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

IN THIS ISSUE

Second Circuit Deals Blow to Google in Keyword Ad Dispute

The Second U.S. Circuit Court of Appeals has ruled that Rescuecom can proceed with a trademark infringement lawsuit against Google for recommending and selling its trademark to Google's advertisers to trigger the appearance of the advertisers' ads in search results generated by searches for Rescuecom's trademark.

The ruling is a setback for Google and other search engines, which generate much revenue by selling search–related advertising.

The three–judge panel reversed a district court's dismissal of the trademark infringement suit in *Rescuecom v. Google*. In its complaint, Rescuecom, a computer repair company, alleged that consumers could be confused by rivals' ads that appear when consumers use Google to search for Rescuecom using its mark.

The district court agreed with Google that the use of Rescuecom's trademark as an ad-triggering keyword was internal and not a "use in commerce." In its April 3 decision, the Second Circuit disagreed, finding that "Google's recommendation and sale of Rescuecom's mark to its advertising customers are not internal uses." It remanded the case back to the district court.

IP lawyers had been tracking the case closely because of

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inconsistent rulings in earlier keyword cases. Most courts outside the Second Circuit have found that using a rival's trademark as a keyword to trigger ads survives a motion to dismiss for failure to state a claim. The decision in *Rescuecom* brings the Second Circuit in line with those courts.

In dismissing the case, the lower court relied on *1–800 Contacts v. WhenU.com*, another Second Circuit case. In reversing that decision, the Second Circuit distinguished the *1–800* ruling, because in that case "the defendant made no use whatsoever of the plaintiff's trademark," whereas in the instant case "what Google is recommending and selling to its advertisers is Rescuecom's trademark." Moreover, the Second Circuit found that "in contrast with the facts of *1–800* where the defendant did not 'use or display,' much less sell, trademarks as search terms to its advertisers, here Google displays, offers, and sells Rescuecom's mark to Google's advertising customers when selling its advertising service" and even encourages the purchase of the mark. The Second Circuit concluded that Google's use of the Rescuecom mark was literally "use in commerce."

The Second Circuit decision does not address whether the use of Rescuecom's trademark constitutes infringement. Rescuecom will still have to prove that Google's use of its trademark causes likelihood of confusion or mistake.

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PepsiCo Accuses Coca–Cola of False Advertising for Powerade

PepsiCo's Stokely–Van Camp Inc. unit, the maker of Gatorade, has sued Coca–Cola over an ad campaign for Powerade ION4, charging its rival with engaging in "a calculated, intentional strategy designed to falsely and viciously attack the readily–identifiable market leader, Gatorade."

The ad campaign, appearing on billboards, online, and in print, refers to the newly reformulated Powerade as the "complete sports drink." It also depicts half a Gatorade bottle accompanied by the line "Don't settle for an incomplete sports drink." According to PepsiCo, Coca–Cola bases its claim that Powerade ION4 is superior because Powerade ION4 has four electrolyte ingredients—sodium, potassium, calcium and magnesium—compared to the two electrolytes—sodium and potassium—in Gatorade.

PepsiCo's lawsuit, filed on April 13 in Manhattan federal court,

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alleges that the campaign overstates the benefits of Powerade ION4 and misleads consumers. The complaint states that no evidence exists "that the minute quantities of magnesium and calcium present in Powerade ION4 make it superior to Gatorade in any way." It also alleges that Powerade's depictions of Gatorade bottles in its ads are "mutilated" and "distorted."

Charging Coca–Cola with false advertising, trademark dilution, deceptive acts and practices, injury to business reputation, and unfair competition, the complaint asks the court for both temporary and permanent injunctions barring the Powerade ad campaign, corrective advertising and unspecified damages. PepsiCo also seeks an order forcing Coca–Cola to recall Powerade ION4 products which have allegedly deceptive labels.

In a statement, a Coca–Cola spokesman said, "We stand behind our product and are prepared to defend the role that Powerade plays in hydrating consumers."

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Los Angeles Times Draws Criticism for Running Article–Like Advertorial on Front Page

In April, the *Los Angeles Times* ran a front–page ad for the premiere of NBC's new drama "Southland." The ad, which appeared in the left column below the fold, was written from the perspective of a reporter following one of the show's main characters, fictional LA police officer Ben Sherman. It was labeled as an "advertisement" and displayed NBC's peacock logo.

According to the director of the School of Journalism at the USC Annenberg School for Communication, the *Los Angeles Times* is the first major U.S. newspaper in recent history to have published a front-page ad in a news story format. Its decision to do this has drawn criticism from readers and media professionals, including the paper's own staffers who believe that it blurs the line between advertising and actual news.

