



Advertising and Promotion Law News

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I. PROMOTIONS

North Carolina Enacts Law Regulating Certain Promotional Electronic Devices/Sweepstakes Promotions

In an attempt to remedy the loophole in current state legislation banning video poker machines, North Carolina passed a bill that amends the current state law to effectively prohibit games of chance conducted on electronic devices or machines that are owned, leased, or otherwise possessed by the game sponsor, promoter, or affiliated parties. The law is narrowly tailored, however, in that it only affects games of chance conducted or promoted on electronic devices "owned" by the sponsor, promoter, or affiliated parties that utilize "entertaining displays," which are defined to include popular gambling games, matching games, card games, as well as a game that reveals a prize as a result of an entry into a sweepstakes, e.g., instant-win games. The new law will not prohibit all electronic games of chance; in particular, the law does not prohibit text message promotions and online games, as these promotions can be conducted on electronic

devices not owned by the promotion sponsor. It also does not appear to prohibit the mere collection of entry information for the purposes of a random drawing conducted separately at a later time or games of chance with non-electronic methods of entry, such as those that use physical game pieces or paper entry forms distributed at retail locations. The intended aim of the new law is to prohibit electronic devices like video poker games in retail locations, which were viewed as being used primarily for gambling purposes. The new law will go into effect Dec. 1, 2010.

TIP: Companies conducting games of chance beginning on or after Dec. 1, 2010 in North Carolina should be aware that such games should not use electronic devices that are owned by the sponsor or an other entity affiliated with the promotion to conduct games where the device is used to both enter and notify the winner of prizes won or simulates a video game as part of entry into a sweepstakes.

Michigan Supreme Court Rules that Releases Signed by Parents Are Unenforceable Against Minors

The Michigan Supreme Court recently ruled that absent special circumstances, a parental preinjury waiver is unenforceable under Michigan's common law, because a parent has no authority to bind his or her child by contract. The ruling is the result of a case where a child had his birthday party at an indoor play area that contained inflatable equipment. Before the party, the child's father signed a liability waiver on the child's behalf. During the party, the child jumped off a slide and broke his leg. The child, through his mother, sued alleging negligence, gross negligence, and a violation of the Michigan Consumer Protection Act. The Michigan Supreme Court held that a guardian, including a parent, cannot contractually bind his or her minor ward.

TIP: Releases obtained by Michigan parents on behalf of their minor children may not be enforceable. Promotion sponsors and event organizers will have to evaluate the risk/reward associated with including minors (under 18) who are MI residents.

Sweepstakes Rules Must Specify How Prizes Will Be Awarded in the Event of Cancellation

The New York Department of State Games of Chance office ("DOS") has recently denied registration for several sweepstakes where the sweepstakes official rules may not have clearly specified that prizes will be awarded in the event of cancellation. According to the DOS office, sweepstakes rules may not indicate that prizes will not be awarded, for any reason. If the sweepstakes sponsor reserves the right to terminate the promotion, for any reason, including technical failures or corruption, the official rules must state that prizes will be awarded and how the winner(s) will be determined. After further clarification with the DOS office, it appears that if official rules contain language similar to the following "sponsor may cancel, modify, or terminate the sweepstakes in the event of fraud, corruption or technical difficulties that prevent the proper administration of the sweepstakes," then the rules must also specify that the "sponsor will select winner(s) from all eligible, non-suspect entries received prior to such action." Official rules that contain such language are likely to conform to the state's legal requirements.

TIP: If an entity's sweepstakes rules allow the sponsor the right to cancel, modify, or terminate a sweepstakes, the sweepstakes rules should specify that prizes will be awarded and how the winner(s) will be determined in the event of such action.

II. ADVERTISING

Winston Helps Office Depot Successfully Challenge Promotional Offer, "It's Like Getting It Free," in Dual NAD Decisions

In two separate recent decisions, the National Advertising Division of the Council of Better Business Bureaus ("NAD") recommended that Staples discontinue the advertising claim "[I]t's like getting supplies for FREE" and that OfficeMax, Inc., discontinue the advertising claim "[I]t's like getting one FREE," in connection with promotions where customers who register for the advertisers' loyalty programs would receive the cost of their initial purchase back in loyalty program rewards. Office Depot, Inc., assisted by Winston & Strawn, filed challenges against Staples' and Office Max's advertising on the grounds that the use of "FREE" in this manner was deceptive since the rewards were not issued immediately, were only good for future purchases of supplies, subject to certain exclusions, and only if used within a specified period of time. The NAD concluded that such an offer cannot be understood as receiving goods for "free." "Simply put," NAD noted, "merchandise is either free or it's not." Furthermore, NAD noted that the offer of free goods cannot be qualified by disclosures, explaining that the word "free" has "cachet with consumers and should be reserved for offers that are truly without cost" "Receiving merchandise as a benefit of being a member of a loyalty program is very different from receiving free merchandise or cash back." Both Staples and OfficeMax have appealed the decisions to the National Advertising Review Board (NARB).

