

Advertising & Commercial  
Speech Focus

# First Amendment LAW LETTER



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## CALIFORNIA'S "CREEPING COMMERCIAL SPEECH": KASKY DECISION ATTACKS BUSINESS PARTICIPATION IN PUBLIC DEBATES

BY BRUCE E. H. JOHNSON

In a far-reaching decision that could force corporations to stay out of public-policy debates related to their own products or services, the California Supreme Court held in *Kasky v. Nike, Inc.*<sup>1</sup> that a business could be liable to consumers for commercial deception based on "issue advertising" long thought to be fully protected by the First Amendment. The court held that Nike advertisements responding to allegations about the company's labor practices amounted to merely "commercial speech," notwithstanding that they addressed a simmering public controversy, because one purpose of the ads may have been to further sales of Nike's products.

The decision represents a radical departure from First Amendment principles, and a threat to corporate speech generally. First, some background: In 1986, the California Supreme Court reviewed United States Supreme Court precedents and held that "commercial speech" was defined "as speech that does 'no more than propose a commercial transaction . . .'"<sup>2</sup> The court stressed that "commercial motivation does not transform noncommercial speech into commercial speech."

The "no more than" definition was a sensible one, embraced in many United States Supreme Court cases, from *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*,<sup>3</sup> to *City of Cincinnati v. Discovery Network, Inc.*<sup>4</sup> As a matter of public policy, governmental regulation of "commercial speech" was justified because such speech is not expression if it does "no more than" propose a commercial transaction. Justice Stevens summarized the reasons for

## NAVIGATING THE WEB OF RULES GOVERNING INTERNET ADVERTISING

BY KAVITA AMAR AND THOMAS R. BURKE

Internet advertising revenue totaled \$5.5 billion in 2001, compared with a mere \$20 million in 1995.<sup>1</sup> Advertising online is predicted to reach \$20 billion by 2010, accounting for 5.3 percent of all media ad billings.<sup>2</sup>

Internet advertising offers businesses a new and entirely different medium with which to attract consumers and maintain brand loyalty. Current online options include pop-ups, pop-unders, banners, splash pages and text-based ads. More creative forms of online advertising are inevitable, including ads customized for wireless applications. Consumer acceptance – or tolerance – of these emerging forms of advertising is still being tested. While the medium of Internet advertising presents an array of new choices for businesses, the rules that apply to those ads are likely to be familiar.

### Internet ads cannot be unfair or deceptive

Section 5 of the Federal Trade Commission Act ("Act") forbids "unfair or deceptive acts or practices" in trade or commerce.<sup>3</sup> A practice is *unfair* if it causes or is likely to cause a substantial injury that is not outweighed by other benefits to consumers and is not reasonably unavoidable by the consumers.<sup>4</sup> A practice is *deceptive* if it is a material representation or omission that is likely to mislead consumers and affect their decisions or behavior with regard to a specific product or service.<sup>5</sup> These basic requirements apply equally to the online advertising world.

Like other media forms, an Internet ad must disclose material facts regarding a consumer transaction. In *FTC v. Audiotex Connection, Inc.*, No. CV-97 0726 (E.D.N.Y. 1997),

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## CELEBRITIES TESTING LIMITS OF CALIFORNIA'S RIGHT OF PUBLICITY LAWS

BY KAREN FREDERIKSEN AND A.J. THOMAS

Determining what constitutes an "advertisement" in the context of today's diverse media field – populated with "infomercials" and other hybrid publications that sometimes cannot be pigeonholed easily into categories of "news" or "promotion" – presents challenges for both celebrities and those they sue. Four recent decisions in the California courts and the Ninth Circuit highlight some of these challenges.

Under California Civil Code § 3344, a statutory misappropriation claim is stated when anyone "knowingly uses another's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, ... without such person's consent." Uses in connection with "news," "public affairs," and "sports" broadcasts or accounts, however, are expressly protected under Section 3344. A similar common law right of publicity claim can be stated in California (and many other states) when: (1) the defendant uses the plaintiff's identity; (2) the plaintiff's name or likeness is appropriated to defendant's advantage, commercially or otherwise; (3) the plaintiff does not consent; and (4) the plaintiff suffers resulting injury. *E.g., Eastwood v. Superior Court*, 149 Cal. App. 3d 409, 417 (1983).

Even if all of these elements are present, however, a misappropriation claim may be trumped by a balancing analysis that weighs the publicity rights of the plaintiff against the free speech interests of the defendant. "The First Amendment requires that the right to be protected from unauthorized publicity ... be balanced against the public interest in the dissemination of news and information consistent with the democratic processes under the constitutional guarantees of freedom of speech and of the press." *Gionfriddo v. Major League Baseball*, 94 Cal. App. 4th 400, 409 (2001) (citations omitted). For statutory claims under Section 3344, the First Amendment analysis often is subsumed within the court's determination whether the publication at issue fits within the protected category of "public affairs," which includes items of "interest" that may be "less important than news." *Dora v. Frontline Video, Inc.*, 15 Cal. App. 4th 536, 545-46 (1993).

As four recent cases applying California law reveal, this First Amendment balancing exercise is critical to evaluating whether a celebrity plaintiff can sustain a misappropriation claim. Importantly, the outcome of the balancing analysis frequently hinges on the context in which a plaintiff's name or image is published. If the image is used in an advertisement or reproduced without alteration on a piece of merchandise, the scale generally tips in favor of the plaintiff. If the challenged publication is a news report, historical account, or other literary work, the defendant's constitutional free speech rights more often carry the day.

Deciding what constitutes news, art or literature and what constitutes less protected speech, however, can be a challenge that involves treading into the murky arena of whether the "primary" message of the speech at issue is, "buy." *Gionfriddo*, 94 Cal. App. 4th at 413. A magazine that aims to boost its circulation and make more money by putting photos of celebrities or sports figures on its cover is engaging not in commercial speech but in fully protected First Amendment expression. However, courts sometimes find the promotional nature of a challenged publication dominates over its purported news value, despite the long-standing United States Supreme Court edict that the "core notion of commercial speech" is that it "does no more than propose a commercial transaction." *Bolger v. Youngs Drug Products Corp.*, 463 U.S. 60, 66 (1983).

As a California appellate court reaffirmed last year, an important exception to the general proposition that the use of a celebrity's name or likeness will be actionable if published in an advertisement arises when the item being promoted is *itself* protected by the First Amendment. Thus, for example, a celebrity photograph from a current or prior magazine issue can be used in advertisements to promote the magazine, even without the celebrity's consent. See *Gionfriddo*, 94 Cal. App. 4th at 414; *Montana v. San Jose Mercury News, Inc.*, 43 Cal. App. 4th 790, 796 (1995). Similarly, last year's *Gionfriddo* decision noted that "even if Baseball used depictions of players playing the game or recited statistics or historical facts about the game to advertise the game and promote attendance, the commercial

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## ACTUAL MALICE AND THE COMMERCIAL SPEECH DOCTRINE

BY CONSTANCE M. PENDLETON AND ALISON P. HOWARD

Despite the increasing protection the Supreme Court has afforded commercial speech in recent years, advertisers still must be wary of the extent to which they are protected from defamation and related tort claims based upon the content of advertising, even where the plaintiff is a public figure.

Judges and commentators advocating broader First Amendment protection for commercial speech have argued that speech is speech – whether commercial or not, it should be afforded the same degree of protection.<sup>1</sup> Based upon the Supreme Court's recent commercial speech decisions, which increasingly recognize the constitutional value of commercial speech, it may no longer be presumed that speech proposing a commercial transaction merits less protection than other forms of speech. See *Greater New Orleans Broadcasting Ass'n v. United States*, 527 U.S. 173 (1999); *44 Liquormart, Inc.*, 517 U.S. 484; *Rubin v. Coors Brewing Co.*, 415 U.S. 476 (1995). Yet, recent lower court cases addressing the level of fault a public figure plaintiff must demonstrate in a defamation, Lanham Act, or right of publicity claim brought against an advertiser or other publisher of commercial speech indicate that advertiser defendants confronted with such claims may continue to be improperly deprived of the heightened protection afforded noncommercial speech.