The *Los Angeles Times* has been running ads on its front–page since mid–2007, but critics argue that this particular advertorial was different. Los Angeles Times publisher Eddy Hartenstein said he decided to run the NBC ad in the face of objections to raise cash. "Because of the times that we're in, we have to look at all sorts of different—and some would say innovative—new solutions

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A Program on Understanding How the Government Regulates the Drug Industry

Speaker: Ivan Wasserman

for our advertising clients," he said. Hartenstein said the ad netted a "significant premium" over traditional rates.

The paper pitched the concept to NBC, according to the network's entertainment marketing president, Adam Stotsky.

Like other newspapers, the *Los Angeles Times* is suffering from a sharp falloff in ad revenue, and has let go of employees in the past year. Tribune Co., which owns the paper, filed for Chapter 11 bankruptcy protection in December 2008. According to the Newspaper Association of America, industry–wide, advertising revenue declined by 17% in 2008.

In deciding to run the ad, Hartenstein overrode objections from Editor Russ Stanton and about a dozen other editors. Hartenstein said he planned to meet with Stanton to discuss ad standards before the paper agrees to run another "Southland"–style ad.

Editorial staff also objected to an ad supplement scheduled to run in that Sunday's Calendar section. The four–page section plugs the film "The Soloist," which is based on a series of articles by *Los Angeles Times* columnist Steve Lopez. It is labeled as an ad supplement, but the layout and typeface are like those of a regular *Los Angeles Times* news section.

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FTC May Hold Bloggers Liable for What They Say

The effect of the Federal Trade Commission's proposed changes to its Guides Concerning the Use of Endorsements and Testimonials on word–of–mouth advertising is drawing increased attention and comments from those in the advertising industry. The FTC proposal includes changes that would make word–of–mouth marketers, bloggers, and people on social–media sites like Facebook liable for any false statements they make about a product they are promoting, along with the marketer of the product. This change, if passed, could impact the growth of word–of–mouth marketing; PQ Media currently estimates that marketers will spend $3.7 billion on such marketing in 2011.

Another aspect of the FTC's proposed changes related to word–of–mouth marketers is the addition of an example featuring a blogger to illustrate the requirement that any material connection between a marketer and an endorser be fully disclosed. In the proposed new example, a blogger, who writes a favorable review of a video

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game he received free of charge from a manufacturer, must disclose his receipt of the free game.

While there are some who argue that the proposed changes to the guidelines would simply put bloggers in the same category as celebrities and others who are compensated in the more traditional context of paid ads and infomercials to promote or review a product, comments submitted to the FTC by a number of trade associations argue that the changes would result in bloggers being treated differently than traditional media. For example, comments jointly submitted by the U.S. Chamber of Commerce and the American Advertising Federation noted that advertisers have often provided products for review at no cost to the reviewer, and that they are not required to disclose this information in traditional media.

In its comment filed with the agency, the American Association of Advertising Agencies wrote that it "strongly urges the commission to reconsider the proposed, overly stringent amendments that will likely result in advertisers abandoning long–standing legitimate advertising techniques, such as consumer testimonials, and rejecting new media forms, such as blogs and viral marketing." Supporters of the proposed regulations counter that the rules could give more credibility to word–of–mouth and social–media marketing by underscoring the fact that they are providing objective, truthful, and honest opinions from real users.

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French Lawmakers Reject Internet Piracy Law

French lawmakers rejected a bill that would have punished illegal downloaders of music, films, and TV shows by cutting off their Internet connections. The 21–15 vote against the bill was unexpected given that similar versions of the legislation had previously passed both chambers of Parliament, and France's Senate had already approved it.

The music industry lobbied heavily for the legislation, which was aimed at curtailing music and movie piracy on the Internet. Under the bill, illegal downloaders would first get two warnings. After a third violation, users would be disconnected from the Internet for up to a year.

The bill was supported by President Nicolas Sarkozy's government. However, Socialist lawmakers successfully defeated it at a final vote in the National Assembly on April 9, when only a small

number of members from the ruling UMP party showed up for the session, handing the government a face-reddening loss.

A statement from Sarkozy's office said that he "does not intend to give up on [the bill], whatever the derisory maneuvers that only serve to harm creative diversity." The UMP party leader said that the vote "doesn't fundamentally change anything," since the bill would be voted on again in a week or two.

Socialist parliamentarian Patrick Bloche labeled the bill "dangerous, useless, inefficient, and very risky for us citizens." Other lawmakers exhorted the government not to resubmit it.

The music industry has been lobbying for similar laws around the world. In a January settlement with four major record companies, Irish Internet provider Eircom agreed to disconnect users who download music illegally.

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