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INTELLECTUAL PROPERTY LITIGATION

BY LEWIS R. CLAYTON

# Do Contextual Internet Ads Violate Copyright or Trademark Laws?

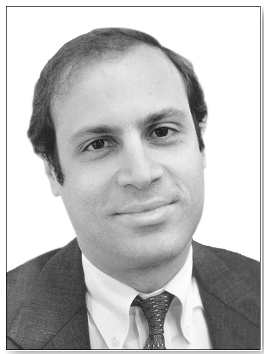
NO USER OF the Internet can escape them: pop-ups and banner ads that seem to appear every time you visit a Web site or use a search engine. Thanks to a technique known as "contextual advertising" or "keying," many of those ads are designed to appear when you visit particular Web sites or enter specified terms into a search engine — for example, viewing a financial Web site or searching for the name of a well-known bank, may bring up ads offering mortgage loans or financial services.

Four recent decisions considered whether contextual advertising violates the copyright or trademark laws. The cases reach varying and sometimes contradictory results, raising significant issues concerning the use of trademarks on the Internet.

Three district court opinions addressed a program named "Save," distributed by WhenU.com Inc. Save is bundled with "free" software applications such as Weathercast, which delivers weather information to a user's desktop. Once installed, Save monitors the user's browsing activity and generates ads based on sites visited and search terms used. Users of the "free" version of Weathercast must click to indicate agreement to activate Save, although, not surprisingly, survey data indicates that many users have no idea that the ads they see on screen are generated by software installed on their own machines.

Three Web advertisers and trademark holders — U-Haul International, Wells Fargo & Co. and 1-800 Contacts Inc., a distributor of contact lenses — filed separate lawsuits against WhenU, alleging that Save and a companion program, SaveNow, violated the copyright and trademark laws. *1-800 Contacts Inc. v. WhenU.Com Inc.*, 2003 WL 22999270 (SDNY Dec. 22, 2003); *Wells Fargo & Co. v. WhenU.Com, Inc.*, 293 FSupp2d 734 (EDMich 2003); *U-Haul Int'l, Inc. v. WhenU.Com, Inc.*, 279 FSupp2d 723 (EDVa 2003).

**Lewis R. Clayton** *is a litigation partner at Paul, Weiss, Rifkind, Wharton & Garrison LLP and co-chairman of the firm's intellectual property litigation group (lclayton@paulweiss.com).*



None of the three district courts credited the copyright claims. Each rejected the argument that the appearance of the Save ads while a user viewed one of the plaintiffs' Web sites created an "altered" version of those Web pages, or resulted in an unauthorized derivative work. The courts stressed that the ads appear separately from the Web pages (no "framing" occurs) and that the ads are "transitory occurrences." A derivative work, by contrast, must be "fixed" and "independently copyrightable."

The three courts split, however, on trademark issues. Both the *Wells Fargo* and *U-Haul* courts found that plaintiffs had failed to show that WhenU "used" their marks "in commerce," a jurisdictional requirement of the Lanham Act. Instead, those courts held that employing the marks to trigger competitors' ads was a "non-trademark" use, that does not identify the source of a product. The courts found this use to be a lawful form of "comparative advertising," which does not "interfere" with plaintiffs' use of their Web sites. On that basis, these courts denied plaintiffs' preliminary injunction motions.

The *1-800 Contacts* court, however, granted an injunction, explicitly disagreeing with the result and reasoning of *Wells Fargo* and *U-Haul*. It found that Lanham Act "use" had been established because the pop-up ads appear while plaintiff's trademark is also on the screen and because the trademark is part of WhenU's proprietary directory used to "key" advertising to Internet activity, WhenU is therefore "capitalizing" on a consumer's knowledge of plaintiff's trademarks. After finding "use," the court identified sufficient evidence of likelihood of confusion between plaintiff's product and the advertised goods, applying the familiar test of *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F2d 492 (2d Cir. 1961). Even if consumers ultimately discovered there was no connection between the two different products, defendants had caused "initial interest confusion" — confusion that occurs while a consumer is shopping, but is dispelled before any purchase.

