

POP-UP ADS AND TRADEMARK INFRINGEMENT: *WHENU.COM* LITIGATION

I. INTRODUCTION

Imagine that you are looking for the perfect flat screen plasma television. You are a television junkie and have finally decided to splurge. However, as it is for many other average American consumers, price is an issue for you.¹ After months of comparison shopping, you finally find what you are looking for in a Circuit City television advertisement. Subsequently, you notice your coveted television in the print catalogue Circuit City sent to your home and in the Circuit City flyer that arrived with the newspaper. You have heard about the upcoming Circuit City sale through print, television and radio advertisements. Also an Internet junkie, you enter the Circuit City website—all set to buy the television. You are about to return to Circuit City a very small portion of the millions of marketing dollars it has invested to reach consumers like you. Just as you are about to “check out” on the Circuit City website, however, a window pops up on the bottom right hand corner of your screen. It is an ad for J&R Music World (“J&R”). “What is J&R Music World?” you ask yourself. You have never heard of it before. Nevertheless, it looks like J&R is having a television sale—thirty percent off all flat screen TVs, this weekend only. You do not remember specifically consenting to the J&R pop-up ad, but as pop-ups are often an inevitable cost of using the Internet, you do not think much about it. You notice that the frame surrounding the ad says, “A WhenU Offer—click ? for info.”² Does that make you less confused about why an ad for one of Circuit City’s competitors suddenly appeared on your screen? Perhaps. Or perhaps not. Ultimately, you do not care about the ad’s origin or sponsorship; you only care whether you can buy your television at a lower price. So you minimize the Circuit City browser and enter the J&R website. Sure enough, J&R carries your television, and, with the coupon from the pop-up ad, it is cheaper than the same television at Circuit City. Just like that, Circuit City lost your business.

Is this fair? Ostensibly, it does not seem fair. Fairness, however, is irrelevant in light of the Second Circuit’s recent

¹ John Heys, *Business Buzz*, SARASOTA HERALD TRIB., Nov. 28, 2005, at 3.

² 1-800 Contacts, Inc. v. WhenU.com, Inc., 414 F.3d 400, 405 (2d Cir. 2005).

decision in *1-800 Contacts Inc. v. WhenU.com, Inc.*,³ which deemed the aforementioned WhenU.com-generated pop-up ad portraying J&R's television to be legal.⁴

This hypothetical situation depicts the subject of a recent body of contentious, multi-jurisdictional litigation. At the heart of the litigation is whether pop-up ads generated by an online contextual marketing company infringe the trademarks of the owners of the websites on which the ads pop up. A company that engages in Internet contextual marketing tracks the online content viewed by the Internet user ("user") and uses that information to deliver ads to the user when the user has demonstrated an interest in a particular product.⁵ For example, in the aforementioned hypothetical case, the contextual marketing company that generated the ad for J&R was able to target the consumer at the exact moment the consumer was shopping on Circuit City's website and presumably looking for a product that J&R could offer as well. Contextual marketing is considered innovative because it eliminates the need for expensive demographic surveys that target large groups of consumers, many of whom might not be interested in the specific product being advertised.⁶ Accordingly, while most users regard pop-up ads as a necessary evil associated with Internet use,⁷ online contextual marketing companies consider pop-up ads a lucrative means of generating revenue.⁸

In the past two years, four courts addressed the issue of whether a particular marketing company violated trademark law by operating a software program that causes ads of a merchant's competitor to pop up on a user's computer while the user is engaged with the merchant's website.⁹ In each case, the defendant was WhenU.com ("WhenU"), a contextual Internet marketing company that operates a proprietary software program called

³ 414 F.3d 400 (2d Cir. 2005).

⁴ See *id.* at 413. For purposes of the hypothetical, the author assumes that J&R's pop-up ad was generated by WhenU.com.

⁵ Marc J. Rachman & Gary Kibel, *Online Advertising Challenges Tradition; Two Cases Illustrate How Courts Apply Trademark Principles to Continued Use Of Interactive Methods*, N.Y.L.J., Oct. 17, 2005, at s6; see also Chang Yu, *Behavioral Marketing in Context*, CLICKZ (Aug. 11, 2004), at http://www.clickz.com/experts/media/behavioral_marketing/article.php/3392701 (last visited Feb. 2, 2006).

⁶ Julieta L. Lerner, *Trademark Infringement and Pop-up Ads: Tailoring the Likelihood of Confusion Analysis to Internet Uses of Trademarks*, 20 BERKELEY TECH. L.J. 229, 232 (2005).

⁷ See *id.*, at 231.

⁸ See WhenU, *Increased Results*, http://www.whenu.com/ad_increase.html (last visited Feb. 2, 2006).

⁹ See *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723, 724 (E.D. Va. 2003); *Wells Fargo & Co. v. WhenU.com, Inc.* 293 F. Supp. 2d 734, 757 (E.D. Mich. 2003); *1-800 Contacts, Inc. v. WhenU.com, Inc.* 309 F. Supp. 2d 467, 472 (S.D.N.Y.2003); *1-800 Contacts*, 414 F.3d at 402-03.

