **$1 million** for collecting, using and disclosing personal information from children under the age of 13 without notifying parents and obtaining consent, in violation of COPPA.

COPPA Requirements

See www.coppa.org for detailed requirements. In general, to run a website or promotion directed to children, the advertiser must:

1. Post a privacy policy which addresses the issue of collecting information from children and post a prominent home page link.
2. Get parental consent.
3. Get new consent when information practices change in a "material" way.
4. Allow parents to review personal information collected from their children.
5. Allow parents to revoke their consent, and delete information collected from their children at the parents' request.

Ad Law Miscellany

The various issues which frequently arise

Coupon Offers

- A clear, concise and understandable statement of the offer and all restrictions or limitations, including any minimum purchase, if the offer is good on only certain products or good only on regularly priced products. Must also state: **"Void where prohibited, taxed or restricted. Cash value 1/100¢."**
- Include any applicable restrictions, such as:
  - "May not be used with any other offer."
  - "Limit one per household" or "per person."
  - "Good only while supplies last" and/or expiration date.
  - "Not to be reproduced."
  - "Good only . . . " in a particular state, in the U.S., in the Continental U.S., at retail locations, on web purchases.
  - If the coupon could be used toward the purchase of an item which costs less than the coupon value, state: "No cash back or carry forward for purchases under coupon face amount."

Use of the word "new"

- In general, there are two rules:
  1. For a product to be described as "new" it must be legitimately new or reformulated in a material respect related to product performance. A mere cosmetic change, such as new packaging, or perhaps a change in color (e.g., coloring monitors black instead of white) would not be sufficient to justify use of the word "new").
  2. The term "new" may only be used to describe the product for a period of six months from initial distribution of the product to which the term is applied.

Use of the Word "Free"

- **Price of underlying product may not be increased**. The normal purchase price of an item to be purchased to get the free item cannot have been increased, inflated or otherwise manipulated to cover all or part of the cost of the free item.
  - ***Normal purchase price* =** The price at which we have openly and actively sold the product in the recent and regular course of business for a reasonably substantial period of time (e.g. 30 days).
- **The offer must be temporary**. Otherwise, the item is assumed part of price and should be referred to as "included" rather than "free." The FTC has provided the following guidelines on what is meant by temporary:
  - Should not be offered in a trade area for more than 6 months in any 12 month period;
  - At least 30 days should elapse before another such offer is promoted in the same trade area;
  - No more than three such offers should be made in the same area in any 12-month period; and
  - "Free offer" sales should not exceed 50% of the total volume of sales of the product in the area for any 12-month period.
- **Presentation of disclosures on "free" items**. The key terms, conditions, limitations and obligations upon which receipt of the free item is conditioned must be disclosed clearly and conspicuously together with the free offer.
  - Key disclosures must be presented together with the free offer, not with an asterisk to a footnote.
  - Examples of key disclosures which must be presented with the free offer: Any additional shipping & handling on the free item, required purchase, additional charges,

Use of Stock Photos

Purchasing the photos does not ensure rights to use the people, artwork or trademarks appearing in the photo. Ways to reduce risks:

- Avoid using photos with trademarks, recognizable products, famous building, or anything that looks like it could possibly be art in the background. These may require additional licensing.
- Always confirm that stock photo company has releases (get copies if possible) from all the people appearing in the photo.
- Make sure the rights you purchase cover all intended uses. For example, if we purchase the use for the catalog, this does not necessarily mean we have the rights on the web.

Testimonials

- Must be an actual user of the product/service and reflect the honest opinion of the endorser. If an actor, disclose.
- Results must be typical or must disclose they are not
- Same substantiation standards apply as if the advertiser had said it themselves.
- Must disclose any connection between the endorser and the advertiser.
- Endorser must not receive anything more then a token gift for endorsement or disclose that compensation was paid for the endorsement.
- "Expert" endorsers must have actual expertise.
- See FTC guide concerning endorsements and testimonials at 16 CFR part 255 for further guidance.
- Obtaining a release from the endorser is recommended!

"Up to" claims (*a/k/a* "as little/much as")

- The FTC has stated that, in substantiating maximum or "up to..." claims (*e.g.*, "save up to 40%"), the advertiser should not rely on an unusual or "outlier" test result. The advertised result should be one that the average consumer can reasonably expect to achieve (FTC "Energy Surf Letter," April, 2002).
- The National Advertising Division of the BBB has said that the advertiser should expect that at least 10% of customers should be able to achieve the stated maximum/minimum and that the range should be stated.

U.S. Flag, Money and Seals

Thou shall not show the following in ads:

- American Flag: 36 USC § 176(i)
- US paper money in actual size and color: 18 USC § 504
  - you can use a one-sided illustration provided it is more than 1½ x bigger or ¾ smaller than actual size (*Federal Register:* May 31, 1996 (Volume 61 No.106, pp.27280-27281)).
- Certain Federal Government Seals: 18 USC § 713 (e.g. President, VP, Congress, Senate).

Limited Quantity Offers

- Must be sufficient product quantity on hand to meet expected consumer demand. Alternatively, the seller must be prepared to provide a substitute product of equal or greater value at the advertised price.
- If only limited quantities of advertised specials are available or if the advertised product will not be available at all locations, the retailer must disclose that information in advertising.

Consumer Reports

- Favorable reviews in Consumer Reports generally cannot be used in advertising.
- Consumers Union has a policy prohibiting use in advertising and aggressively pursues violators.
- A special NY statute prohibits any quoting in advertising of statements from magazines such as Consumer Reports: N.Y. Gen. Bus. Law § 397.

Specific Industries/Activities: Financing, Pharma, Food, Weight Loss, Jewelry, Furs

- Financing Offers: Regulation Z (12 CFR part 226).
- Prescription Drugs: 21 CFR part 202.1(e)
- Food, Weight Loss, Jewelry, Furs: see guidance publications at http://www.ftc.gov/bcp/menu-health.htm#bized

Challenging Competitors' Ads

Options for Ad Challenges

- Options: Direct contact, NAD, FTC, State AG, Lawsuit, Network challenge
- Considerations: Timing, Costs, Binding effect, Publicity, Use of Internal Resources

Direct Contact

- Call the competitor to request substantiation for the claims.
- Always a good first step to create a record of good-faith efforts to resolve. A cease & desist letter following a phone call can document the efforts.