Since *New York Times Co. v. Sullivan*, 376 U.S. 254 (1964), and *Curtis Publishing Co. v. Butts*, 388 U.S. 130 (1967), courts have applied the actual malice standard to defamation claims brought by public officials and public figures, requiring them to prove the statement was made with the knowledge that it was false or with reckless disregard of whether it was false or not. But courts' application of the actual malice standard to commercial advertising has been sparse. Only one appellate case has squarely addressed the application of the actual malice standard to allegedly defamatory advertising. In *U.S. Healthcare, Inc. v. Blue Cross of Greater Philadelphia*, 898 F.2d 914 (3d Cir.), cert. denied,

498 U.S. 816 (1990), a case involving a comparative advertising war over health insurance, the Third Circuit held that the actual malice standard did not apply to commercial speech alleged to defame a public figure. The court stated that the ads at issue had "all the characteristics that the Supreme Court has identified in the commercial speech cases as making speech durable, not susceptible to 'chill.' Consequently, they do not require the heightened protection we extend to our most valuable forms of speech." 898 F.2d at 935. The Court determined that although the First Amendment protected the advertisement, "the First Amendment requires no higher standard of liability [in commercial libel cases] than that mandated by the substantive law of each claim." *Id.* at 937. Commentators and lower courts in other circuits have criticized the decision,<sup>2</sup> but it remains good law.

Several recent cases reflect some disagreement over whether actual malice applies to allegedly tortious commercial speech about public figures.

### Fifth Circuit holds that public figure plaintiff need not show actual malice in Lanham Act commercial speech case

The most recent appellate attempt to resolve whether public figure plaintiffs bringing commercial speech-related claims against business competitors must prove the defendant acted with actual malice came in a 2001 decision from the Fifth Circuit. In *Procter & Gamble Co. v. Amway Corp.*, the court concluded that Supreme Court precedent precluded it from "importing the actual-malice standard into cases involving false commercial speech." *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 556 (5th Cir. 2001), cert. denied, \_\_\_\_ U.S. \_\_\_, 122 S. Ct. 329 (2001).

The case has its roots in a decades-old rumor linking Procter & Gamble to Satanism. According to one version of the rumor, Procter & Gamble's president revealed on a television talk show that he worships Satan and that many of his company's profits go to the Church of Satan. A distributor for Amway, a competitor of Procter & Gamble in the household products market, forwarded the rumor to fellow Amway distributors via an Amway voicemail system in 1995. The message listed Procter & Gamble products and added, "I guess my real question

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this narrow First Amendment exception in *44 Liquormart, Inc. v. Rhode Island*,<sup>5</sup> as follows:

[T]he State's power to regulate commercial transactions justifies its concomitant power to regulate commercial speech that is "linked inextricably" to those transactions. [*Friedman v. Rogers*, 440 U.S. 1, 10 n.9 (1979); *Ohralik v. Ohio State Bar Ass'n*, 436 U.S. 447, 456 (1978)] (commercial speech "occurs in an area traditionally subject to government regulation"). As one commentator has explained: "The entire commercial speech doctrine, after all, represents an accommodation between the right to speak and hear expression about goods and services and the right of government to regulate the sales of such goods and services." [Laurence H. Tribe, *American Constitutional Law* § 12-15 at 903 (2d Ed. 1988)].

Thus, the sole justification for government's extraordinary power to regulate commercial speech is the relation of that speech to commercial transactions, as the California Supreme Court recognized in 1986.

That was then; this is now. On May 2, 2002, in *Kasky*, the same court by a one-vote margin rejected this long-established authority, holding that Nike's defense of overseas labor practices, responding to a major public controversy, was nothing more than "commercial speech" and could be suppressed by a plaintiff who suffers no damages but files suit claiming misrepresentations under California's Unfair Competition Law ("UCL") (Bus. & Prof Code § 17200 *et seq.*) and false advertising law (Bus. & Prof Code § 17500 *et seq.*).

The *Kasky* case grew out of a major public debate about labor conditions in Asian countries with lower labor costs than in the United States. Because its shoes were manufactured overseas, where costs were cheaper, Nike had been the target of anti-globalization activists and was the subject of major media coverage of their allegations. Beginning in 1996, in a major public relations campaign waged in the news media, Nike's critics alleged that workers in factories that manufactured Nike's products were paid less than the applicable local minimum wage and were subjected to abuse and unhealthy working conditions. Those reports received wide coverage and transformed Nike's labor practices into matters of significant public interest and concern, making Nike (in the words of a noted First Amendment commentator) "the poster child for the perceived social evils of economic globalization."

In response, Nike vigorously defended its manufacturers' practices and actively participated in the public debate on globalization. As the court noted, "Nike and the individual defendants made these statements in press releases, in letters to newspapers, in a letter to university presidents and athletic directors, and in other documents distributed for public relations purposes. Nike also bought full-page advertisements in leading newspapers to publicize a report that GoodWorks International, LLC., had prepared under a contract with Nike. The report was based on an investigation by former United States Ambassador Andrew Young, and it found no evidence of illegal or unsafe working conditions at Nike factories in China, Vietnam, and Indonesia." The company's responses to its critics – including a letter to the editor written in response to a *New York Times* columnist who had criticized Nike's operations in Asia – became the focus of the *Kasky* complaint filed by several plaintiffs' class-action lawyers.

The lawsuit was dismissed by the trial court, because only commercial speech could give rise to claims under the UCL and false advertising laws and the Nike campaign was not commercial speech. The intermediate appellate court affirmed the dismissal, concluding that Nike's statements were noncommercial speech and, consequently, fully protected by the state and federal constitutions.

In its *Kasky* decision, the California Supreme Court reversed this ruling, introducing a new and extraordinarily broad definition of commercial speech. The court majority rejected the United States Supreme Court's "no more than" formula and instead devised a three-part test for determining whether particular statements constitute commercial speech. The test, it said, applies "when a court must decide whether particular speech may be subjected to laws aimed at preventing false advertising or other forms of commercial deception...."

Under the test invented by the *Kasky* court, three elements must be considered: the speaker, the intended audience, and the content of the message. The three-part commercial speech test devised by the *Kasky* majority sweeps within its ambit almost any statements by any corporate or commercial speaker, or entity, involving any public controversy that touches upon the defendant's practices and policies.

First, according to the *Kasky* majority, the "speaker" element of the test will be met whenever the speaker is "someone engaged in

**Bruce E. H. Johnson**, a partner in DWT's Seattle office, is a co-author of the Practising Law Institute's treatise *Advertising and Commercial Speech: A First Amendment Guide*.

**Bruce** can be reached at (206) 628-7683 or email at brucejohnson@dwt.com.

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"commerce" – that is, generally, the production, distribution or sale of goods or services – or "someone acting on behalf of a person so engaged." Obviously, statements by any commercial enterprise will satisfy the "speaker" element of the test. Even statements made by nonprofit organizations could be included. Media entities that discuss media news would potentially be subject to the new *Kasky* rule.

The second element – the "intended audience" for the speech – is similarly broad and explicitly focuses on statements made to members of the press. This element is satisfied if the intended audience is "likely to be actual or potential buyers or customers of the speaker's goods or services, or persons acting for actual or potential buyers or customers, or persons (such as reporters or reviewers) likely to repeat the message to or otherwise influence actual or potential buyers or customers." A broader and more public and newsworthy controversy, according to *Kasky*, increases the likelihood that statements will be deemed commercial speech.