SaveNow. SaveNow tracks a user's online behavior and uses an internal directory to deliver ads to the user when the user demonstrates an interest in a particular product.¹⁰ In each of the four cases, the respective plaintiff alleged that WhenU had infringed the plaintiff's trademark when WhenU caused pop-up ads of plaintiff's competitors to appear on a user's computer screen when the user accessed plaintiff's website.¹¹

In *U-Haul International, Inc. v. WhenU.com, Inc.*,¹² the first case to address this issue, the Eastern District of Virginia granted WhenU's motion for summary judgment.¹³ In *Wells Fargo & Co. v. WhenU.com, Inc.*,¹⁴ the second case to address the issue, the Eastern District of Michigan denied plaintiff Wells Fargo's motion for a preliminary injunction.¹⁵ Later that year, however, in *1-800 Contacts, Inc. v. WhenU.com, Inc.*,¹⁶ the Southern District of New York granted a preliminary injunction against WhenU based on plaintiff 1-800 Contact's trademark claims.¹⁷ The Southern District's opinion gave hope to future plaintiffs that traditional trademark law could be used to thwart this novel type of Internet advertising and laid the foundation for a potential circuit split. Nevertheless, in *1-800 Contacts, Inc. v. WhenU.com, Inc.*,¹⁸ the last of the four cases to address the issue, the Second Circuit restored stability to the law by reversing the preliminary injunction against WhenU and remanding with instructions to dismiss plaintiff's trademark claims with prejudice.¹⁹

This Recent Development argues that, in the context of traditional trademark law, the Southern District is the only one of the four courts to reach the correct result. One of the complexities underlying the WhenU litigation is that Congress did not envision the existence of the Internet, a product of modern technology, when it drafted the Lanham Act.²⁰ Consequently, key terms found

¹⁰ See *U-Haul Int'l*, 279 F. Supp. 2d at 725-26. According to WhenU CEO Avi Naider, the company was given its name because the software detects consumer behavior "when you shop, when you travel, when you invest" and then delivers relevant ads to consumers when they need them most. *1-800 Contacts*, 309 F. Supp. 2d at 481.

¹¹ See *U-Haul Int'l*, 279 F. Supp. 2d at 724; *Wells Fargo*, 293 F. Supp. 2d at 757; *1-800 Contacts*, 309 F. Supp. 2d at 472; *1-800 Contacts*, 414 F.3d at 402-03.

¹² 279 F. Supp. 2d 723. (E.D. Va. 2003).

¹³ *Id.* at 731.

¹⁴ 293 F. Supp. 2d 734 (E.D. Mich. 2003).

¹⁵ *Id.* at 773.

¹⁶ 309 F. Supp. 2d. 467 (S.D.N.Y.2003).

¹⁷ *Id.* at 509-10.

¹⁸ 414 F.3d 400 (2d Cir. 2005).

¹⁹ *Id.* at 413.

²⁰ The Lanham Act, drafted in 1946, is codified in sections 1051 through 1141 of Title 15 of the United States Code. The Act embodies federal trademark law in the United States. 15 U.S.C. §§ 1051-1141 (2005).

in the Lanham Act such as “use” and “consumer confusion,” that have been applied and interpreted for decades in a traditional advertising context (e.g., print and television), straddle an ambiguous line when considered in the Internet context. While the Southern District construes the Lanham Act broadly to adapt traditional trademark law to modern technology, the other three courts (the “pro-WhenU” courts) analyze the legality of novel practices from the limited perspective of conventional notions of trademark law and advertising. The rigid approach of the pro-WhenU courts precludes the applicability of trademark law to Internet contextual marketing. Arguably, this rigid approach is driven by their recognition of the importance of WhenU’s nascent technology for consumers, advertisers and the general evolution of Internet technology. If the pro-WhenU courts had interpreted trademark law broadly so as to render it applicable to the WhenU technology—the approach taken by the Southern District—the courts necessarily would have found WhenU liable for trademark infringement, a result this author believes the pro-WhenU courts intentionally sought to avoid to promote the advancement of burgeoning Internet technologies. The four cases evince the struggle modern courts face to adapt traditional trademark law principles to modern technology.²¹ This struggle illustrates the need for Congress to amend the Lanham Act in a manner that clarifies the statute’s applicability to the Internet and other technological advancements.²²

Part II of this Recent Development provides background information required to understand the issues that will be subsequently discussed. Specifically, Part IIA describes how the WhenU software works, and Part IIB sets forth the relevant trademark principles as codified in the Lanham Act. Part III summarizes and critiques the four cases that address the issue of whether contextually-generated pop-up ads on the Internet constitute trademark infringement. Finally, Part IV argues that even though the Southern District’s holding is reasonable because it adapts traditional trademark law to modern technology, the pro-WhenU courts’ opinions are driven by an overarching, yet understandable, concern for a competitive consumer marketplace and a reluctance to stifle innovative technologies.

²¹ Rachman & Kibel, *supra* note 5.

²² See generally *id.*

II. BACKGROUND

A. WhenU's *Innovation: The SaveNow Software*

WhenU.com is an Internet marketing company that provides two proprietary software programs: Save and SaveNow ("SaveNow"). SaveNow, a form of contextual advertising, endeavors to market products to consumers who have demonstrated an interest in those products or similar goods or services.²³ The software uses an internal directory that compiles thousands of website addresses, search terms and keyword algorithms that consumers are likely to type into browsers or search engines.²⁴ If a user has downloaded the SaveNow software, when the SaveNow program recognizes a website address, keyword or search term, it will associate the triggering information with one of its many product categories. SaveNow will then randomly select an advertisement pertaining to the triggered category and cause it to pop up on the computer screen at roughly the same time as the user types in the triggering information.²⁵ Appearing in a separate window from the one accessed by the user, the SaveNow ads are surrounded by a window frame labeled: "A WhenU Offer—click ? for info."²⁶ All SaveNow ads include a notice that says: "This is a WhenU offer and is not sponsored or displayed by the website you

²³ *Wells Fargo & Co. V. WhenU.com, Inc.*, 293 F. Supp. 2d 734, 738 (E.D. Mich. 2003). The novelty of the SaveNow software is that while contextual marketing used to involve the compilation of personal information about consumers and their past purchasing behavior, SaveNow achieves the same purpose without amassing any personal consumer data. *Id.*

²⁴ *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723, 725-26 (E.D. Va. 2003). "[T]he SaveNow software employs an internal directory comprising 'approximately 32,000 [website addresses] and [address] fragments, 29,000 search terms and 1,200 keyword algorithms.'" *1-800 Contacts*, 414 F.3d at 404 (citing *Wells Fargo*, 293 F. Supp. 2d at 743).