NAD

- The National Advertising Division of the Council of Better Business Bureaus (NAD) is a self-regulatory board set up to allow advertisers to challenge competitors advertising.
- Initiating a challenge before the NAD is simple and the rules for filing and evidence submission are more relaxed than in federal/state court. Easy to handle in-house.
- Final rulings are generally issued within a few months of the first challenge. Rulings are non-binding, but non-compliance is referred to the FTC for review. Rulings can be appealed to the National Advertising Review Board (NARB).

FTC/State AG

- Sending a letter to the regulators is free and highly effective . . . if the government decides to investigate.
- Unless there is a consent order or other public action, you will probably not know if they decided to do anything.
- Downside: may result in greater scrutiny of the entire industry. Your competitor may take the opportunity to discuss your practices.

TV Network Challenge

- The major networks have a clearance process before ads are permitted to air
- Competitors who believe a currently running ad is false or misleading may institute a challenge by sending a letter setting forth the basis.
- Usually the networks will give the advertiser 10 days to provide a sufficient response to the challenge or pull the spot. The networks may also pull the spot immediately.

Federal Court Challenge - Lanham Act

- Section 43a of the Lanham Act (codified at 15 U.S.C. § 1125(a)), permits business competitors to sue one another for false advertising
- Possible relief includes injunctive relief preventing further dissemination of the offending material and damages.
- Can be highly effective, but horribly expensive.

Should you challenge at all?

- Is the advertising actually false or misleading . . . or is it just merely annoying?
- Will a challenge do more to publicize the competitor's ads?
- Is the expense actually worth it – is the ad so persuasive or getting so much play that it will have a material impact?
- Challenges tend to breed counterattacks – now or in the future.
- Beware of crying wolf.

Contracting with Ad Agencies

General Tips

- Put the base legal terms in the RFP when the account goes into review
- Attend the pitch session or at least get copies of the pitch materials/slides

Exclusivity

- What period after termination?
  - When the value of information to competitors eviscerates
- Includes pitching business
- Includes Agency's affiliates
- How to define "competitor"
  - May want to list companies

Copyright/Work for Hire

- Basic concept: work for hire; once the materials are paid for, you own them
- Unused concepts – who owns?
  - own it all
  - developed concepts
  - unused after a year reverts
  - concepts designated in writing
- Additional use of the materials
  - Use outside territory
  - Hot issue: Non-advertising exploitation

Joint Defense Provisions

- States that any legal guidance communicated from one party to the other is protected under the joint privilege doctrine
- Disclosure is voluntary
- Never a controversial provision and may be helpful in the event of litigation

Audit

- Specialized auditing firms
- Look at time records, mark up on 3d party charges, pass through costs
- Often commission basis – receive % of recovery
- Time to retain is when you're doing contract or LOI – craft appropriate clause, ensure access to needed info.
- Confidentiality – employee salaries/bonus

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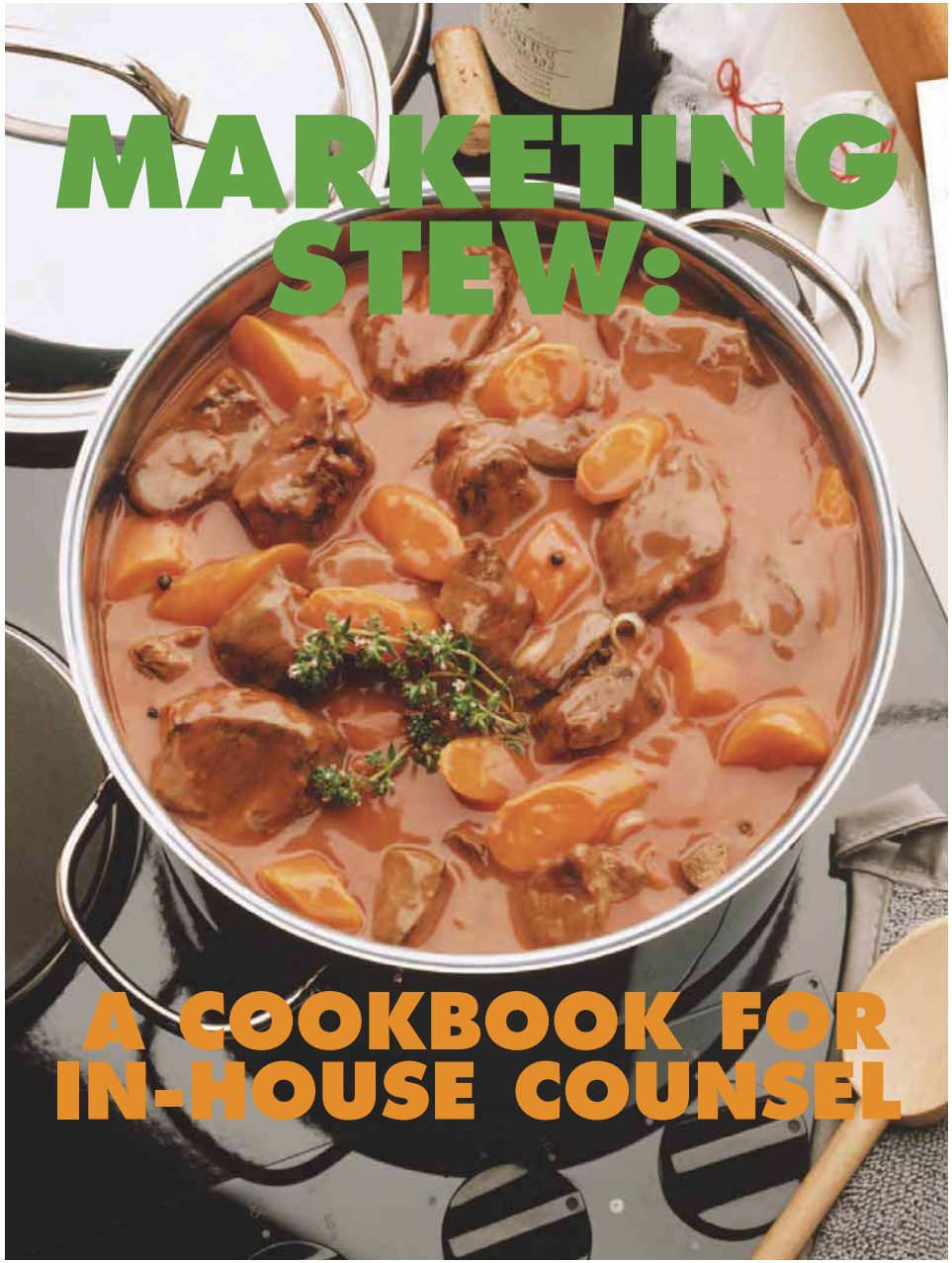
Termination