The third *Kasky* element – the "content" of the speech – is satisfied if the "speech consists of representations of fact about the business operations, products, or services of the speaker (or the individual or company that the speaker represents), made for the purpose of promoting sales of, or other commercial transactions in, the speaker's products or services." From the standpoint of the *Kasky* case, this requirement is merely a matter of pleading – and is satisfied if a lawyer can allege that a corporation's ultimate purpose is promoting sales. *Kasky*'s counsel simply alleged the obvious, that Nike's letters to the editor and press releases concerning its labor practices, "although addressed to the public generally, were also intended to reach and influence actual and potential purchasers of Nike's products."

Every public relations effort, of course, is designed to "reach" and "influence" consumers. Indeed, the court majority swept broadly to encompass any statement that may affect a company's image, stating "it is necessary, we think, to adequately categorize statements made in the context of a modern, sophisticated public relations campaign intended to increase sales and profits by enhancing the image of a product or of its manufacturer or seller." The court also suggested (contrary to substantial judicial precedents) that "Nike's speech is not removed from the category of commercial speech because it is intermingled with noncommercial speech." The "policy questions"

discussed by Nike, it said, were protected speech; the factual information that explained and substantiated Nike's policy arguments was not. In effect, by defending its views on these important policy questions and challenging the public relations efforts of anti-globalization activists, Nike was doing nothing more than peddling shoes.

Justice Brown wrote a compelling dissent, as did Justice Chin, with Justice Baxter concurring. In his dissenting opinion, Justice Brown noted that the majority's commercial speech test, "taken to its logical conclusion, renders all corporate speech commercial speech." Indeed, the majority's test "contravenes longstanding principles of First Amendment law" and "stifles the ability of speakers engaged in commerce, such as corporations, to participate in public debates over public issues."

Both dissenting opinions also noted how the majority's test unfairly, and unconstitutionally, handicaps one side of the public debate. Justice Brown stated that "[u]nder the majority's test, only speakers engaged in commerce are strictly liable for their false or misleading representations. . . . Meanwhile, other speakers who make the same representations may face no such liability, regardless of the context of their statements." Justice Chin added:

[w]hile Nike's critics have taken full advantage of their right to "uninhibited, robust, and wide-open" debate, the same cannot be said of Nike, the object of their ire. When Nike tries to defend itself from these attacks, the majority denies it the same First Amendment protection Nike's critics enjoy. . . .

Finally, the dissenters pointed out how the *Kasky* majority also violated existing First Amendment precedents that grant full constitutional protection to "mixed" commercial and non-commercial speech. For example, Justice Brown noted that, under the usual commercial speech test, where commercial speech and noncommercial speech are "inextricably intertwined," the courts "must apply the 'test for fully protected expression' rather than the test for commercial speech." Justice Chin agreed, noting that "Nike realistically could not discuss its general policy on employee rights and working conditions and its views on economic globalization without reference to the labor practices of its overseas manufacturers, Nike products, and how they are made. . . . Attempting to parse out the commercial speech

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from the noncommercial speech in this context 'would be both artificial and impractical.'

*Kasky's* new test for distinguishing commercial speech from other expression, to the extent that it is directly contrary to existing United States Supreme Court precedent, seems designed to demand review by the Court on a petition for certiorari. In fact, even as it rejected the Court's commercial speech definition, the *Kasky* majority went out of its way to suggest its holding was "based on decisions of the United States Supreme Court." While seemingly aberrant, the case joins several other recent trial and appellate rulings that have attempted to expand the category of "commercial speech" – and have also rejected the traditional Supreme Court test.<sup>6</sup> *Kasky* may force the Court once again to clarify that protected speech remains protected speech, regardless of the economic motivations of the speaker.

By hamstringing one side of a major public debate but not the other, however, *Kasky's* attempted creation of a new category of "creeping commercial speech" presents special risks to fundamental First Amendment values. *Kasky* is a dangerous precedent, which could punish corporations and employees who attempt to discuss public issues of concern only to become targets of California plaintiffs who disagree with their views. At the end of July, the California Supreme Court refused to reconsider its decision. Nike is expected to seek certiorari this fall, requesting a ruling that rejects the novel concept of "creeping commercial speech" and reminds the lower courts of the proper constitutional definition: "speech that does no more than propose a commercial transaction."

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<sup>1</sup> 27 Cal. 4th 939 (2002).

<sup>2</sup> *Blatty v. New York Times Co.*, 42 Cal. 3d 1033, 1048 n.3 (1986), cert. denied, 485 U.S. 934 (1988) (quoting *Pittsburgh Press Co. v. Pittsburgh Comm'n on Human Relations*, 413 U.S. 376, 385 (1973)).

<sup>3</sup> 425 U.S. 748, 762 (1976).

<sup>4</sup> 507 U.S. 410, 422-23 (1993).

<sup>5</sup> 517 U.S. 484, 499 (1996).

<sup>6</sup> See, e.g., *World Wrestling Fed'n Entn't, Inc. v. Bozell*, 142 F. Supp. 2d 514 (S.D.N.Y. 2001); *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539 (5<sup>th</sup> Cir.), cert. denied, 122 S. Ct. 329 (2001); *Downing v. Abercrombie & Fitch*, 265 F.3d 994 (9<sup>th</sup> Cir. 2001).

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the FTC pursued Audiotex for deceiving customers in violation of Section 5 of the Act by failing to disclose material facts about the costs incurred with visiting its website. There, Audiotex invited consumers to visit its "free adult sites" and directed them to download a special image viewer in order to view the website. Audiotex did not disclose that the image viewer was a software program that disconnected consumers from their own local service, connected them with a phone number in Moldova, and caused consumers to incur charges in excess of \$2 per minute. FTC and Audiotex entered into a consent decree, in which Audiotex agreed to credit consumers for the telephone charges totaling \$2.74 million and to disclose material facts regarding the costs of the transaction.<sup>6</sup>

As Internet scams have become more elaborate, the FTC has become increasingly sophisticated in its enforcement efforts and has formed the International Netforce, composed of the FTC, eight state law enforcers in the United States, and four Canadian agencies that coordinate efforts to investigate and enjoin various Internet scams. As part of the International Netforce, the FTC obtained a temporary restraining order in *FTC v. BTV Industries*, CV-8-02-0437 (D. Nev. 2002), preventing a scam that sent an unsolicited e-mail to consumers informing them they had won a Sony PlayStation or other prize sponsored by Yahoo, and instead routed them to a adult Internet site and charged them \$3.99 per minute for the connection. The FTC alleged in its complaint that the defendants' bait-and-switch practices were deceptive under the Act (informing consumers they won a prize, the e-mail was from Yahoo, and the connection to the website was free) and violative of the Pay-Per-Call Rule by not disclosing that the consumers were being connected to the website via a 900-number.<sup>7</sup> Both Audiotex and *BTV Industries* demonstrate the FTC's committed efforts to protect online consumers from deceptive practices.