²⁵ *U-Haul Int'l*, 279 F. Supp. 2d at 725-26. For example, WhenU includes the Wells Fargo URL (www.wellsfargo.com) in its directory under the "finance.mortgage" category. When a user who has downloaded the SaveNow software types "www.wellsfargo.com" into his browser or enters the search term "Wells Fargo" into a search box (e.g., Google), SaveNow will scan the "finance.mortgage" category of its directory for a relevant ad that will then pop up on the user's screen. *Wells Fargo*, 293 F. Supp. 2d at 743-44.

²⁶ *1-800 Contacts*, 414 F.3d at 405. Clicking on the "?" button will cause the display of a new window that contains directions for uninstalling the SaveNow software, as well as general information about WhenU ads. *Id.* The following is an example of a message that a SaveNow user might receive:

[T]his offer is brought to you by WhenU.com, through the SaveNow service. SaveNow alerts you to offers and services at the moment when they are most relevant to you. SaveNow does not collect any personal information or browsing history from its users. Your privacy is 100 percent protected. The offers shown to you by SaveNow are not affiliated with the site you are visiting. For more about SaveNow, click here or e-mail information at WhenU.com. At WhenU, we are committed to putting you in control of your Internet experience.

Id. at n.7 (citing *1-800 Contacts*, 309 F. Supp. 2d 467, 478 n.22 (S.D.N.Y. 2003)).

are visiting.”²⁷

The WhenU pop-up ad may appear in one of three places: 1) on the bottom right-hand corner of the user’s screen; 2) as a “pop-under” behind some or all of the webpages the user is viewing; or 3) as a horizontal panoramic ad extending across the bottom of the computer screen.²⁸ If the ad appears in front of the user’s open windows, the user must manually close the ad by clicking it closed or using the “Alt-F4” keystroke.²⁹ The user may also ignore the pop-up by clicking on the original website, which will move the original website to the forefront of the screen. If the user clicks on the WhenU pop-up ad, however, the user’s original website will turn into the website of the advertiser represented in the pop-up.³⁰

WhenU generates revenue by charging its clients to have their ads delivered to users who have demonstrated an interest in the client’s product.³¹ Although the merchants know their ads are likely to pop up on a user’s screen while the user is engaged with a competitor’s website, WhenU does not guarantee that any merchant’s ad will appear in conjunction with a particular website.³² SaveNow will not appear on a computer unless the user affirmatively accepts a license agreement accompanying the software.³³ The license agreement explains that SaveNow engenders contextual advertisements and coupons via pop-ups and other formats.³⁴ WhenU bundles SaveNow with other web-based free-of-charge software programs such as WeatherCast, which provides continuous access to local weather, and ClockSync, which synchronizes the user’s Windows clock to the official time.³⁵ A user cannot download programs such as WeatherCast and ClockSync for free without also downloading SaveNow.³⁶ Once downloaded,

²⁷ *Wells Fargo*, 293 F. Supp. 2d at 746.

²⁸ *1-800 Contacts*, 414 F.3d at 404-05; *1-800 Contacts*, 309 F. Supp. 2d at 478; *Wells Fargo*, 293 F. Supp. 2d at 745. Approximately 50% of the total WhenU generated ads are pop-under, which means that the user will generally not see the ad until after closing the open browser. *Id.*

²⁹ *U-Haul Int’l*, 279 F. Supp. 2d at 726.

³⁰ *1-800 Contacts*, 414 F.3d at 405.

³¹ Steven Seidenberg, *Court Limits Trademark Infringement on the Web*, CORP. LEGAL TIMES, Oct. 2005, at 56.

³² *U-Haul Int’l*, 279 F. Supp. 2d at 726.

³³ *Id.* at 725.

³⁴ *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734, 739 (E.D. Mich. 2003).

³⁵ WhenU—WeatherCast, http://www.whenu.com/products_weathercast.html; WhenU—ClockSync, http://www.whenu.com/products_clocksync.html.

³⁶ WhenU—WeatherCast License Agreement, http://www.whenu.com/products_weather_cast_la.html; WhenU—ClockSync License Agreement, http://www.whenu.com/products_clocksync_la.html; *Wells Fargo*, 293 F. Supp. 2d at 725; *see also* *1-800 Contacts v. WhenU.com, Inc.* 414 F.3d 400, 404 (2d Cir. 2005). Another way that users can download the WhenU software is by choosing between downloading a different software application at a premium of \$19.95 or downloading the same application bundled with SaveNow for

the user can choose to uninstall SaveNow at any time.³⁷

B. *Relevant Trademark Law: The Lanham Act*

The Lanham Act, codified in Title 15 of the United States Code, embodies federal trademark law in the United States.³⁸ Generally, trademark law serves a dual purpose. It seeks to reward the time and effort trademark owners put into creating goodwill for their products, and, at the same time, promotes fair competition between merchants.³⁹ Regarding trademark infringement, 15 U.S.C. § 1114 makes it illegal for a person, without permission from the registrant, to either “use in commerce” or reproduce a registered trademark “in connection with the sale, offering for sale, distribution, or advertising of any goods or services” if such use or reproduction is likely to cause “confusion . . . mistake . . . or to deceive” the consumer.⁴⁰ A mark is “used in commerce” in connection with services “when it is used or displayed in the sale or advertising of services and the services are rendered in commerce.”⁴¹ In *People for the Ethical Treatment of Animals [PETA] v. Doughney*,⁴² the Fourth Circuit set out the following roadmap for finding a defendant liable for trademark infringement:

A plaintiff alleging causes of action for trademark infringement and unfair competition must prove (1) that it possesses a mark; (2) that the defendant used the mark; (3) that the defendant’s use of the mark occurred ‘in commerce’; (4) that the defendant

free. WhenU shares the money generated from its ads with its “bundling partners.” *Wells Fargo*, 293 F. Supp. 2d at 739.