- Importance
- Notice period
  - Obligations during notice period
  - Payment during notice period
- Minimum term
  - Upfront investment
  - Value



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ASSEMBLING YOUR INGREDIENTS: STRUCTURING YOUR ADVERTISING AND MARKETING PROGRAM

Your greatest obstacle will likely be the sheer variety of laws applicable to the plan Arnold A. Gressive wishes to implement. Avoiding legal liability stemming from Arnie's program requires compliance with a variety of laws, rules, and regulations (collectively, "marketing laws"). And you need to do more than avoid liability; you also need to ensure legal protection for the company's new creative products as well as consider and advise on the program's likely public relations consequences. Accomplishing these objectives will require affirmative steps to make intellectual property and other marketing laws work in the company's favor.

Once you decide on a task-by-task approach to overseeing legal compliance, you must identify each component of the program (for example, TV commercials and promotional emails) being implemented by Arnie and his team. Next, you must specify the legal tasks that need to be performed in conjunction with each program component. This process will help you create succinct and workable compliance guidelines for employees. To illustrate, consider the following practices unveiled by Arnie as part of the new AutoTunz advertising and marketing program.

NOUVELLE CUISINE: CREATING CUTTING-EDGE ADVERTISING MATERIALS

Contracting to Own Advertising Materials

Arnie's first move as marketing VP is to engage a high-profile New York advertising firm to develop sleek advertising materials for AutoTunz and the AutoTuner. Although it is Arnie's job to negotiate what will be created and how much your company will pay, you also have a role to play. You'll want to ensure that your company ends up owning the products of its relationship with the ad agency. You also need to understand the tenor of the ad campaign, the potential risks created by the materials, and the likely impact on the unique culture of AutoTunz.

The best way to ensure that your company owns the advertising materials is to specifically contract for this result. The US Copyright Act (17 USC § 101, et seq.) contains a "work made for hire" provision that, in some cases, operates to transfer the rights in a work from its actual creator to the party that employs the creator or engages the creator to produce the work. However, this provision imposes complicated requirements that must be met before rights in a work will automatically transfer to the party that is paying for the work's creation. Rather than relying on copyright law, the safer option is to expressly contract that your company will own the materials produced for it by an ad agency.

As general counsel, you should push for "work made for hire" and intellectual property assignment language. (See "Works Made for Hire: Sample Language," on p. 52.)

- The ad agency should acknowledge that any materials (i.e., campaign strategies, proposed advertisements or commercials, storyboards, scripts, and logo designs) it produces are "works made for hire" under the US Copyright Act.
- The ad agency should assign to your company all rights to any materials it produces that don't qualify as "works made for hire."
- The ad agency should provide "further assur-

ances" that it will take all actions and execute all documents necessary to transfer ownership in the advertising materials to your company.

You also need to guard against third parties' attempting to claim ownership of materials that the ad agency produces. Outside artists that supply creative works (for example, photographers or jingle writers) typically operate under form contracts that grant a use license to the ad agency while reserving ownership rights for the artist. You'll want to be clear on who will supply the underlying creative components used to develop your ad. If these are supplied by outside artists, as opposed to in-house ad agency employees, the ad agency's contract with these suppliers should ensure that the ad agency has the authority to grant your company the rights it agrees to transfer. In addition, you will want the agreement to include a warranty of noninfringement and an intellectual property infringement indemnification covering the advertising materials the agency produces.

Policing the Use of Your Company's Creative Works

After ensuring that your company will own copyrights in the advertising materials it pays for, you will want to set the stage to police the copyrights and other intellectual property rights your company has in its advertising materials. These other rights include the rights to the valuable trademarks used in your company's advertising copy. As you invest money and publicity resources in your advertising materials and trademarks, you create an incentive for others to piggyback your efforts via infringing practices. The following tips can help you protect your company's intellectual property rights.

Protecting Copyrights

To protect your company's copyrights, include a copyright notice on all advertising materials produced for your company by an advertising agency. Although absence of notice will not void a copyright, potential infringers might be able to assert an "innocent infringement" defense if they copied a work that did not have a copyright notice. You should also consider registering your company's copyrights in its advertising materials and other creative works. Although registration of a work is not a prerequisite under US copyright law to creation of a copyright in the work, registration is a prerequisite to bringing suit to enforce a copyright, is inexpensive, and is necessary to pursue statutory damages and attorneys' fees in most cases. You can ensure copyright registration of your company's advertising materials without much effort by contractually requiring the ad agency that produces the materials to have them registered.

Protecting Trademarks

To protect your company's trademarks, be sure that they are always used as adjectives. For example, you should refer to a *Xerox* machine instead of asking someone to "*xerox* that document." Similarly, you should say, "look it up on a *Google* search engine," instead of "I *googled* her." Proper trademark notice and registration can also be important.

If advertising copy employs a company trademark (this will almost always be the case), use proper trademark notice. (See "Important Intellectual Property Markers," on this page.)

If a trademark is registered, the trademark should be used exactly as it is registered (e.g., you should not use an abbreviated form of the mark or use a color scheme different from that as registered).

If you have little experience with trademark registration procedures, you'll want to confer with intellectual property counsel about the process, including the cost and time involved.

In general, you should keep in mind that developing a strong trademark is all about getting consumers to associate the mark with your company and its products; any use that detracts from this goal is most likely not advisable.

Minimizing the Risk of Intellectual Property Infringement Claims

Keep in mind that cutting-edge ads will invite scrutiny by competitors. Therefore, you'll want to make sure that your company's creative products don't infringe on the intellectual property rights of a competitor or anyone else. Again, the relevant laws involved are likely to be copyright and trademark laws.