Not only must online advertisements disclose material facts, but those disclosures must also be clear and conspicuous. In *FTC v. Dell Computer and Micron Elecs.*, FTC File Nos. 982 3563 & 982 3565 (1999), the FTC charged both Dell and Micron with disseminating deceptive ads. Dell's Internet ads stated that consumers could purchase new computer systems by

making low monthly payments. The ads failed to adequately disclose that the payments were for a lease, not a purchase, and the disclosure used inconspicuous print in the ad. Micron's Internet ads for computer leasing omitted fees due at lease signing (about \$250) and buried information about the term of the lease in unreadable blocks of fine print at the bottom of the ads. The FTC reached a settlement agreement with Dell and Micron, which required the companies to use disclosures that were clear, readable and understandable by the consumer.<sup>8</sup>

Some popular forms of Internet advertising have the unique ability to seemingly capture the attention of the consumer. While this is arguably the ultimate goal of all advertising, holding an audience captive may also constitute an unlawful practice under the Act. For example, in *FTC v. Zuccarini*, No. 01-CV-4854 (E.D. Pa. 2001), the FTC obtained a preliminary injunction against the defendant for engaging in unfair or deceptive practices by redirecting consumers to websites they did not intend to visit and by obstructing them from exiting websites.<sup>9</sup> The defendant's tactic was to register common misspellings of domain names and to then redirect consumers' browsers to one of his sites. He would then "mousetrap" consumers by forcing them to view pop-up ads each time they would click on the "close" or "back" button. Consumers would have to click on ads, generating 10 to 25 cents for the defendant from advertisers for each click.

As advertisers develop new and different ways to hold consumers' attention, the FTC also surfs the web looking for what it believes are unfair or deceptive practices. For example, the FTC enjoined a failed dot-com, Toysmart.com, Inc., from selling its customer data as part of its assets. See *FTC v. Toysmart.com, LLC*, No. 00-11341 (D. Mass. 2000). Toysmart.com's privacy policy provided that consumers' names, addresses, billing information, and shopping preferences were never shared with a third party.<sup>10</sup> The FTC therefore asserted that Toysmart.com's solicitation of bids for such personal information was a deceptive practice under the Act.

The FTC is not the only entity that regulates online advertising. Recently, the Food and Drug Administration ("FDA") stated it would make a case-by-case determination as to

whether claims made by food and dietary supplement manufacturers on websites constitute labeling or advertising. In 1971, the FTC and the FDA entered into a Memorandum of Understanding and agreed that the FTC would regulate food advertising while the FDA would regulate food labeling. Traditionally, labeling is viewed as the actual written or graphic material on the label of a product that is present at the point of retail sale. Advertising is the newspaper, television or radio promotion that is not present at the point of sale. The FTC allows food manufacturers to make advertising claims that are not allowed by the FDA's labeling standard, such as statements that a food is low in sodium or high in calcium. The FDA has argued that some websites that sell food or dietary supplements have blurred the line between labeling and advertising. Depending on the circumstances of distribution, food and dietary supplement manufacturers may have to comply with both labeling and advertising laws.<sup>11</sup>

### **Disclosures must be clear and conspicuous**

Recognizing it is challenging to make a clear and conspicuous advertising disclosure on an interactive website, the FTC has issued guidelines regarding Internet disclosures.<sup>12</sup> A disclosure is material information that must be given to the consumer about the terms of the transaction. The FTC recommends the advertiser consider the placement of the disclosure in the ad and its proximity to the related claim. It is best if the claim and the disclosure can be viewed together by the consumer on the same screen. If that is not possible, then there should be an explicit instruction such as "see below for important information on diamond weights" to encourage the consumer to scroll. If the disclosure is lengthy, a hyperlink to the disclosure may be appropriate if it is obvious and is consistent with the other hyperlinks used in the ad. One word hyperlinks, such as "disclosure" may be inadequate without further information regarding the type of information available.

Additional considerations include the prominence of the disclosure, the existence of items in other parts of the ad that might distract the consumer, the need to repeat the disclosure if the ad is lengthy, the volume and cadence of the disclosure in an audio message, the duration of a disclosure in a visual message, and the ability of the intended audience to understand the language of the disclosure. Disclosures should always be made before

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an online purchase. Indeed, the FTC encourages the disclosure to be made "when the consumer is considering the purchase."

### Traditional FTC guidelines apply to the Internet as well

FTC rules that apply to written, printed, or direct mail advertising may also apply to Internet advertising. For example, *Guides Concerning the Use of Endorsements and Testimonials in Advertising* applies to endorsements that consumers are likely to believe.<sup>13</sup> The rules regarding endorsements are not limited to a certain form of media, and therefore apply equally to online advertising. Similarly, the *Telemarketing Sales Requirements* that apply to direct mail may also apply to direct e-mail.<sup>14</sup> If an e-mail invites a consumer to call a vendor to purchase goods or services, that telephone call and subsequent sale must comply with the same requirements.

Consumer privacy laws also apply to information acquired by businesses through the Internet. The nation's largest advertising company, DoubleClick, Inc., learned the hard way that using consumers' information without their permission could be a violation of privacy. Following DoubleClick's announcement that it would be integrating personally identifiable consumer information with cookies it places on consumers' computers, several class action lawsuits were filed against DoubleClick, alleging violations of state and federal privacy and fraud laws. *See In Re DoubleClick Inv. Privacy Litigation*, 00-CIV-0641 (S.D.N.Y. 2002). Consumers charged, among other things, that DoubleClick wrongfully gathered information by placing cookies on their computers without their permission, and invaded their privacy by tracking and recording their movements. DoubleClick reached a settlement resulting in the dismissal of all pending lawsuits, in which it agreed to obtain explicit permission from consumers before combining personally identifiable information with data it collected in the past, to routinely purge data collected online, and to not use data collected in a manner materially inconsistent with its privacy policy.<sup>15</sup>

In sum, Internet ads, like all forms of advertising, must be fair and truthful. Disclosures regarding material facts must be clear and conspicuous. Consumer information collected through online advertising must be consistent with posted privacy policies and industry practices.

<sup>1</sup> See *Industry Analysis: Online Advertising Down, But Not Out*, Broadband Networking News, Feb. 12, 2002, available at [www.lexis.com](http://www.lexis.com).

<sup>2</sup> See *A Sobering Look at Internet Advertising*, Cable World, Dec. 3, 2001, available at [www.lexis.com](http://www.lexis.com).

<sup>3</sup> 15 U.S.C. §45(a).

<sup>4</sup> 15 U.S.C. §45(n).

<sup>5</sup> "Deceptive" acts or practices are not defined by 15 U.S.C. §45, *et seq.*, but the FTC has defined deception in a policy statement. See *FTC Policy Statement on Deception*, dated Oct. 14, 1983, available at [www.ftc.gov/bcp/policystmt/ad-decept.htm](http://www.ftc.gov/bcp/policystmt/ad-decept.htm).

<sup>6</sup> The Amended Complaint, as well as the Consent Decree and Order, are available at [www.ftc.gov](http://www.ftc.gov). *See also Victims of Moldovan Modem "Hijacking" Scheme To Get Full Redress Under FTC Settlements*, Press Release, Nov. 4, 1997 and *FTC Says Internet Scam Re-Routes "Surfers" to International Telephone Lines*, Press Release, Feb. 19, 1997, both available at [www.ftc.gov](http://www.ftc.gov).

<sup>7</sup> The Complaint, Temporary Restraining Order, and Press Release are available at [www.ftc.gov/opa/2002/04.btv.com](http://www.ftc.gov/opa/2002/04.btv.com).

<sup>8</sup> The Complaint against Dell is available at [www.ftc.gov/os/1999/9905/dellcomplaint.htm](http://www.ftc.gov/os/1999/9905/dellcomplaint.htm).

The Complaint against Micron is available at [www.ftc.gov/os/1999/9905/microncomplaint.htm](http://www.ftc.gov/os/1999/9905/microncomplaint.htm). *See also Dell Computer and Micron Electronics Settle FTC Charges that Ads Misled Consumers About the Costs of Leasing Computers*, Press Release, May 13, 1999, available at [www.ftc.gov/opa/1999/9905/dell.htm](http://www.ftc.gov/opa/1999/9905/dell.htm).