³⁷ *Wells Fargo*, 293 F. Supp. 2d at 740.

³⁸ BitLaw, <http://www.bitlaw.com/source/15usc/> (last visited Feb. 1, 2006).

³⁹ Lerner, *supra* note 6, at 234; Ivan Hoffman, *An Overview of Trademark Law*, GigaLaw.com, Mar. 2000, <http://www.gigalaw.com/articles/2000-all/hoffman-2000-03-all.html>.

⁴⁰ 15 U.S.C. § 1114 (2005). Section 1114 provides in relevant part:
Any person who shall, without the consent of the registrant—

- (a) use in commerce any reproduction, counterfeit, copy or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake or to deceive; or
- (b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive, shall be liable in a civil action by the registrant for the remedies hereinafter provided.

Id.

⁴¹ 15 U.S.C. § 1127 (2005); *See also* U-Haul Int’l, Inc. v. WhenU.com, Inc., 279 F. Supp. 2d 723, 727 (E.D. Va. 2003).

⁴² 263 F.3d 359 (4th Cir. 1995).

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used the mark ‘in connection with the sale, offering for sale, distribution, or advertising’ of goods or services; and (5) that the defendant used the mark in a manner likely to confuse consumers.⁴³

These principles of trademark law form the basis for each of the four courts’ assessments of the claims against WhenU.⁴⁴

PART III. THE CASE LAW

In all four subject cases, plaintiffs U-Haul, Wells Fargo and 1-800 Contacts (“1-800”) asserted similar claims against defendant WhenU. Although each plaintiff framed its claim in a slightly different manner, in essence, all plaintiffs sought to enjoin WhenU from operating its SaveNow software on the grounds that WhenU infringed their trademarks by causing plaintiffs’ competitors’ ads to appear on a user’s screen when the user specifically intended to access plaintiffs’ websites.⁴⁵

A. U-Haul International, Inc. v. WhenU.com, Inc.: *Strike One Against Plaintiff*

In September 2003, the Eastern District of Virginia was the first district to address the issue of whether contextually generated pop-up ads on the Internet constitute trademark infringement. The *U-Haul* court concluded that WhenU’s pop-up ads do not use U-Haul’s trademarks in commerce, and gave four primary reasons for its decision.⁴⁶

First, because the SaveNow ad appears in a separate window clearly embodying WhenU’s logo, the court found that the ads do not look as if they are part of U-Haul’s website.⁴⁷ Second, the court determined that when WhenU causes ads of competitor merchants to appear simultaneously on a single computer screen, WhenU

⁴³ *Id.* at 364.; *see also U-Haul Int’l*, 279 F. Supp. 2d at 727.

⁴⁴ *See generally* cases cited *supra* note 9. Although the plaintiffs in the four cases also asserted claims for copyright infringement, this Recent Development focuses exclusively on plaintiffs’ trademark claims, specifically trademark infringement in violation of Section 32(1) of the Lanham Act, 15 U.S.C. § 1114. Plaintiffs’ claims of unfair competition in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), false designation of origin in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), trademark dilution in violation of Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c), and cybersquatting in violation of Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(d), exceed the scope of this Recent Development. *See U-Haul Int’l*, 279 F. Supp. 2d at 724-25; *see also 1-800 Contacts v. WhenU.com, Inc.* 309 F. Supp. 2d 467, 472 n.1 (S.D.N.Y. 2003).

⁴⁵ *See generally* cases cited *supra* note 9.

⁴⁶ *U-Haul Int’l*, 279 F. Supp. 2d at 729. In light of the court’s finding of no use, the court did not have to address the issue of whether the pop-up ads cause consumer confusion. *See generally id.*

⁴⁷ *Id.* at 727.

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engages in legitimate comparative advertising that does not constitute a “use” in violation of trademark law. Rather, this kind of concurrent viewing is merely a result of how applications operate in the Windows operating system.⁴⁸

Third, the court reasoned that WhenU’s inclusion of the U-Haul uniform resource locator (“URL”) and the registered trademark “U-Haul” in the SaveNow directory does not constitute a “use in commerce” because WhenU does not sell or display the U-Haul URL or logo to users.⁴⁹ Moreover, WhenU does not use U-Haul’s trademarks to identify the source of the products WhenU advertises.⁵⁰ The court noted that WhenU’s incorporation of the U-Haul URL into its SaveNow directory serves a “pure machine-linking function” and does not advertise or promote U-Haul’s products in any way.⁵¹ Fourth, the court found that WhenU’s ads do not interfere with U-Haul’s trademarks because SaveNow neither obstructs access to U-Haul’s website nor interacts with or changes the website’s underlying appearance.⁵² Accordingly, the court reasoned that “[t]he SaveNow program is . . . no different than an email system that pops a window up when the registered user receives a new e-mail message.”⁵³

The *U-Haul* court explicitly acknowledged that “this case is an attempt by a trademark owner . . . to limit annoying pop-up advertising from blotting out its website to the individual computer user’s screen.”⁵⁴ Nevertheless, the court emphasized that by deliberately downloading the SaveNow software, the user consciously consented to its operation. Therefore, the court reasoned that “[w]hile at first blush” it may seem like the WhenU pop-up ads constitute “a siphon-off of a business opportunity,” because the user specifically chose to download the software and can choose to manually close the ads, “the advertisements do not use, alter or interfere with U-Haul’s trademarks”⁵⁵

⁴⁸ *Id.* at 728; see *Diversified Mktg., Inc. v. Estee Lauder, Inc.*, 705 F. Supp. 128, 132 (S.D.N.Y. 1988) (holding that the phrase “If You Like ESTEE LAUDER . . . You’ll Love BEAUTY USA” that appeared on Diversified Marketing’s box of cosmetics did not constitute unfair competition because the simultaneously appearing logos did not engender consumer confusion).