TIP: A product should only be advertised as "free" or "like Free" when the product is truly without cost to the purchaser.

Use of Another's Trademark in Domain Name May Be Permissible As a Nominative Fair Use

Toyota sued Farzad and Lisa Tabari for trademark infringement for using the word LEXUS in domain names that advertised their auto brokerage services (buy-a-lexus.com and buyorleaselexus.com). The district court found trademark infringement and ordered the defendants to cease using the domain names and enjoined them from future use of the LEXUS mark in any other domain name. However, the U.S. Court of Appeals for the Ninth Circuit recently vacated and remanded this decision, holding that the district court's injunction was overbroad because the court failed to properly apply the nominative fair use doctrine. The nominative fair use doctrine provides that the use of a third party's trademark is not an infringement if the plaintiff's product or service is not readily identifiable without use of the mark, no more of the mark is used than is necessary, and the use of the mark does not falsely suggest a sponsorship or endorsement. The Ninth Circuit held that at "the very least, the injunction must be modified to allow some use of the Lexus mark in domain names by the Tabaris."

TIP: When using a third party's trademark to refer to the third party's goods or describe your own goods, be sure that the goods are not readily identifiable without use of the mark, that you use no more of the mark than necessary, and that you do not falsely suggest a sponsorship or endorsement by the trademark holder.

DMCA "Safe Harbor" Protection Upheld for YouTube Notwithstanding Generalized Knowledge of Infringement

A United States District Court for the Southern District of New York recently found that YouTube was entitled to "safe harbor" protection under the Digital Millennium Copyright Act (DMCA) against all of Viacom's direct and secondary copyright infringement claims. Viacom sued YouTube for direct and contributory copyright infringement based on uploads of their copyrighted content to YouTube. Viacom argued that YouTube had actual knowledge of the infringing material and encouraged the uploading of such material to the website, and therefore YouTube was not eligible for the "safe harbor" provisions of the DMCA which provide immunity against copyright claims against an interactive service provider when the service provider. In holding that YouTube was entitled to safe harbor protection, the court concluded that "mere knowledge of prevalence of such activity in general is not enough. . . to let knowledge of a generalized practice of infringement in the industry, or of a proclivity of users to post infringing materials, impose responsibility on service providers to discover which of their users' postings infringe a copyright would contravene the structure and operation of the DMCA."

TIP: It seems like the DMCA provides strong immunity for copyright infringements for websites who meet all of the requirements of its safe harbor: (1) register an agent with the copyright office, (2) post a takedown policy and (3) quickly take down any materials that are claimed to be infringed in accordance with the DMCA rules.

Sports Agents Who Work With Students Will Be Required To Register In Illinois In 2011

Illinois recently adopted the Illinois Athlete Agents Act requires that an individual may not act as an athlete agent in Illinois without holding a license. An "athlete agent" means any individual who enters into an agency contract with a student-athlete, or recruits or solicits a student-athlete to enter into an agency contract, but does not include spouses, parents, siblings, grandparents or guardians of student athletes, or individuals acting solely on behalf of a professional sports team. The act provides that contracts between student-athletes and unlicensed agent are void.

The act further requires that the contract between student-athletes and agents contain the method for calculating consideration to be paid to the athlete, a description of expenses, the contract term, and the date of execution. Agent contracts must also contain, in close proximity to the signature of the student-athlete, a conspicuous notice in boldface type in capital letters which states: WARNING TO STUDENT-ATHLETE IF YOU SIGN THIS CONTRACT: (1) YOU MAY LOSE YOUR ELIGIBILITY TO COMPETE AS A STUDENT-ATHLETE IN YOUR SPORT; (2) IF YOU HAVE AN ATHLETIC DIRECTOR, WITHIN 72 HOURS AFTER ENTERING INTO THIS CONTRACT OR BEFORE YOUR NEXT SCHEDULED ATHLETIC EVENT, WHICHEVER OCCURS FIRST, BOTH YOU AND YOUR ATHLETE AGENT MUST NOTIFY YOUR ATHLETIC DIRECTOR; AND (3) YOU MAY CANCEL THIS CONTRACT WITHIN 14 DAYS AFTER SIGNING IT. CANCELLATION OF THIS

CONTRACT MAY NOT REINSTATE YOUR ELIGIBILITY. Contracts that do not contain these elements and disclosures are voidable by the student-athlete. Agents who violate the law could receive a civil penalty not to exceed \$10,000. Furthermore, the law provides a cause of action for schools against agents who violate this law.

TIP: Sports agents who intend to solicit student-athletes in Illinois should immediately register as an agent. Student-athletes should confirm that their agent is licensed before signing any agreement, and must promptly inform their athletic director after signing an agreement with an agent.

If you have any questions about items that appeared in this bulletin, or would like to learn more about any of these topics, please contact one of the following attorneys:

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