<sup>9</sup> The Preliminary Injunction is available at [www.ftc.gov/os/2001/10/cupcakepi/pdf](http://www.ftc.gov/os/2001/10/cupcakepi/pdf). *See also Cyberscam Targeted by FTC*, Press Release, Oct. 1, 2001, available at [www.ftc.gov/opa/2001/10/cupcake.htm](http://www.ftc.gov/opa/2001/10/cupcake.htm).

<sup>10</sup> The Amended Complaint is available at [www.ftc.gov/os/2000/07/toysmartcomplaint.htm](http://www.ftc.gov/os/2000/07/toysmartcomplaint.htm). The Stipulated Consent Agreement and Final Order is available at [www.ftc.gov/os/2000/07/toysmartconsent.htm](http://www.ftc.gov/os/2000/07/toysmartconsent.htm).

<sup>11</sup> *See FDA Letter on Labeling Food Products Presented or Available on the Internet*, available at [www.cfsan.fda.gov/~dms/labwww.html](http://www.cfsan.fda.gov/~dms/labwww.html).

<sup>12</sup> *See Dot Com Disclosures*, available at [www.ftc.gov/bcp/conline/pubs/buspubs/dotcom/index.html](http://www.ftc.gov/bcp/conline/pubs/buspubs/dotcom/index.html).

<sup>13</sup> *See* 16 C.F.R. §255(b).

<sup>14</sup> *See* 15 U.S.C. §6101 *et seq.*

<sup>15</sup> Information regarding the settlement is available at <http://settlement.doubleclick.net>.

**Kavita Amar** is an associate in DWT's Seattle office. She practices in the areas of communications and media law and litigation.

**Kavita** can be reached at (206) 903-3966 or [kavitaamar@dwt.com](mailto:kavitaamar@dwt.com).

**Thomas R. Burke** is a partner in DWT's San Francisco office. He practices in the areas of commercial litigation, media and Internet law. His experience includes handling libel, invasion of privacy and other content-related lawsuits. He also provides prepublication counseling and is experienced in all aspects of law relating to news-gathering including defamation, privacy, shield laws and gaining access to public records and government proceedings.

**Tom** can be reached at (415) 276-6552 or [thomasburke@dwt.com](mailto:thomasburke@dwt.com).

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speech cases ... would be inapposite. The owner of a product is entitled to show that product to entice customers to buy it." 94 Cal. App. 4th at 414.

The first of last year's important misappropriation decisions was *Comedy III Productions, Inc. v. Gary Saderup, Inc.*, 25 Cal. 4th 387 (2001), where the California Supreme Court reaffirmed that the First Amendment imposes significant limits on the state's right of publicity tort. In an unusual move, however, the court attempted to resolve the conflict between the First Amendment and the right of publicity by formulating a balancing test loosely based on one aspect of copyright law's "fair use" analysis.

Artist Gary Saderup, the *Comedy III* defendant, had drawn realistic charcoal sketches of the former Three Stooges comedy team, and reproduced them for sale as lithographic prints and silk-screened images on t-shirts. The company owning the publicity rights of the deceased Stooges sued under Section 990 of the California Civil Code, which extends California's right of publicity to the heirs and assigns of deceased celebrities.

After a long and scholarly discussion of the First Amendment's protection of artistic expression, the California Supreme Court resolved the tension between the right of publicity and the First Amendment by asking whether the work at issue – i.e., the lithograph or t-shirt drawing – "adds significant creative elements so as to be transformed into something more than a mere celebrity likeness or imitation." 25 Cal. 4th at 391. The court "imported" one of the factors from copyright law's four-pronged "fair use" test – the "purpose and character of the use," and specifically whether the new work is "transformative." *Id.* at 404. The court then concluded that the First Amendment does not apply where "artistic expression takes the form of a literal depiction or imitation of a celebrity for commercial gain." *Id.* at 405. The court also suggested that judges be guided by a subsidiary inquiry: "does the marketability and economic value of the challenged work derive primarily from the fame of the celebrity depicted?" *Id.* at 407. In Saderup's case, his sketches of the Three Stooges proved to be too literal and representational, and he lost.

*Comedy III* did not involve commercial speech, as the parties had stipulated that Saderup's lithographs and t-shirts did not constitute an advertisement or endorsement of any product. The court noted, however, that the creative contributions or "transformative" elements that require First Amendment protection can take many forms, including "factual reporting" and "fictionalized portrayal." Yet the court's analysis seemed primarily geared toward reproductions of celebrity images in artwork and on merchandise. In that context, the court's approach inevitably favors parodies, caricatures and abstract renderings of celebrity images over more literal and conventional representations. Although the court protested that it was not expressing "a value judgment or preference for one type of depiction over another," *id.* at 409, it acknowledged its balancing test will require courts to make a qualitative, aesthetic inquiry, "asking whether the literal and imitative or the creative elements predominate in the work," *id.* at 407.<sup>1</sup>

In contrast to *Comedy III*, three other 2001 misappropriation cases centered on distinguishing commercial promotion and more protected expressive content.

In *Hoffman v. Capital Cities/ABC, Inc.*, 255 F.3d 1180 (9th Cir. 2001), *Los Angeles Magazine* had published an article entitled "Grand Illusions" in which 16 stills from famous movies – including Cary Grant in "North by Northwest," Marilyn Monroe in "The Seven Year Itch," and John Travolta in "Saturday Night Fever" – had been altered using computer technology to make it appear the actors were wearing Spring 1997 fashions. Using a famous still from the 1982 movie "Tootsie" in which plaintiff Dustin Hoffman posed before an American flag wearing a red sequined dress, the magazine replaced Hoffman's body with that of a male model in the same pose, wearing a different evening dress and designer shoes. The article commented that "Dustin Hoffman isn't a drag in a butter-colored silk gown by Richard Tyler and Ralph Lauren heels." *Hoffman*, 255 F.3d at 1183. The article also directed readers to a "shopper's guide" at the back of the magazine that listed the stores and prices for some of the clothing featured in the altered photographs. *Id.* at 1185. Hoffman sued for misappropriation of his name and likeness.

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The trial judge found the use of Hoffman's name and likeness was an "exploitative commercial use" that was not entitled to First Amendment protection.<sup>2</sup> He also held that even if the article were noncommercial speech, the magazine knowingly had presented a false image of Hoffman and therefore was liable despite the First Amendment's protections. Hoffman was awarded \$1.5 million in compensatory damages and another \$1.5 million in punitive damages.

The Ninth Circuit reversed. It first held that the *Los Angeles Magazine* article was noncommercial speech entitled to full First Amendment protection. The court rejected Hoffman's argument that the use of his identity was a thinly veiled attempt to "attract attention" to the magazine and spur sales. The Ninth Circuit reaffirmed the principle that "[a] printed article meant to draw attention to the for-profit magazine in which it appears ... does not fall outside of the protection of the First Amendment because it may help to sell copies." *Id.* at 1186.

The Ninth Circuit concluded that the altered photograph of Hoffman was not commercial speech because it "did not use Hoffman's image in a traditional advertisement printed merely for the purpose of selling a particular product ... [n]or did the article simply advance a commercial message." *Id.* at 1185. Rather, the court viewed the article "as a whole" as "a combination of fashion photography, humor, and visual and verbal editorial comment on classic films and famous actors" [and] "a complement to and a part of the issue's focus on Hollywood past and present." *Id.* The court further held that any commercial aspects of the "Tootsie" photograph could not be separated from the article's fully protected "expressive elements," and thus the entire work was entitled to the heightened protection afforded noncommercial speech. *Id.* In the court's words, "common sense tells us this is not a simple advertisement." *Id.* at 1186.

*Hoffman* illustrates the critical importance of whether the use of the celebrity's name or likeness is categorized as commercial or noncommercial speech – and the mischief that can occur when courts stray, as the district court did, from defining commercial speech narrowly as speech that "does no more than propose a commercial transaction."