⁴⁹ *U-Haul Int’l*, 279 F. Supp. 2d at 728.

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.* at 729. The court subsequently held that U-Haul’s claim for trademark dilution failed for the same reasons that its claim for trademark infringement had failed, namely that regardless of whether U-Haul’s mark is famous, WhenU did not “use” U-Haul’s mark in commerce. See *id.*

⁵⁴ *Id.* at 725.

⁵⁵ *Id.* at 725, 729.

1. A Rigid Application of Trademark Law

Even were one to find the *U-haul* court's first and fourth reasons for concluding that WhenU's ads do not use U-Haul's marks in commerce valid, the court's second and third justifications for its holding are arguably flawed. A discussion of the court's misapplication of the notion of comparative advertising in its second reason for finding for WhenU is set forth in Part III(B)(1) *infra*. The court's third reason—that WhenU does not sell or display the U-Haul trademark and that WhenU's incorporation of the U-Haul URL into its SaveNow directory is for a “pure machine-linking function”⁵⁶—demonstrates the court's reluctance to adapt traditional trademark principles to the Internet. From WhenU's perspective, the appeal of its new technology is that it can use U-Haul's trademark without having to display it. Section 1114 of the Lanham Act prohibits the reproduction and application of a registered mark to “labels, signs, prints, packages, wrappers, receptacles or advertisements. . . .”⁵⁷ These physical media are presumably the vehicles that Congress envisioned would be used for advertising when it drafted the Lanham Act in 1946,⁵⁸ decades before the Internet came into existence.⁵⁹ Before the Internet, it was difficult for a marketer to directly promote product A at the expense of product B without physically displaying product B's trademark on or near product A. Now, however, the Internet affords marketers such as WhenU the opportunity to use trademarks electronically in a manner that appears to be a “pure machine-linking function,”⁶⁰ yet accomplishes the same “use” prohibited by trademark law. By failing to acknowledge this notion, the court relies on form when it should have relied on substance.

Additionally, one of the most serious flaws in the court's reasoning, and one upon which the other two pro-WhenU courts also premised their decisions, is that any “use” resulting from the pop-up ads was authorized because the users had consented to the ads by consciously downloading the SaveNow software.⁶¹ This

⁵⁶ *Id.* at 728.

⁵⁷ 15 U.S.C. § 1114 (1)(b) (2005).

⁵⁸ 15 U.S.C. §§ 1051-1141 (2005).

⁵⁹ The early groundwork for the Internet was not laid until the 1960s, and the world wide web was not introduced until the early 1990s. YourHTMLSource.com, The History of the Net, <http://www.yourhtmlsource.com/starthere/historyofthenet.html> (last visited Jan. 29, 2006).

⁶⁰ *U-Haul Int'l*, 279 F. Supp. 2d at 728.

⁶¹ *Id.* at 725. Like the *U-Haul* court, the *Wells Fargo* court also emphasized the importance of users' assent to the WhenU software by noting that the even though “many users claim not to be aware that SaveNow has been loaded on to their computer . . . the

reasoning is suspect because the vast majority of computer users probably know very little about the software downloaded on their computers. Students often use communal computers in libraries; employees almost always use computers that have been previously used by other employees; and family members and friends might share, borrow or inherit computers. It is possible that a particular user has no idea that SaveNow had been downloaded onto his or her computer. The court's analysis suggests that if user A consciously downloaded SaveNow, then pop-up ads on user A's computer are legal, but if user B is unaware of the existence of SaveNow, then SaveNow's pop-ups on user B's computer are illegal. Such a proposition is illogical. Given that the legal standard for trademark infringement is "use in commerce . . . in connection with the sale, offering for sale, distribution, or advertising of any goods or services,"⁶² it should not matter whether the user consented to the software. The software itself should be either inherently legal or illegal.

B. Wells Fargo & Co., v. WhenU.com, Inc.: *Strike Two Against Plaintiff*

Just a few months after the *U-Haul* decision, the Eastern District of Virginia addressed the same issue in *Wells Fargo & Co. v. WhenU.com, Inc.*⁶³ Like the *U-Haul* court, the *Wells Fargo* court held for WhenU because WhenU did not use Wells Fargo's trademarks in commerce. Despite the court's holding regarding use, the *Wells Fargo* court also found that WhenU's non-commercial use of the Wells Fargo's mark was not likely to cause consumer confusion.⁶⁴

The *Wells Fargo* court rejected plaintiff's claim on five primary counts. First, the court rejected plaintiff's argument that WhenU uses Wells Fargo's trademark by diverting consumers to a competitors' website, or causing consumers to become so frustrated by the pop-up ads that they will avoid searching for the

computer user must affirmatively ask for or agree to the download." *Wells Fargo v. WhenU.com, Inc.*, 293 F. Supp. 2d 734, 739 (E.D. Mich. 2003). The *Wells Fargo* court went so far as to say that it is the *user*, rather than WhenU, that controls the pop-ups:

[Because] WhenU's advertisements are displayed according to the product category in which the consumer is interested and limited by factors such as the number of advertisements the consumer has already seen . . . it is the user's actions on his or her desktop that ultimately determine whether that consumer will see a particular advertisement.

Id. at 745. Similarly, the Second Circuit alleged that the SaveNow-generated ads are authorized even if a user downloaded the SaveNow software inadvertently. *1-800 Contacts Inc. v. WhenU.Com, Inc.*, 414 F.3d 400, 412 (2d Cir. 2005).

⁶² 15 U.S.C. § 1114(1)(a) (2005).

⁶³ 293 F. Supp. 2d at 757-58, 764.