The U.S. Court of Appeals for the Ninth Circuit took a different approach in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F3d 1020 (9th Cir. 2004), where it considered trademark issues related to banner ads. Playboy argued that defendants infringed its famous trademark by keying adult-oriented banner ads to appear whenever the trademark was used in defendants' search engines. Reversing summary judgment dismissing the complaint, the Court of Appeals found issues of material fact concerning likelihood of initial interest confusion. It rejected the defense of "nominative use" — a doctrine that allows use of a trademark to refer to the trademark holder's goods in a non-confusing way. See *New Kids on the Block v. News America Pub. Inc.*, 971 F2d 302 (9th Cir. 1992) (allowing newspaper to use music group's trademark for a reader popularity survey). The court barely addressed the question of "use" that vexed the *WhenU* district courts, simply noting there was "no dispute" on this issue.

## Circuit Took Pains

The Ninth Circuit took pains, however, to emphasize that it was not "addressing a situation in which a banner advertisement clearly identifies its source with its sponsor's name or in which a search engine clearly identifies a banner advertisement's source" — thereby indicating that infringement might well be avoided (or nominative use established) through some degree of disclosure.

Where do these cases leave context advertisers, search engines and trademark holders? If trademark rights are granted primarily to prevent marketplace confusion and protect the reputational interests embodied in goodwill — as opposed simply to prevent competitive use of a trademark — it is hard to see why contextual advertising should be prohibited by the Lanham Act. But we will surely hear more about this issue as additional Courts of Appeals consider it.

Deciding an issue of major importance to the biotech industry, the U.S. Court of Appeals for the Federal Circuit affirmed summary judgment invalidating a University of Rochester patent that had been asserted against Pfizer's blockbuster inflammation drug Celebrex. *University of Rochester v. G.D. Searle & Co. Inc.*, 2004 WL 260813 (Fed. Cir. Feb. 13, 2004). The court emphatically reaffirmed that the first paragraph of §112 of the Patent Act imposes a written description requirement that is "independent" of the enablement requirement also found in that paragraph. The specification must therefore "set forth enough detail to allow a person of ordinary skill in the art to understand what is claimed and to recognize that the inventor invented what is claimed." While Rochester's specification described assay methods that could be used to screen compounds, it did not disclose the particular compound used in Celebrex. The Court of Appeals rejected the argument of Rochester and amici universities of California and Texas that imposition of a vigorous written description requirement would damage university research and technology transfer programs.

*Kumar v. Ovonic Battery Co.*, 351 F3d 1364 (Fed. Cir. 2003), is the latest in a string of often-inconsistent decisions considering how a dictionary definition should be used in claim construction. The *Kumar* court recognized the general rule that a court should "look first to the dictionary definition of a contested" claim term, but that a clear statement in the prosecution history can "trump an inconsistent dictionary definition." The court then held that the dictionary may be "trumped" by an inconsistent definition found in a prior patent that is cited in the application and discussed in the file wrapper. Finding that the prior patent "was considered by both the applicant and the examiner to be highly pertinent prior art" and that its definition did not appear to be inconsistent with the understanding of those skilled in the art, the court applied its definition of the disputed term. Stretching even farther, the court bolstered its conclusion by reference to a later patent held by the defendant (and obviously not a part of the file history) which used the same definition of the term. The court credited this later patent as evidence that the definition of the claim urged by plaintiff was not "unique."

In *Sulzer Textil AG v. Picanol NV*, 2004 WL 291566 (Fed. Cir. Feb. 17, 2004), the Federal Circuit clarified a significant issue of trial procedure. It held that, in cases where claim construction rulings are made prior to trial and those rulings are "followed" by the parties during trial, the district court has a "duty" to inform the jury of its rulings on all disputed claim terms, and to instruct that the jury is obligated to "adopt and apply" those rulings in its deliberations. While the district court did not so instruct, the Court of Appeals found that to be harmless error, because expert testimony at trial "properly communicated the court's claim construction" and any contrary testimony had largely been introduced by appellant itself. Having announced this ruling, the Federal Circuit is likely to be less tolerant of "harmless error" in future cases where the jury isn't clearly informed of claim construction rulings and its obligation to follow them.