YOU CAN ENSURE COPYRIGHT REGISTRATION OF YOUR COMPANY'S ADVERTISING MATERIALS WITHOUT MUCH EFFORT BY CONTRACTUALLY REQUIRING THE AD AGENCY THAT PRODUCES THE MATERIALS TO HAVE THEM REGISTERED.

Ensure Compliance With Copyright Laws

The use of a significant portion of another's copyrighted work without permission typically constitutes copyright infringement. "Use" in this context more or less includes duplication, display, distribution, performance, and creating a new work based on the original. As copyright law covers nearly every use of a work, be very sure that your company has proper authorization for all works used in its advertising materials.

Contracts are a good place to start in minimizing your company's exposure to infringement liability.

Works Made for Hire: Sample Language

OWNERSHIP OF COPYRIGHT

Client must acquire perpetual, universal ownership and control of any copyrightable interest in and to all materials and other works subject to copyright (including renewal rights thereto to the extent applicable), free of any claims from the Agency, or any employee or independent contractor provided by the Agency.

Agency will execute and deliver assignments of those copyrights to Client, along with any additional documents that may be required to vest title to copyright in Client.

Agency must utilize employees of Agency acting within the scope of employment for the preparation and creation of works subject to copyright (so that such works shall be deemed "works made for hire" under applicable copyright laws, if feasible).

If not feasible to use employees, Agency must have works prepared pursuant to a prior written agreement with the creator that makes the work product a "work made for hire" under applicable copyright law. All the creator's rights with respect to the work must also be assigned to Agency in writing, and any so-called moral rights must be expressly waived in writing.

OWNERSHIP OF MATERIALS

Any plans, ideas, materials, data, programs, or information, including without limitation advertising and promotion ideas, concepts, slogans, marketing or media plans and studies, product test results, and consumer demographic studies, which are prepared for Client by or under the direction of the Agency, whether or not subject to copyright ("Agency-generated materials"), are the sole property of Client.

All plans, ideas, materials, data, programs, or information furnished by Client to the Agency in connection with the agreement ("Client-furnished materials") are the sole property of Client. Agency must not use any of those items at any time in connection with any product or service of any other organization, or for any purpose other than Agency's performance of its obligations under the agreement.

Agency-generated materials and Client-furnished materials must not be destroyed or disposed of in any manner without the prior written approval of a representative of Client. Agency will take reasonable care of all items, and upon termination of the agreement, or earlier at the direction of Client, deliver them to Client.

Upon termination or expiration of the Agreement, Agency will transfer to Client title and ownership of all Agency-generated material and Client shall have no liability to Agency arising from Client's use of any of that Agency-generated material.

Important Intellectual Property Markers

® = *A registered trademark*
™ = *Common law trademark (for use with goods)*
℠ = *Common law service mark*

Contracts with your ad agency, outside creative personnel, and even in-house authors and artists should specifically transfer ownership of creative materials to your company. However, it may often be impossible to secure ownership of a work before it is created. If so, if you desire to use the work, you'll need to seek permission. Documenting and seeking permission to use copyrighted works is where employee training and education by the legal team is a must.

Each division within your advertising and marketing group will need to assign someone to ask a simple question about each piece of creative material it develops: Who owns the rights to this work, and have they granted our company permission to use it? If the answer is yes, then there should be paperwork supporting this fact (e.g., a consent, contract, or release). This paperwork should be retained as part of a copyright clearance file, intellectual property portfolio, or similar records archive.

CONTRACTS ARE A GOOD PLACE TO START IN MINIMIZING YOUR COMPANY'S EXPOSURE TO INFRINGEMENT LIABILITY. CONTRACTS WITH YOUR AD AGENCY, OUTSIDE CREATIVE PERSONNEL, AND EVEN IN-HOUSE AUTHORS AND ARTISTS SHOULD SPECIFICALLY TRANSFER OWNERSHIP OF CREATIVE MATERIALS TO YOUR COMPANY.

If the answer is no, then the particular employee needs to be trained as to how to seek permission to use the work. In smaller organizations, you may just tell employees to contact you whenever they need to seek permission to use a copyrighted work. In larger companies, you may wish to charge an administrator with handling permission requests and seeing that proper consents are obtained.

Reduce the Risk of Trademark Infringement

Just as you want to enact procedures to ensure your company's compliance with copyright law, you also need to implement protocols that reduce your company's risk of committing trademark infringement. Trademark infringement occurs when one entity uses a mark (e.g., a name, logo, or phrase) that is confusingly similar to a mark employed by another entity. One entity's mark is confusingly similar to another's when use of the mark causes consumers to be misled as to the origin of the goods or services offered under the mark.

The first step to avoiding trademark infringement claims is to find out whether someone else is already using a mark that you want to use. Before rolling out any new name, slogan, logo, mark, symbol, or domain name, your company will need to conduct a comprehensive trademark search. The first step in the process might be a "knock-out" search—a search of a limited database that can be done in-house by a trained paralegal. A "hit" on the search—indicating that another party has already registered the name, slogan, logo, or other item for a similar use—will automatically "knock out" that creative choice for use by your company.

Assuming that the knock-out search doesn't disqualify the name, slogan, or logo from your use, you should proceed to a more extensive search conducted by a professional trademark search company. The results of this search should be reviewed by a trademark law expert. The purpose of the trademark search is to determine and analyze the uses in the marketplace of the mark you intend to deploy in your own advertising. This helps you avoid infringing the rights of others and also prevents you from sinking resources into a mark that a competitor or some other entity has previously associated with their brand.

If you are using trademarks owned by a third party in your advertising or marketing materials (e.g., using a third-party trademark to describe the grand prize in a sweepstakes contest or depicting a third-party trademark as part of the creative context of the ad), you will not be dealing with a claim of trademark infringement, but you may be putting yourself at risk for a claim of false association or false endorsement under federal and state trademark laws, including the Lanham Act. You should make sure that your use does not rise to the level of false endorsement or false association. The safest route is to get the third party's consent to the use of its trademark. Of course, when you use a competitor's trademark in a comparative ad context, getting consent may not be an option. In those cases, it is critical that you follow the guidelines set forth below when disseminating a comparative advertisement.

As with copyright law compliance, monitoring and record keeping is critical to your company's trademark law compliance efforts. Along these lines, you'll want to educate a point person in each creative division within your company about the need to conduct trademark searches. This person can be tasked with monitoring new advertising materials and ensuring that searches are conducted on all marks used therein. This person should seek your approval of the results and analysis of each trademark search conducted.