In *Downing v. Abercrombie & Fitch*, 265 F.3d 994 (9th Cir. 2001), the Ninth Circuit confronted another "hybrid" form of speech – a clothing catalog that also contained "news" or "feature" articles – and came out the other way. The publication at issue was the large quarterly subscription catalog of the defendant clothing retailer. Each 250-page issue was based on a theme such as "collegiate lifestyle, back to school, or winter wear," and about a fourth of each catalog was devoted to "stories, news and other editorial pieces." 265 F.3d at 999. *Downing* focused on the trendy retailer's use of a 1965 photograph of the plaintiff surfers in connection with its Spring 1999 catalog, which centered on a surfing theme.

Although Abercrombie purchased the photographs from the photographer, it did not get permission from the surfers to use their images. Abercrombie used the photos to illustrate an article about the history of a California surf spot in a section of the catalog that also included stories on the history of surfing and the surfing lifestyle. The retailer also created t-shirts like those worn by the surfers in the 1965 picture, and offered those shirts for sale on catalog pages adjacent to the photo. The surfers sued for statutory and common law misappropriation under California law.

The Ninth Circuit distinguished its earlier decision in *Hoffman* on the ground that the *Los Angeles Magazine* article at issue in that case was "noncommercial speech," even though it directed readers to a "shopping guide" at the back of the magazine that listed stores and prices for the gown and shoes depicted in the altered "Tootsie" photo. On the other hand, the court held that the main purpose of the Abercrombie catalog at issue in *Downing* was to sell Abercrombie merchandise. The court also noted that *Los Angeles Magazine* "was unconnected to and received no consideration from the designer for the gown depicted in the article." *Id.* at 1002 n.2. Although the court did not explicitly categorize the use of plaintiffs' surf photo as commercial speech, it concluded that Abercrombie's use "was much more commercial in nature" than the "Tootsie" still at issue in *Hoffman*. *Id.* at 2001 n.2. In making this distinction, the Ninth Circuit focused in part on its finding that the 1965 photograph of plaintiffs was only "tenuously" related to the catalog's surfing theme. The court elaborated

that the picture was merely "window-dressing" since the catalog did not explain who the plaintiffs were or directly connect them to any of the surfing stories there. *Id.* at 1002. Abercrombie therefore could not avail itself of a First Amendment defense.

*Downing* may not present much of an issue with respect to advertising that traditional media publishers run promoting *another* company's services or products. However, the Ninth Circuit decision does impact any advertiser seeking to promote its own merchandise. Use of celebrity likenesses in catalogs, posters or pamphlets designed to promote any product or service should be carefully scrutinized, even when the product is, for example, a magazine, newspaper or television show.

In the fourth major right of publicity case decided under California law last year, *Gionfriddo v. Major League Baseball*, 94 Cal. App. 4th 400 (2001), the California First District Court of Appeal affirmed the broad reach of the "news," "public affairs" and "public interest" safe harbors for using celebrity images. Specifically, the court held that former professional baseball players could not state a misappropriation claim based on the inclusion of their names, photographs and statistics in media guides and programs to the All-Star and World Series games, on the Major League Baseball web site, and in television programs, such as *This Week In Baseball*, containing game performances. All three types of publications provided historical information about major league baseball, including rosters and scores. Plaintiffs claimed the use of their names and pictures violated their common law and statutory rights of publicity. They played professional baseball in the 1930s and 1940s, before the standard player contract was modified to provide that pictures of players playing baseball can be used by the Club for publicity purposes "in any manner [the Club] desires." As part of its balancing analysis, the Court of Appeal emphasized that plaintiffs knew their baseball games were being covered by the media and that photographs and statistics of them were "widely disseminated to the public" in the '30s and '40s.

The *Gionfriddo* opinion elaborated that there was a "substantial public interest" in the athletic performance of the plaintiffs, and because defendants were "simply making

historical facts available to the public through game programs, Web sites and video clips," their First Amendment interests prevailed. As the court explained, "the public interest is not limited to current events; the public is also entitled to be informed and entertained about our history." *Id.* at 411.

In finding that the web site, television show, and game programs were of public interest – and fit within the "public affairs" exception of California's misappropriation statute – the court in *Gionfriddo* once again rejected an argument frequently made by misappropriation plaintiffs: the use of their names and images was made in a profit-motivated "commercial" context not deserving of much First Amendment protection. Relying on a long line of precedent, *Gionfriddo* reiterated that "[p]rofit, alone, does not render expression 'commercial'" and that in any event the First Amendment "is not limited to those who publish without charge[]." *Id.*

These four 2001 misappropriation decisions are difficult to fully reconcile with each other. It seems clear, however, that in misappropriation cases involving merchandise, a nearly determinative issue is the *nature* of the publication: is it strictly a news report, strictly an advertisement, or something in between? If the publication has hybrid qualities, it is essential for the defendant to convince the court that the primary purpose of the publication is not to sell its merchandise or services. *Los Angeles Magazine* succeeded with this argument with respect to its "Grand Illusions" article that featured an altered photograph of Dustin Hoffman. So did Major League Baseball with respect to television and web site publications that discussed games from the 1930s and 1940s and used photographs of old-time players without their permission. Abercrombie & Fitch failed to persuade the court that its subscription catalog was not primarily published to sell merchandise, even though a quarter of the tome contained editorial content of general interest.

In light of the nuances of these decisions, advertisers would be well advised to obtain the permission of any celebrity they want to name or depict in any of their promotional materials, unless the underlying "product" is itself First Amendment protected (such as a movie, television show, newspaper, book or

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magazine) and the celebrity is featured in a story in that expressive work. Moreover, these cases suggest caution is warranted even for marketing efforts that incorporate elements of traditionally protected news or public affairs commentary.

A very recent California appellate decision indicates that even a highly caricatured use of a celebrity's likeness in a non-advertising work of fiction may not constitute a "transformative use" entitled to First Amendment protection under the California Supreme Court's decision in *Comedy III*. In *Winter v. DC Comics*, 99 Cal. App. 4th 458 (2002), albino rock musicians Johnny and Edgar Winter sued the publishers of a comic book series over their fictional characters Johnny and Edgar Autumn, albino half-human, half-worm villains with green tentacles dressed in cowboy garb. The court affirmed summary judgment for the publishers on their defamation and related claims, on the ground that fanciful comic book depictions were too "surreal" and over-the-top to be reasonably viewed as factual, yet it held that the Winters were entitled to present their misappropriation claims to a jury because "triable questions of fact exist whether or not the use of [the Winters'] likenesses in the comic books qualifies as a transformative use." *Id.* at 466-74. The Winter court, without serious consideration, blew past one logical stopping point in applying *Comedy III* - i.e., limiting it to literal depictions of celebrity images, where the depiction of the celebrity "is the very sum and substance of the work," 25 Cal. 4th at 406. In the process, the court signaled that any celebrity who appears in any form as a character in a fictional work – be it a novel, a comic book or an advertisement – may be able to get to a jury on a misappropriation claim.

As *Winter* suggests, the *Comedy III* decision, which involved the use of celebrity images on merchandise, leaves open a host of questions. For example:

- Will editorial uses of a celebrity's likeness – in news or sports reporting, or in a documentary or dramatic work – be evaluated under *Comedy III*'s "transformative" use criteria and, if so, will such uses qualify automatically as "transformative" ones protected by the First Amendment even if the image is not altered in any way? In *Hoffman*, the Ninth Circuit suggested in a footnote that *Comedy III*'s transformative use analysis may be limited to situations where the use of a celebrity's unadorned image is defended on the ground that it constitutes

"artistic expression." 255 F.3d at 1184 n.2. *Winter* suggests otherwise.