⁶⁴ *See id.*

products that seem to generate the pop-ups.⁶⁵ The court distinguished the present situation from one in which a company's "use" of plaintiff's trademark physically prevents users from reaching their intended website.⁶⁶ Alternatively, in the present situation, the court said that a user is not prevented from reaching the website of his choice; rather, if an ad pops up in front of the site, a user can minimize or close the window and proceed with his original task.⁶⁷

Second, the court rejected plaintiff's allegation that WhenU engages in framing,⁶⁸ thereby using Wells Fargo's trademarks by creating the appearance that WhenU's ads are affiliated with or sanctioned by Wells Fargo and unjustly capitalizing on Wells Fargo's goodwill in the financial marketplace. The court noted that WhenU's ads are clearly separate and distinct from the underlying webpage and that the "presentation of the two windows is not 'seamless.'"⁶⁹ The court distinguished this case from the Southern District of New York's decision in *Hard Rock Café Int'l (USA), Inc. v. Morton*,⁷⁰ where plaintiff's website linked to defendant's website, and caused plaintiff's logo to seamlessly frame defendant's website, thereby making it unclear that defendant's goods belonged to defendant and not to plaintiff.⁷¹ Unlike the

⁶⁵ *Id.* at 758.

⁶⁶ *Id.* at 758-59. In making this distinction, the court relied on the Fourth Circuit's decision in *People for the Ethical Treatment of Animals [PETA] v. Doughney*, 263 F.3d 359 (4th Cir. 2001). In *PETA*, the Court held that defendant used plaintiff's mark in connection with goods or services when defendant registered the domain name "PETA.org," with "PETA" being an acronym for "People Eating Tasty Animals." Defendant's website provided links to other websites concerning topics such as animal research, leather, and hunting that are entirely contrary to PETA's ideology. The Court determined that defendant's registration of the "PETA.org" domain name was a use because "[p]rospective users of plaintiff's services who mistakenly access defendant's web site may fail to continue to search for plaintiff's own home page, due to anger, frustration, or the belief that plaintiff's home page does not exist." *Id.* at 758-59 (quoting *PETA*, 263 F.3d at 365).

⁶⁷ *Wells Fargo*, 293 F. Supp. 2d at 759.

⁶⁸ *Id.*

Framing occurs when one webpage displays the content of another webpage within its own borders. If the outer window is moved, the framed page moves with it simultaneously; if the outer window is closed or minimized, the framed page closes or minimizes as well. The purpose of framing is to create a single seamless presentation that integrates the content of the two webpages into what appears to be a single webpage.

Id. at 748-49 (citing Transcript of Record at 29, *Wells Fargo*, 293 F. Supp. 2d at 748-49).

⁶⁹ *Wells Fargo*, 293 F. Supp. 2d at 761.

⁷⁰ No. 97 Civ. 9483 (RPP), 1999 U.S. Dist. LEXIS 8340 (S.D.N.Y. June 2, 1999).

⁷¹ *Wells Fargo*, 293 F. Supp. 2d at 759-61. The court held that the Hard Rock mark was used to promote the defendant's product where:

[I]t is not clear to the computer user that she or he has left the Hard Rock Hotel web site [because the] domain name appearing at the top of the computer screen . . . continues to indicate the domain name of Hard Rock Hotel . . . Hard Rock Hotel's logo, appears not only to the side of the

situation in *Hard Rock*, WhenU does not use Wells Fargo's mark to sell WhenU's own products.

Third, like the *U-Haul* court, the *Wells Fargo* court determined that by operating SaveNow, WhenU engages in comparative advertising, rather than illegal use of trademarks.⁷² The premise of comparative advertising is that the trademarks of competing trademark owners may appear simultaneously.⁷³ Trademark law is not "meant to protect 'consumer good will [sic] created through extensive, skillful, and costly advertising.'" ⁷⁴ Rather, the court noted, trademark law is concerned with identifying the source of the product. The court asserted that WhenU does not use plaintiff's mark in commerce because WhenU does not use Wells Fargo's trademarks to identify the source of the products WhenU advertises.⁷⁵ However, even if WhenU has used plaintiffs' marks, thereby benefiting from plaintiffs' favorable reputation and costly advertising, the court held that such use is legal as long as WhenU is engaged in legitimate comparative advertising.⁷⁶

Fourth, the court was not persuaded by plaintiff's argument that WhenU's ads cause consumer confusion with respect to the products depicted in the ads. The court reasoned that SaveNow users are accustomed to the WhenU ads, and are therefore not likely to believe that Wells Fargo generated or sanctioned the WhenU ad.⁷⁷ Moreover, SaveNow ads explicitly inform users that they are generated by WhenU, are not sponsored by the website the user is viewing, and do not relate to any other application open on the user's screen.⁷⁸ Although Wells Fargo argued that its consumers are likely to be confused because they are not Internet savvy, the court remarked that when consumers are engaged in a task of great significance such as obtaining a mortgage—an activity they are likely to be engaged in on Wells Fargo's website—they

[defendant's framed] web page, but also within [defendant's] menu bar, on [defendant's] page itself.

Hard Rock Café, 1999 U.S. Dist. LEXIS 8340 at *75-76. Accordingly, plaintiffs and defendants web pages were "smoothly integrated." *Id.*

⁷² *Wells Fargo*, 293 F. Supp. 2d at 761.

⁷³ *Id.*; see 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:52 (4th ed. 2005).

⁷⁴ *Wells Fargo*, 293 F. Supp. 2d at 761 (quoting *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968)).

⁷⁵ *Wells Fargo*, 293 F. Supp. 2d at 762.

⁷⁶ *Id.* at 761. See also *Anti-Monopoly, Inc. v. Gen. Mills Fun Group*, 611 F.2d 296, 301 n.2 (9th Cir. 1979) (*overruled by* *Christian Science Bd. Of Directors of First Church of Christ, Scientist v. Evans*, 520 A.2d 1347, 1355-56 (N.J. 1987)).

⁷⁷ *Wells Fargo*, 293 F. Supp. 2d at 749.