In sum, the key to avoiding intellectual property infringement claims is to make sure that someone is monitoring your company's use of copyrighted works and trademarks. Along these lines, periodic instruction for targeted employees, or the adoption of an organizational copyright and trademark usage policy, might be advisable. (See "Building a Copyright and Trademark Usage Policy," on this page.)

BUILDING A COPYRIGHT AND TRADEMARK USAGE POLICY

Your organizational copyright and trademark usage policy should contain, at a minimum, the following points.

Developing and Using Trademarks

Perform, and retain records of, searches for all new marks.

When using a competitor's mark in descriptive or comparative advertising materials (as discussed further in the section below on Conducting and Challenging Comparative Advertising):

- Do not use a competitor's mark so as to imply that the competitor has endorsed your company's product or service. This could lead to false advertising claims and other similar accusations.
- Always use a competitor's mark exactly as the competitor uses it. This can help avoid trademark claims of dilution, which occurs when use of a mark by a party other than its owner weakens its ability to bring the mark's owner to consumers' minds.

When using another party's mark in a promotion or advertisement, that trademark owner's consent may be advisable.

Using Copyrighted Works

Never presuppose that a work is in the public domain or otherwise freely available for use.

Oblige any party that transfers a copyrighted work to your company to document their rights in the work and support this documentation with warranties and indemnifications.

If you are not sure who owns a work, perform a search of the US Copyright Office's records to confirm ownership.

Keep records of searches, consents, contracts, and so forth.

EVERYONE'S A CRITIC: CONDUCTING AND CHALLENGING COMPARATIVE ADVERTISING

After developing new advertising materials for AutoTunz and the AutoTuner, Arnie's next move is to take on the company's chief competitor via a comparative advertising campaign. Your duties in helping to carry out this next step are to:

- explain to the senior team that comparative advertising often leads to aggressive responses in return,
- ensure that the ads don't run afoul of any advertising and marketing laws, and
- if necessary, defend AutoTunz against any deceptive comparative ads.

Claim Substantiation

Before addressing the legal concerns specific to a comparative advertising program, it is helpful to understand the sources of law and regulation that govern advertising generally. Section 5 of the Federal Trade Commission Act prohibits false and misleading advertising. On this basis, the Federal Trade Commission (FTC) requires an advertiser to have adequate substantiation for any objective, provable claim that it makes. In addition, the advertiser must possess this substantiation before making the claim at issue.

Substantiation exists for an advertising claim when the advertiser has a "reasonable basis" for making the claim. In language routinely used by the FTC in its consent orders, a "reasonable basis . . . shall consist of a competent and reliable scientific test or tests, or other competent and reliable evidence including competent and reliable opinions of scientific, engineering, or other experts who are qualified by professional training and experience to render competent judgments in such matters." (For more information, see the FTC Policy Statement Regarding Advertising Substantiation at *www.ftc.gov/bcp/guides/guides.htm.*) In addition, the FTC has construed "competent and reliable" to mean

"analyses, research, studies, or other evidence conducted and evaluated in an objective manner by persons qualified to do so, using procedures generally accepted in the profession or science to yield accurate and reliable results."

When deciding whether an advertiser had a reasonable basis for making a claim, the FTC will consider various factors, including the type of product involved, the type of claim at issue, the benefits of a truthful claim, the ease of developing substantiation for a claim, the consequences of a false claim, and the amount of substantiation experts in the field agree is reasonable. And, importantly, it is not just each individual claim in an advertisement that must be substantiated. Rather, an advertiser must possess adequate substantiation for the *overall net impression* created in the minds of consumers by the claims contained in an advertisement. Stated simply, if your company doesn't substantiate the net impression that consumers take away from your ad, your company runs a high risk of being charged with deceptive advertising.

Advertising claim substantiation is a complicated and amorphous task. Performing it correctly requires engaging an advertising law expert to review your company's ad copy and supporting evidence. This is especially advisable for new ad campaigns, television advertising, and any ads that will be presented nationwide. In addition to seeking the advice of outside counsel, you can take the following steps to help reduce the risk that your company will be accused of putting forth an unsubstantiated ad:

- See that the managers of your company's creative efforts are educated about the legal risks associated with advertising, through either in-house training sessions or programs conducted by various advertising and marketing professional associations.
- Have in-house technical personnel review and sign off on product claims made in advertising. Although technical personnel are not likely to be advertising law experts, they can and should advise you whether the product claims are true from the perspective of an expert in the relevant technical field.
- Perform test runs of advertising materials by conducting surveys that assess consumer response to your advertising materials. These surveys can inform you as to the net impression created by your ads. This will allow your company to judge the level and type of substantiation it needs to provide.
- Review government regulations applicable to your particular product and industry to ensure that your product meets or exceeds such regulations.

A helpful practice for implementing some of the above protocols is to create a job ticket for each ad that your company develops. Relevant technical, legal, and creative personnel should sign off on the job ticket after subjecting the ad to the particular type of review that they are charged with conducting. (See "Order Up! Using Job Tickets in Claim Substantiation," on p. 58.)

IMPORTANTLY, IT IS NOT JUST EACH INDIVIDUAL CLAIM IN AN ADVERTISEMENT THAT MUST BE SUBSTANTIATED. RATHER, AN ADVERTISER MUST POSSESS ADEQUATE SUBSTANTIATION FOR THE OVERALL NET IMPRESSION CREATED IN THE MINDS OF CONSUMERS BY THE CLAIMS CONTAINED IN AN ADVERTISEMENT.

Advertising practices also receive a fair amount of oversight from the advertising industry's self-regulatory bodies, the National Advertising Division (NAD) and the National Advertising Review Board (NARB) of the Council of Better Business Bureaus. Although compliance with the rules and decisions of these bodies is voluntary, it is advisable because NAD and NARB are widely recognized as setting industry standards for responsible advertising practices. The claim substantiation standards of both the NAD and NARB more or less track those imposed by the FTC, so you will not have to become familiar with a separate body of substantive law. Rather, you just need to be aware that these organizations are important standard setters, and that their decisions and actions are not to be taken lightly. (To learn more about NAD and NARB and their procedures, see "For Additional Information," on p. 66.)