- Will using a caricatured or otherwise "transformed" image of a celebrity in an advertisement still give rise to liability? Ninth Circuit decisions that pre-date *Comedy III* would indicate the answer is yes, as celebrities prevailed on claims based on caricatures of themselves in *Newcombe v. Adolf Coors Co.*, 157 F.3d 686, 691 (9th Cir. 1998) (caricature of baseball pitcher used in printed beer ad) and *White v. Samsung Elecs. Am., Inc.*, 971 F.2d 1395, 1396 (9th Cir. 1992) (use of robot dressed like game-show hostess in print ad for electronic products).
- Will the threshold determination of whether the challenged use of a celebrity's image is commercial or noncommercial speech continue to be dispositive if the California or U.S. Supreme Court extends greater protection to commercial speech in the future? Interestingly, in a 2000 decision not cited in any of the four cases discussed above, the California Supreme Court held in *Gerawan Farming, Inc. v. Lyons*, 24 Cal. 4th 468, 491, 509, 516-17 (2000), that the right to freedom of speech under Article I of the California Constitution – including the right to engage in nonmisleading commercial speech – is "broader and greater" than the First Amendment's free speech guarantee, and is implicated in some situations where the First Amendment is not. On the other hand, in *Kasky v. Nike, Inc.*, 27 Cal. 4th 939 (2002) (discussed elsewhere in this issue), the California Supreme Court departed from long-standing precedent to adopt a definition of "commercial speech" that sweeps far more expression into this less-protected category.

<sup>1</sup>The Court visibly balked at taking the First Amendment protection of artistic expression to its logical conclusion, fretting that "were we to decide that Saderup's depictions were protected by the First Amendment, we cannot perceive how the right of publicity would remain a viable right other than in cases of falsified celebrity endorsements." *Id.* at 409. To this worry, a less timid First Amendment advocate might be tempted to answer, "so?" See *Cardtoons, L.C. v. Major League Baseball Players Ass'n*, 95 F.3d 959, 972-76(10th Cir. 1996) (arguing that the social value of the right of publicity is minimal, and insufficient to overcome the First Amendment in most cases).

<sup>2</sup>The trial court reasoned that the magazine layout constituted commercial speech because it "contained no commentary on fashion trends ... no statement that any particular style of clothing is in vogue, that any particular color is becoming popular, or that any type of fabric is attracting the attention of designers." 33 F. Supp. 2d 867, 874 (C.D. Cal. 1999).

**Karen N. Frederiksen** is a partner in DWT's Los Angeles office. She focuses her practice in the areas of communications and media law, intellectual property including online publication issues, and business litigation.

**Karen** can be reached at (213) 633-6822 or email at karenfrederiksen@dwt.com.

**Andrew J. Thomas** is a partner in DWT's Los Angeles office. He focuses his practice in the areas of media law, intellectual property and Internet law, including defamation, privacy, access, prior restraint, copyright, trademark and trade secret law.

**AJ** can be reached at (213) 633-6861 or via email at ajthomas@dwt.com.

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is, if people aren't being loyal to themselves and buying from their own business, then whose business are they supporting and who are they buying from." Some distributors circulated fliers with the rumor printed on them to consumers. Two retractions followed. Nonetheless, Procter & Gamble received increasing numbers of complaints and inquiries about the Satanism rumor.

Procter & Gamble filed suit in Utah and Texas against Amway and its distributors. In the Texas case, Procter & Gamble asserted claims for defamation, fraud and Lanham Act and RICO violations. *Procter & Gamble Co. v. Amway Corp.*, 80 F. Supp. 2d 639 (S.D. Tex. 1999). The district court dismissed most of the claims. On the Lanham Act claim, it held that Procter & Gamble was a limited-purpose public figure and had failed to present sufficient evidence of actual malice, which it required in Lanham Act cases brought by limited-purpose public figures. The Fifth Circuit rejected this requirement of proof of actual malice as "trump[ing] the traditional view that there is no First Amendment protection for false commercial speech." *Amway*, 242 F.3d at 547.

In reversing the district court's holding that Procter & Gamble was required to show actual malice to prevail on its Lanham Act claim, the Fifth Circuit began by noting that Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), applies only to false or misleading commercial speech. From there it considered whether Amway's speech was commercial speech, as the Supreme Court has defined it. Applying the three-part test from *Bolger v. Youngs Drug Products Corp.*, 463 U.S. 60, 103 S. Ct. 2875 (1983), the court emphasized the third factor: whether the speaker had an economic motivation for the speech. The first factor – whether the speech was an advertisement – depended on the result for the third factor. If the distributors had an economic motivation in spreading the rumor, then the voicemail was akin to an ad encouraging recipients to avoid Procter & Gamble products and buy Amway products. If they had no such motivation, then their message could be seen as false speech dealing with a matter of public concern. The second factor – whether the speech refers to a specific product or service –

was satisfied since the voicemail message listed Procter & Gamble products. The Fifth Circuit remanded so the district court could resolve whether Amway or the distributors spread the Satanism rumor substantially out of economic motivation. If they did, then the speech was commercial and Procter & Gamble's Lanham Act claim could continue. If they did not, then the speech was not commercial and thus could not form the basis of a Lanham Act claim.

The court then expanded on its view that the actual malice standard should not apply in commercial speech cases. It noted the "well-reasoned" decision in *National Life Insurance Co. v. Phillips Publishing, Inc.*, 793 F. Supp. 627 (D. Md. 1992), held that "a state's interest in regulating false commercial speech and in providing some protection to public figures' reputations must be balanced against the free speech interest individuals have in being able to comment freely on public issues and public figures." This balance, the district court held, can be achieved by requiring public figure plaintiffs to prove actual malice. The Fifth Circuit, however, returned to its refrain that Supreme Court precedent mandates that false commercial speech receive no protection. Thus plaintiffs who would be required to prove actual malice by clear and convincing evidence in cases based on noncommercial speech can prevail in Lanham Act cases regardless of whether a defendant knew its message was false. *Amway*, 242 F.3d at 556, 552 n. 26; see also 15 U.S.C. 1125(a), which makes no reference to fault.

**Western District of Michigan distinguishes Fifth Circuit's *Amway* decision and applies actual malice standard in tortious interference case**

Several months later, in yet another of the Satanism-rumor cases between Procter & Gamble and Amway, the district court for the Western District of Michigan recognized the distinction between the fault standard in commercial and noncommercial speech cases. *Amway Corp. v. Procter & Gamble Co.*, 2001 U.S. Dist. LEXIS 14455 (W.D. Mich. Sept. 14, 2001). Amway filed tortious interference claims against Procter & Gamble, one of its law firms and a website operator who had been hired as a consultant to the law firm for the Utah litigation. Amway claimed the defendants had spread "malicious attacks" against Amway

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on the Internet; those "attacks" came from litigation documents from previous Amway lawsuits that had been posted on the consultant's website.

In dismissing the claims against Procter & Gamble and the law firm, the court first held that the case against the two defendants was "solely about speech." *Procter & Gamble*, 2001 U.S. Dist. LEXIS 14455 at \*25. As such, First Amendment protections applied. The court then determined that Amway – a multinational corporation with 14,000 employees, 3 million distributors and 1998 retail sales of \$5.7 billion – was a public figure. As a public figure whose lawsuit was based solely on the speech of the defendants, Amway was required to prove, by clear and convincing evidence, that the defendants had acted with actual malice. This it failed to do.

The court highlighted the distinctions between the Michigan and Texas cases. First, the Texas litigation arose out of Amway distributors' dissemination of the Satanism rumor, which, depending on the speakers' motivation, could be commercial speech. The Michigan case arose out of the dissemination of publicly available litigation documents. Second, the Texas case, unlike the Michigan case, involved a Lanham Act claim. The court also found the fair reporting privilege shielded Procter & Gamble and its law firm from liability for providing accurate reports of matters of public record. Amway has appealed the decision to the Sixth Circuit.