⁷⁸ *Id.* at 750.

tend to be particularly attentive.⁷⁹ Ultimately, the court did not reach the question of consumer confusion in light of its finding that WhenU did not use plaintiffs' marks in commerce. The court noted, however, that the only evidence produced by Wells Fargo in support of its confusion claim, a scientific survey presented via expert testimony, was not credible because the survey was not conducted in a scientific manner.⁸⁰

Fifth, the court found that issuing a permanent injunction against WhenU would seriously harm WhenU's marketing business. Enjoining WhenU's operation would cost it many of its existing clients, hamper its ability to obtain new clients, and compel the loss of talented and well-trained in-house staff. In addition to harming WhenU, an injunction would hurt WhenU's advertisers by depriving them of a medium through which to display their competitive offers to online consumers. The court approved of the competitive atmosphere that the WhenU ads foster because "[f]ederal policy has long favored . . . comparative advertising and disfavored restrictions on such advertising."⁸¹ In addition, the court specifically commented that a "preliminary injunction could . . . chill the efforts of other companies seeking to develop forms of 'push technology'—technology that delivers information to the desktop without need for consumers to make an active request each time they see the information."⁸²

⁷⁹ *Id.*

⁸⁰ See *id.* at 765. The survey was conducted by 1-800 Contact's expert witness, William D. Neal, to find out whether Internet shoppers who currently wear or expect to wear contact lenses in the future and who have the SaveNow software on their computers were confused about the origin of the WhenU pop-up ads. The results of Mr. Neal's survey were as follows: 1) 60% of survey respondents believed that pop-up ads were generated by the owner of the site on which the ad appeared; 2) 52% of respondents believed that the ads had been pre-screened and approved by the owners of the site on which they appeared; 3) 51% of the respondents who had SaveNow installed on their computers had never heard of the software; and 4) 68% of respondents were not aware that SaveNow was installed on their computer. *1-800 Contacts v. WhenU.com, Inc.*, 309 F. Supp. 2d 467, 479-80 (S.D.N.Y. 2003). The *Wells Fargo* court found that the survey was flawed in the following seven ways:

(a) The surveys did not sample the appropriate universe of respondents; (b) The surveys did not use any demonstrative stimuli or otherwise replicate actual market conditions; (c) The survey questionnaires were biased and leading; (d) Mr. Neal drew unwarranted inferences and failed to take into account obvious alternative explanations; (e) The surveys did not ask the kind of control questions needed to generate an error rate; (f) The surveys were not administered properly, including the use of a panel of regular survey respondents; (g) The surveys did not employ a design that established causations, rendering the survey results uninterpretable.

Wells Fargo, 293 F. Supp. 2d at 765.

⁸¹ *Wells Fargo*, 293 F. Supp. 2d at 772.

⁸² *Id.* at 756.

1. The Court Misapplies the Notion of Comparative Advertising to the Internet Context

Like the *U-Haul* court, the *Wells Fargo* court asserted that WhenU engages in comparative advertising when it operates SaveNow.⁸³ Traditionally, comparative advertising “rests on the premise that a competitor’s trademark may appear at the same time as the trademark owner’s [trademark].”⁸⁴ Accordingly, many cases have held that advertiser A may use advertiser B’s trademark in advertiser A’s ad to truthfully compare the products as long as consumers are not confused regarding the product or its source.⁸⁵ In fact, the “Federal Trade Commission encourages the naming of competitors in comparative advertising . . . [because it] is ‘highly beneficial to consumers’ and may convey to them valuable information that is pro-competitive.”⁸⁶ Some cases have even gone so far as to hold that the possibility of consumer confusion alone is insufficient to justify enjoining comparative advertising because, given that many consumers are bound to be confused regardless of how careful an advertiser is, “[I]f such a possibility created a trademark problem, then all comparative references would be forbidden, and consumers as a whole would be worse off.”⁸⁷ Lauding the benefit of comparative advertising to consumers, the Seventh Circuit noted that “[w]hen deciding whether to grant or withhold equitable relief a court must give high regard to the interest of the general public, which is a great beneficiary from competition.”⁸⁸

Although comparative advertising is an established practice that does not violate the Lanham Act, this Recent Development suggests that WhenU is not engaged in the kind of comparative

⁸³ *Id.* at 761.

⁸⁴ *Id.*; see also MCCARTHY, *supra* note 73.

⁸⁵ See *Wells Fargo*, 293 F. Supp. 2d at 761; see also *G.D. Searle & Co. v. Hudson Pharm. Corp.*, 715 F.2d 837, 841 (3d Cir. 1983) (holding that defendant’s inclusion of plaintiff’s “Metamucil” trademark on plaintiff’s product container did not constitute trademark infringement as long as consumers were not confused about the origin, identity or sponsorship of the product); *Smith v. Chanel, Inc.*, 402 F.2d 562, 565-566 (9th Cir. 1968) (finding that the creators of the product “Second Chance,” a simulation of the perfume “Chanel No. 5,” could lawfully use the “Chanel” trademark to inform consumers of the products’ equivalence as long as consumers were not confused regarding the origin or sponsorship of “Second Chance”); *Diversified Mktg. Inc. v. Estee Lauder*, 705 F. Supp. 128, 132 (S.D.N.Y. 1988) (holding that the phrase “If You Like ESTEE LAUDER . . . You’ll Love BEAUTY USA” appearing on Diversified Marketing’s box of cosmetics constituted legitimate comparative advertising because the simultaneously appearing logos did not engender consumer confusion).

⁸⁶ MCCARTHY, *supra* note 73 (quoting *August Stork K.G. v. Nabisco, Inc.*, 59 F.3d 616, 618 (7th Cir. 1995)).

⁸⁷ *August Stork*, 59 F.3d at 618.

⁸⁸ *Id.* at 619. See also *Wells Fargo*, 293 F. Supp. 2d at 761-62.