Comparative Advertising Specifics

Having reviewed claim substantiation, we can now return to the specific issues raised by the AutoTunz comparative ads aimed at its chief competitor. The FTC evaluates comparative advertising in the same manner as it evaluates all other advertising techniques. The net impression of your company's comparative ads, like the net impression created by all of its advertisements, must be supported by proper substantiation. The substantiation practices and rules already discussed are, therefore, applicable to your company's comparative ads. But comparative ads create more legal risk than most other types of ads, so your company will want to exercise the highest degree of care when conducting comparative advertising.

The FTC standards that govern deceptive advertising are by no means bright-line rules. The standards are crafted such that the level of substan tiation actually required by the FTC can differ greatly depending on the claim and product at issue. In fact, FTC precedent demonstrates that comparative claims typically require a relatively high level of substantiation, such as scientific testing or other expert evaluation. Additionally, a competitor assailed by comparative claims is extremely likely to take legal action to defend itself if there is any doubt as to whether your company's ads comply with FTC rules. (For more information, see the FTC Statement of Policy Regarding Comparative Advertising, at *www.ftc.gov/bcp/policystmt/adcompare.htm*.) Therefore, in addition to adopting the substantiation protocols described above, you will always want to ensure that comparative claims undergo a substantiation review conducted by an

Order Up! Using Job Tickets in Claim Substantiation

Job Ticket

Marketing Piece: AutoTunz Still Tops! Date:
Marketing Conact: A. Gressive Phone:_____
Technical Contact:_____ Phone:_____

I. Marketing Strategy: (including any offer limitations, additional costs, or equipment charges)
Free Headset with AutoTunz purchase. Must keep device for 90 days. Headset will be shipped after 90 days. Offer available only to new customers.

II. Substantiation: (including any survey, studies, and technical data)
Ads will focus on product reliability. Study from consumer group suports statistics on repair/defects.

III. Date Due: ASAP

IV: First Route (Date_____)

Legal:_____ Technical:_____

Final Approval (Date_____)

Legal:_____ Technical:_____

expert in advertising law. (See "Comparative Advertising 101," on this page.)

Challenging a Competitor's Comparative Ads

The upside of the regulation of comparative advertising is that your competitors are subject to the same oversight as is your company. Thus it is worthwhile to monitor your competitors' advertising for comparative claims that are potentially deceptive. If you discover such claims, you can challenge them.

Once you identify a competitor's potentially deceptive ad, your next task is to develop evidence demonstrating why the ad is deceptive, either directly or with respect to the net impression the ad creates in the minds of consumers. Your challenges will probably be based a false net impression, as a competitor is unlikely to put forth a comparative claim that is literally false. Thus your evidence is likely to consist of at least two components: survey evidence demonstrating what consumers take away from the competitor's ad, and evidence showing why this impression is false. This evidence of the falsity of the impression will consist of scientific or other expert opinions showing that the message communicated by your competitor's ad is not supported by credible facts or data.

After marshalling evidence showing the deceptiveness of a competitor's ad, you will be in a position to challenge it. Again, this is where your role as legal counselor is critical. You'll want the senior team to understand that pursuing a challenge can be time-consuming and expensive. For example, a claim against your competitor might trigger a retaliatory attack against your company's advertising. Assuming that your company decides to challenge a claim, consider sending a cease and desist letter directly to your competitor or employing other formal challenges short of litigation. For example, radio and television networks typically offer a process that allows you to contest claims made by a competitor via that particular network, and NAD offers a mechanism for challenging a competitor's ad. You can also correspond with the FTC or your state attorney general, requesting that one of these governmental authorities investigate the issue.

If all else fails, you can always sue to enjoin the offending ad and seek compensation for any damages it causes your company. The ultimate decision whether to litigate is up to your company's management team. You should inform them, however, that litigation is expensive and unpredictable and that it may amplify a competitor's claims that your product or company is inferior.

Comparative Advertising 101

Superiority Claims
- Superiority claims are claims that the advertised product is better than others in the category.
- They require substantiation against named products, or 85 percent of all products in the category if no competitors are named.
- The substantiation must be impeccable.

Parity Claims
- Parity claims are claims that the advertised product is as good as, or on par with, other products in the category. Substantiation is still required.

Comparative claims may be found to exist even where a competitor is not named.

SPICING IT UP, 21ST CENTURY STYLE: USING INNOVATIVE MARKETING TACTICS

After creating new ad copy and engaging in comparative advertising, A. Gressive moves beyond these traditional advertising tactics and initiates a variety of consumer-based promotions. The laws regulating these promotions are extremely diverse. Your primary job in overseeing this part of Arnie's program is to be an issue spotter. You'll need to quickly identify applicable law and implement basic compliance procedures as Arnie develops and enacts new facets of the advertising and marketing program for AutoTunz.

Sweepstakes and Contests

One of Arnie's ideas is to conduct some type of sweepstakes or contest to promote the AutoTuner. This should not be overly troubling, but one thing you need to keep in mind is that a host of federal, state, and local laws govern sweepstakes and contests. For most promotions, you will want to consult

From this point on . . .
Explore information related to this topic.

ACC RESOURCES ON MARKETING AND ADVERTISING LAW

ACC's committees, such as the Intellectual Property Committee and the Corporate & Securities Law Committee, are excellent knowledge networks and have listservs to join and other benefits. Contact information for ACC committee chairs appears in each issue of the *ACC Docket*, or you can contact Staff Attorney and Committees Manager Jacqueline Windley at 202.293.4103, ext. 314, or windley@acca.com or visit ACC Online℠ at *www.acca.com/networks/committee.php*.