## Copyrights

Dealing a defeat to the major record labels, the U.S. Court of Appeals for the District of Columbia Circuit significantly limited the reach of §512(h) of the Digital Millennium Copyright Act (DMCA), which allows copyright proprietors to obtain subpoenas requiring Internet service providers (ISPs) to identify suspected copyright infringers. *Recording Industry Ass'n of America, Inc. v. Verizon Internet Services, Inc.*, 351 F3d 1229 (DCCir 2003). Peer-to-peer file copying software, such as KaZaA and Grokster, allows users to obtain copyrighted files directly from the computers of other users. While copyright proprietors can obtain the Internet protocol addresses of users of these programs, only the ISPs can identify that address with the name of an individual user, who can then be pursued for infringement. Analyzing the language and structure of the statute, the Court of Appeals held that the DMCA authorizes subpoenas to obtain this information only where the ISP is itself storing infringing material, not where it simply transmits infringing material between its subscribers. Unless the statute is amended, this holding effectively prevents DMCA subpoenas from being issued to investigate peer-to-peer file copying. The court acknowledged that the DMCA was enacted before peer-to-peer software came into use, and that, had Congress anticipated this technology, the DMCA "might have been drafted more generally." Finding the statute to be unambiguous, however, the court held that it could not consider congressional intent.

Intervening to prevent what it viewed as an "appalling" result, the U.S. Court of Appeals for the Seventh Circuit vacated an injunction that prevented public access to data compiled by Wisconsin municipalities. *Assessment Technologies of WI, LLC v. WIREdata, Inc.*, 350 F3d 640 (7th Cir. 2003). Plaintiff produced a software program used to organize and categorize real estate data gathered by tax assessors. Arguing that the format (designated fields and tables) into which the data was placed was copyrighted, plaintiff obtained an injunction barring an organization of real estate brokers from copying the data. Reversing and ordering dismissal of the copyright claim, the Court of Appeals held that copying the underlying data could not amount to copyright infringement and, furthermore, that copying the copyrighted program itself, if necessary to extract the data, would be fair use. In dicta, the court speculated that, were plaintiff to argue that its copyright license agreements with the municipalities prevented copying of the data, that might well constitute copyright misuse.

## Trademarks

A dispute between burger chains was the context of an examination of trademark principles of laches and acquiescence. *What-A-Burger of Virginia, Inc. v. Whataburger, Inc.*, 2004 WL 243421 (4th Cir. Feb. 11, 2004). The facts sound like a law professor's hypothetical: In 1957, a Texas restaurant operator obtained a federal registration for the mark Whataburger. That business grew to a 500-restaurant franchise in the South and Southwest. At the same time, a smaller Whataburger restaurant chain was developing in Virginia, a state where the Texas chain did not (and does not) do business. In 1970, Texas Whataburger wrote Virginia Whataburger to demand that Virginia sign a license agreement or stop using the mark. No agreement was reached, and Texas dropped the matter. When Texas Whataburger raised the matter again in 2002, Virginia Whataburger sued for a declaratory judgment that it was entitled to use the mark in that state. The U.S. Court of Appeals for the Fourth Circuit held that Texas Whataburger had superior rights in Virginia by virtue of its federal registration and because Virginia Whataburger could not show that it had begun operations in the state before the registration date. The court then found that Virginia Whataburger could not rely on the defenses of laches or acquiescence, as there had never been confusion between the two marks — Texas Whataburger had never operated in Virginia and was unknown there. Despite its knowledge of the Virginia chain, Texas Whataburger had no obligation to take action until confusion occurs and, therefore, could not be charged with undue delay. The apparent result of this analysis is that the Virginia chain may operate in that state, but will have to yield the mark if and when Texas Whataburger enters the Virginia market.