### **Southern District of New York recognizes *Amway* decision but does not resolve whether commercial speech plaintiff must prove actual malice**

Between the two chapters of the ongoing *Amway* litigation, the district court for the Southern District of New York recognized the Fifth Circuit's ruling on actual malice, stating that commercial speech is sufficiently durable to merit a lower level of scrutiny, but side-stepped a decision in the case before it. In *World Wrestling Federation Entertainment, Inc. v. Bozell*, the court described the Fifth Circuit's decision in *Amway* as "an example of how courts have interpreted the Supreme Court's directive to afford commercial speech 'less protection.'" *World Wrestling Fed'n Entm't, Inc. v. Bozell*, 142 F. Supp.2d 514, 524 n.3

(S.D.N.Y. 2001). It added, however, that the Second Circuit has not addressed the issue. The court's observation came in a disturbing ruling rejecting the defendants' motion to dismiss the complaint for defamation, tortious interference with business relations, Lanham Act violations and copyright infringement against a self-proclaimed media monitoring group, its leaders and a defense attorney. The claims were based upon statements made in the debate about a matter of public concern – the extent to which professional wrestling programs expose children to violence. Nonetheless, the Court found the speech to be commercial simply because it also involved elements of fundraising and self-promotion, an analysis which could chill future political and social advocacy speech. The court held that regardless of whether the plaintiff needed to show actual malice for allegedly defamatory commercial speech, the plaintiff had pled actual malice sufficiently to survive a motion to dismiss. (The parties reportedly settled the case in July 2002.)

### **Ninth Circuit recognizes *Amway* decision but finds speech noncommercial in *Hoffman v. Capital Cities/ABC* right of publicity case**

In July 2001, the Ninth Circuit also recognized – in dicta – the Fifth Circuit's actual malice ruling when it reversed a \$3 million verdict for actor Dustin Hoffman on his right of publicity claim against *Los Angeles Magazine* and its publisher. Ultimately, however, the court held that the magazine's use of Hoffman's photograph – altered to appear that he was wearing a silk gown and high heels reminiscent of the famous still from the 1982 movie *Tootsie* – was "noncommercial speech" entitled to "full First Amendment protection" and that the magazine did not publish the altered photograph with actual malice. *Hoffman v. Capital Cities/ABC, Inc.*, 255 F.3d 1180 (9th Cir. 2001). The photograph appeared in an article in which still photographs of famous actors in familiar scenes were digitally altered to depict the actors in Spring 1997 fashions. The photograph of Hoffman depicted the actor made up as "Tootsie," but replaced Hoffman's body and the red sequined dress with the body of a male model dressed in the some of the latest fashions. Hoffman had not consented to this use of his image. He filed suit, alleging misappropriation and unfair competition. The district court ruled against the defendants on all counts, holding that "the First Amendment does not protect the exploitative commercial use of Mr. Hoffman's name and

**Constance M. Pendleton**

is an associate in DWT's Washington, D.C. office. She practices in the area of media law, including defamation, invasion of privacy, newsgathering torts, and access, and provides advice on advertising, marketing, contests and sweepstakes and other promotions.

**Connie** can be reached at (202) 508-6629 or conniependleton@dwt.com.

**Alison P. Howard**, an associate in DWT's Seattle office, practices in the area of media law, defamation, access, publishing, general litigation and intellectual property.

**Alison** can be reached at (206) 628-7781 or alisonhoward@dwt.com.

likeness" nor does it protect knowingly false speech. *Hoffman v. Capital Cities/ABC, Inc.*, 33 F.Supp. 2d 867 (C.D.Cal. 1999). The Ninth Circuit reversed, examining first whether the fashion spread constituted commercial speech. The court noted that although commercial speech is "entitled to a measure of First Amendment protection, it does not receive the same amount of protection as other types of expression," and that there is no First Amendment protection for false or misleading commercial speech. 225 F.3d at 1184. In dicta, the Court added that "[w]hen speech is properly classified as commercial, a public figure plaintiff does not have to show that the speaker acted with actual malice," citing the Fifth Circuit's *Amway* decision. *Id.* at 1185. The court acknowledged that in many right of publicity cases the actual malice issue does not arise because the use of the celebrity's likeness clearly constitutes commercial speech in that it "does no more than propose a commercial transaction." *Id.* (citing *Bolger*, 463 U.S. at 66). But the Court distinguished *Hoffman* from a line of Ninth Circuit advertising cases in which the court found "the defendant used an aspect of the celebrity's identity entirely and directly for the purpose of selling a product," a use that does not receive the same constitutional protection as expressions of editorial opinion. *Id.* The court held the fashion spread at issue was not commercial speech.

Moreover, the Ninth Circuit concluded that Hoffman failed to present clear and convincing evidence that defendant magazine acted with actual malice. *Id.* at 1189. After examining *de novo* the "totality of [the magazine's] presentation," the court concluded that the article and photograph did not provide clear and convincing evidence of intent to suggest the altered picture was in fact Hoffman.

### Conclusion

Despite the successful outcome for *Los Angeles Magazine*, the Ninth Circuit's adoption – albeit in dicta – of the Fifth Circuit's interpretation in *Amway* that public figure plaintiffs need not show actual malice in commercial speech cases is troubling for advertisers and their publishers. The Fifth Circuit's decision in *Amway*, the U.S. Supreme Court's denial of certiorari in that case, and acknowledgment of the decision from the

Ninth Circuit and lower courts demonstrate that, if presented squarely with the same question, other courts may well adopt a similar, lower standard of fault in commercial speech cases brought by public figure plaintiffs. If so, courts will continue to deprive speech of its full First Amendment protection once it is deemed "commercial." Struggling with an imprecise definition of what constitutes "commercial speech," lower courts may continue to apply the less stringent standards of protection for commercial speech to a wide variety of speech that warrants full constitutional protection.

In addition, the dearth of authority on point suggests that commercial speech is not as "durable" as some courts would lead us to believe. Rather than risk litigating a claim under the lesser standards for commercial speech, advertisers give the line between actionable and non-actionable speech a wider berth. In doing so, they demonstrate that such speech may indeed be chilled.

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<sup>1</sup> *Lorillard Tobacco Co. v. Reilly*, 533 U.S. 525, 121 S.Ct. 2404, 2431-32 (2001) (Thomas, J., concurring); *44 Liquormart, Inc. v. Rhode Island*, 514 U.S. 484, 522-23 & n.4 (1996) (Thomas, J., concurring); *Cammarano v. United States*, 358 U.S. 498, 514 (1959) (Douglas, J., concurring); P. Cameron DeVore, Robert D. Sack, Steven G. Brody, Bruce E.H. Johnson, *Advertising and Commercial Speech: A First Amendment Guide* (2002) ("DeVore & Sack"); Rodney A. Smolla, *Information, Imagery and the First Amendment: A Case for Expansive Protection of Commercial Speech*, 71 TEX. L. REV. 777 (1993); Alex Kozinski & Stuart Banner, *Who's Afraid of Commercial Speech?* 76 VA. L. REV. 627 (1990).

<sup>2</sup> *National Life Ins. Co. v. Phillips Publ'g Inc*, 793 F.Supp. 627 (D. Md. 1992); *Q-Tone Broad. Co. v. MusicRadio of Maryland, Inc.*, 1995 Del. Super. LEXIS 598 (Del. Super. 1995), DeVore & Sack, §7:1.2.

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2600 Century Square  
1501 Fourth Avenue  
Seattle, Washington 98101-1688

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