Nancy Kirschner Bowen, L. Rachel Gervin, Kenneth Hirschman, *110: Antispam Laws After One Year,* ACC 2004 Annual Meeting course material, available on ACC Online at *www.acca.com/am/04/cm/110.pdf.*

Janet Chase, *Don't Call Me, I'll Call You: Telemarketing Crackdown* (2004), available on ACC Online at *www.acca.com/protected/article/international/telemarketing.pdf.*

Checklist for Advertising Review (2003), available on ACC Online at *www.acca.com/protected/reference/advertise/checklist.pdf.*

Michelle P. Goolsby, Bradley Ipema, Gretchen M. Olive and Rita A. Rodin, *Someone's Using My Brand on the Web! Now What?* ACC 2004 Annual Meeting course material, available on ACC Online at *www.acca.com/am/04/cm/210.pdf.*

Hall Dickler Kent Goldstein & Wood, LLP, *Official Rules Checklist for Sweepstakes, Games and Contests of Skill* (2003), available on ACC Online at *www.acca.com/protected/reference/advertise/contests_check.pdf.*

Deven J. Klien and David. W. Koch, *Search Terms for Sale: Internet Poachers and Trademark Bidding,* ACC Docket 22, no. 4 (April 2004): 24–41, available on ACC Online at *www.acca.com/protected/pubs/docket/apr04/poachers.pdf.*

David A. Munn, Lisa B. Riedesel, and Althea Johnson Williams, *Advertising Law for the Generalist,* ACC 2003 Annual Meeting course material, available on ACC Online at *www.acca.com/education03/am/cm/102.pdf.*

"Patents, Trademarks, Copyrights and Trade Secrets: An Introduction to Intellectual Property for In-House Counsel" (2005), an ACC InfoPAK℠, available on ACC Online at *www.acca.com/infopaks/ip.html.*

Sample Forms and Policies, including the following, can be found by visiting ACC's Virtual Library℠ at *www.acca.com/vl/* and searching for the material type "Sample Form and Policy":
- *Contract Between an Advertising Agency and Advertiser* (2004), *www.acca.com/protected/forms/advertise/contract.pdf.*

Webcasts, including the following, are available via *www.acca.com/practice/index.php*:
- *What Every In-House Lawyer Needs to Know About the Can-Spam Act of 2003* (2004)

If you like the resources listed here, visit ACC's Virtual Library℠ on ACC Online℠ at www.acca.com/resources/vl.php. Our library is stocked with information provided by ACC members and others. If you have questions or need assistance in accessing this information, please contact Senior Staff Attorney and Legal Resources Manager Karen Palmer at 202.293.4103, ext. 342, or palmer@acca.com. If you have resources, including redacted documents, that you are willing to share, email electronic documents to Julienne Bramesco, director of Legal Resources, bramesco@acca.com.

outside counsel familiar with the various local laws.

The general concern with a sweepstakes or contest is that it will be deemed an illegal "lottery" under applicable federal and state laws. Typically, a lottery is defined in terms of the presence of three elements: prize, consideration, and chance. Any sweepstakes or contest your company engages in will likely involve a prize. A state will define consideration as requiring entrants either to make a purchase or payment or to expend substantial effort as a condition for entry. In certain states, even requiring a store visit to enter a promotion may qualify as consideration. Finally, chance will be involved if a winner is randomly selected.

To avoid your sweepstakes becoming an unlawful lottery, you will need to ensure that there is no element of consideration. Offering a free alternative method of entry is a common practice you can employ to remove the element of consideration from a sweepstakes.

In contrast to a sweepstakes, a contest does not involve the element of chance because the winner is determined according to some measure of skill. Thus requiring consideration as a condition for entry into a contest is typically not problematic.

Official rules should be developed for all sweepstakes and contests; these rules serve as your contract with consumers and are a must-have for promotions. The exact nature of the rules and advertising disclosures employed in connection with a sweepstakes or contest will differ according to the particular contest or sweepstakes and jurisdiction involved. In addition, certain states impose registration and other requirements on sweepstakes and contests that are triggered by total prize value or other promotion characteristics. Be aware that sweepstakes and contests are currently hot enforcement items on the agenda of many state attorneys general. It therefore bears repeating that seeking outside counsel's advice before conducting these promotions is advisable. (See "Games of Chance," on this page.)

Games of Chance

New York and Florida require that sponsors bond and register games of chance where the total prize package exceeds $5,000. The bond ensures that winners will be paid if the sponsor defaults for any reason. In New York, the filing must be completed at least 30 days prior to the start of the game. As a practical matter New York does not enforce its 30-day rule. In Florida, filing must be completed at least 7 days prior to the start of the game. Florida strictly enforces this 7-day rule and imposes fines on promotions that are filed late. Rhode Island also has a registration requirement (no bond), but this applies only to games that are offered at the retail level. All three states—Florida (Fla. Stat. Ann. § 849.094), New York (N.Y. Gen. Bus. Law § 369-e), and Rhode Island (R.I. Gen. Laws § 11-50-1, et. seq.)—also require that a list of winners be supplied to the state once the winners have been determined. New York and Florida have standard forms for the filing of the list; the Florida list must be notarized. Florida requires that the list be filed no later than 60 days following the date win ners are determined. If no date is given in the registration, Florida will consider the end date of the promotion to be this date. Those who file late could be issued a $500 fine. If you have trouble verifying winners, this date can be extended by sending a letter to the Florida authorities requesting an extension.

Note that federal law can also come into play in promotional games of chance. For example, a company planning a sweepstakes should review the Deceptive Mail Prevention and Enforcement Act (39 USC § 3001, et seq.). This law governs direct mail promotions only.

Internet Marketing

Domain Name Clearance

Another of A. Gressive's forward-thinking marketing strategies is to use the internet and email to reach consumers to the greatest extent possible. Along these lines, Arnie wants to develop an AutoTunz website at the web address *www.autotunz.com.* Your first task related to this initiative will be to help AutoTunz procure the rights to this domain name.

Clearing a domain name is similar to clearing a phrase that your company will use as a trademark. The first step is to conduct a domain name search by performing a "WHO IS" inquiry on the Internet Network Information Center (InterNIC) website, *www.internic.net/whois.html*. This is analogous to a trademark knock-out search in that it will quickly tell you whether your desired domain name is already registered and thus not available. If the desired domain name has not been registered, you will want to perform a traditional trademark search and analysis on your domain name. This will prevent you from building a website and other content around a domain name that someone else has already associated with their company and brand.

Once you clear your company's domain name, you will want to protect it via registrations. Various online organizations will register your domain name for a nominal fee (for example, *www.register.com* and *www.networksolutions.com*). You should also register your domain name as a trademark using traditional trademark registration procedures.

THE FTC HAS RECENTLY ENACTED COMPLEX GUIDELINES FOR DETERMINING WHETHER AN EMAIL IS A COMMERCIAL MESSAGE TO WHICH CAN-SPAM APPLIES.

Website Content

Having cleared and registered *www.autotunz.com*, you should ensure that the website's content complies with advertising, marketing, and other laws. The most important point to remember is that all the laws previously discussed carry equal force (more or less) in cyberspace. In other words, content appearing on your company's website needs to be reviewed to make sure that it does not violate another party's copyright or trademark rights. In addition, advertisements on your company's website must be substantiated just like advertisements that your company presents in any other medium. Finally, remember that a website is accessible worldwide, so if your company has substantial assets in a foreign jurisdiction or operates in a heavily regulated industry, it may be worthwhile to have your site reviewed by foreign counsel.

Other laws and rules will also govern your company's internet marketing practices. For example, suppose the AutoTunz website will contain advertisements directed at children, in the hopes that children will visit the site and then persuade their parents to buy an AutoTuner for use on family vacations. In such a situation, you would need to advise your company about compliance with the Children's Online Privacy Protection Act (COPPA), 15 USC § 6501 (implemented at 16 CFR 312). COPPA imposes various notice requirements upon operators of websites that are directed or targeted to children under thirteen. For example, COPPA requires qualifying operators to provide notice on the website of what information is collected, how the operator will use the information, and whether and how the operator will disclose the information.

Because COPPA contains other requirements and exceptions in addition to those already discussed, compliance isn't necessarily straightforward. Your main job here is to be aware of COPPA's existence and advise your company's advertising team and website developers of COPPA's main requirements. Going beyond this, consider consulting outside counsel familiar with COPPA or educating yourself further using some of the many publicly available sources. (See "For Additional Information," on p. 66.)

Email Advertisements (CAN-SPAM)

A. Gressive desires to drive traffic to your company's website using email blasts directed to individuals whose email addresses AutoTunz has obtained through its service registration process and other means. To assist your company in remaining legally compliant when conducting advertising and marketing via email, you'll need to understand the laws regulating email communications. Your primary concern will be the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM) (15 USC § 7701, et seq.).

CAN-SPAM outlines requirements for those who send "commercial" email, which is defined as having as its primary purpose either advertising or promoting a commercial product or service (including content on a website). Although CAN-SPAM prevents a "transactional or relationship message" (i.e., an email that facilitates an agreed-upon transaction or updates a customer in an existing business relationship) from containing false or misleading routing information, its provisions otherwise really only apply to commercial emails.

If your company undertakes to send commercial emails (for example, an email touting the existence of the new AutoTunz website), keep in mind the following CAN-SPAM provisions:

- CAN-SPAM bans false or misleading header

information (i.e., the email's "From," "To," and routing information—including the originating domain name and email address—must be accurate and identify the person who initiated the email). Please note that this is the one main CAN-SPAM requirement applicable to both "commercial" and "transactional or relationship" emails.

- CAN-SPAM prohibits deceptive subject lines. The subject line cannot mislead the recipient about the contents or subject matter of the message.
- CAN-SPAM requires that the email give recipients an opt-out method.
  - The email must provide a return email address or another internet-based response mechanism that allows a recipient to ask the sender not to send future email messages to that email address.
  - The sender must honor all opt-out requests.
- The sender's opt-out mechanism must be able to receive requests for at least thirty days after the sender transmits its commercial email.
  - After receiving an opt-out request, the sender has ten business days to stop sending email to the requestor's email address.
  - The sender cannot have another entity send email to an opted-out address on the sender's behalf.
- It is illegal for the sender to sell or transfer the email addresses of people who choose not to receive the sender's email unless the sender transfers the addresses so another entity can comply with the law.
- CAN-SPAM requires that commercial email be identified as an advertisement and include the sender's valid physical postal address. The sender's message must contain clear and conspicuous notice that the message is an advertisement or solicitation and that the recipient can opt out of receiving more commercial email from the sender.

(For a tear-out version of these tips, see *Pocket Docket* in this issue.)

As with the COPPA compliance points noted above, the CAN-SPAM guidelines provide an introduction to abiding by a new and complicated statute. Avoiding CAN-SPAM liability is often much more difficult than this introduction indicates. For example, the FTC has recently enacted complex guidelines for determining whether an email is a commercial message to which CAN-SPAM applies. Additionally, determining whether your company comes within certain other CAN-SPAM definitions can also require a fairly involved legal analysis. As your company's email marketing program increases in size, it will be advisable to seek in-depth CAN-SPAM education or consult a CAN-SPAM expert.

YOU HAVE NOW DEVELOPED THE FRAMEWORK FOR COMPLYING WITH ADVERTISING AND MARKETING LAWS AND USING THEM TO YOUR COMPANY'S ADVANTAGE. YOUR CHALLENGE GOING FORWARD WILL BE TO MONITOR THE PRACTICES YOU HAVE PUT IN PLACE.

NOW WE'RE COOKING: MANAGING YOUR ADVERTISING AND MARKETING PROGRAM

You have now developed the framework for complying with advertising and marketing laws and using them to your company's advantage. Your challenge going forward will be to monitor the practices you have put in place and to work actively to stay abreast of new developments in the law so that your practices can be updated. Internet advertising and privacy laws are sure to be two hot areas that will require your attention. Claim substantiation issues also require vigilance because the growing availability of media outlets will allow your company to reach an ever-larger consumer base. The potential harm and corresponding damages from false advertising will therefore be increasingly large.

None of these issues are unique to your company. The key to managing them is to realize that complying with advertising and marketing laws is really no different than complying with other laws affecting your company. Just as you manage securities law or employment law matters, you can also effectively oversee the legal aspects of your company's advertising and marketing program. A starting point is to make advertising and marketing legal risks a priority for yourself and your company's senior management team. From there, once you grasp the applicable laws, you will be in a position to enact basic in-house compliance measures, to ask the right questions when problems requiring expert attention arise, and to work effectively with your marketing department—including Arnold A. Gressive.

FOR ADDITIONAL INFORMATION

American Association of Advertising Agencies	*www.aaaa.org*
Children's Advertising Review Unit (CARU)	*www.caru.org*
Manatt, Phelps & Phillips, Advertising Law	*www.manatt.com/showpract.asp?id=51*
National Advertising Review Council (also sets the policies for the National Advertising Division (NAD), National Advertising Review Board (NARB), and CARU)	*www.narcpartners.org/*
US Copyright Office	*www.copyright.gov*
US Patent and Trademark Office	*www.uspto.gov*