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advertising advocated by the Federal Trade Commission and sanctioned by courts.⁸⁹ In traditional comparative advertising cases, defendant integrates plaintiff's trademark into defendant's ad to show that defendant's product is superior, cheaper, a better value, etc.⁹⁰ In cases where courts have upheld such "use," it is generally because the use does not cause consumer confusion.⁹¹ As the *WhenU* litigation reveals, however, WhenU does not incorporate plaintiffs' marks into WhenU's ads to perform a side-by-side comparison of the products. Rather, WhenU attempts to lure consumers away from other merchants' ads without factually comparing the products.⁹² In a print or television advertising context, for example, a court might hold that J&R engages in legitimate comparative advertising when it incorporates Circuit City's trademarked logo in J&R's own ad to compare certain attributes of the two vendors and/or their products. Nevertheless, regardless of how J&R fashions its own ads, when a consumer views a print or television Circuit City ad, J&R cannot interfere. Consequently, referring to the SaveNow software as "comparative advertising" does not justify its operation because conventional comparative advertising does not encompass the WhenU technology.

The *U-Haul and Wells Fargo* courts overlook another important difference between the WhenU technology and conventional comparative advertising. When a consumer views a print or television ad at home, even if that ad contains multiple competitors' trademarks, the viewer still has the choice of looking at the various trademarks and deciding which product's trademark to pursue. For example, if a consumer views a print ad that contains both Circuit City's and J&R's trademarked logos, once the consumer chooses to go to Circuit City to purchase a product, Circuit City's competitors can no longer interfere with the consumer's purchase. In stark contrast, in the age of Internet shopping, when a consumer is on Circuit City's virtual "checkout line," the WhenU technology has the effect of permitting a J&R representative to walk right up to the consumer and lure him into J&R's store located across the street. Although the consumer is free to return to Circuit City after browsing through J&R, it is unlikely that he will if he can get a better deal at J&R. In this way, WhenU exploits a key efficiency of the Internet: the collapse of

⁸⁹ See generally sources cited *supra* in notes 83 and 84.

⁹⁰ See, e.g., *supra* note 83.

⁹¹ See sources cited *supra* note 83.

⁹² See *1-800 Contacts*, 309 F. Supp. 2d at 501.

time and space. Given that one of the primary purposes of trademark law is to promote fair competition,⁹³ a discussion of whether the kind of competition the WhenU technology promotes is “fair” is noticeably absent from the *U-Haul* and *Wells Fargo* courts’ opinions.⁹⁴ Courts may ultimately conclude that in the age of the Internet, the kind of competition WhenU facilitates is “fair” in the trademark sense. In fact, the *U-Haul* and *Wells Fargo* courts have effectively reached this conclusion by refusing to enjoin the WhenU technology. However it is unsettling for the *U-Haul* and *Wells Fargo* courts to simplistically liken the competition WhenU promotes to the competition traditional comparative advertising engenders without addressing the manifest differences between the two forums within which each form of competition occurs, and clearly explaining how the WhenU competition is “fair” in light of these differences.

C. 1-800 Contacts, Inc. v. WhenU.com, Inc.

1. The Southern District of New York: A Glimmer of Hope for Plaintiff

In December 2003, the Southern District of New York laid the foundation for a potential circuit split when it held for the plaintiff in *1-800 Contacts, Inc. v. WhenU.com, Inc.* The Southern District found that WhenU uses 1-800’s mark⁹⁵ in commerce in two ways. First, both 1-800⁹⁶ and the advertisers who benefit from WhenU’s pop-up ads render services in commerce. Accordingly, when users specifically attempt to access 1-800’s website based on their awareness of 1-800’s favorable reputation, but view WhenU’s advertisers’ ads instead, WhenU uses 1-800’s marks that appear on its website “in the . . . advertising of” WhenU’s clients’ products.⁹⁷ Second, by including 1-800’s website address, a version of 1-800’s trademark, in the SaveNow directory, WhenU uses 1-800’s mark to

⁹³ See *supra* note 39.

⁹⁴ See generally *U-Haul Int’l*, 279 F. Supp. 2d 723; *Wells Fargo & Co.*, 293 F. Supp. 2d 734; *1-800 Contacts*, 309 F. Supp. 2d 467; *1-800 Contacts*, 414 F.3d 400.

⁹⁵ At the time 1-800 Contacts filed the action in the United States District Court for the Southern District of New York, it had filed applications with the United States Patent and Trademark Office to register the mark “1-800CONTACTS,” which it obtained on January 21, 2003, and “1-800CONTACTS” in a color-blocked design logo. *1-800 Contacts*, 414 F.3d at 402, n.2. This author notes that there is a discrepancy between the Southern District and Second Circuit opinions because the Southern District stated that there is a space between “1-800” and “Contacts” in 1-800’s registered trademark. See *1-800 Contacts*, 309 F. Supp. 2d at 497.

⁹⁶ 1-800 Contacts “is a distributor that sells contact lenses and related products by mail, telephone, and internet website.” *1-800 Contacts*, 414 F.3d at 402.

⁹⁷ *1-800 Contacts*, 309 F. Supp. 2d at 489.

advertise companies that directly compete with 1-800.⁹⁸

The Southern District further held that 1-800 was injured by “initial interest confusion.” According to the initial interest doctrine, even if a user is aware that his attention is being diverted to a competing user’s mark, the potential harm of the diversion, as well as the associated goodwill the original mark bestows on the diverting mark, may constitute actionable confusion.⁹⁹ After applying the eight-factor test set forth in *Polaroid Corp. v. Polarad Elec. Corp.*¹⁰⁰ (the “Polaroid factors”), the court determined that the overall balance of factors tipped in favor of finding that WhenU’s pop-up ads are likely to confuse consumers regarding the source and sponsorship of the ads.¹⁰¹ Thus, the Southern District granted plaintiff’s motion for a preliminary injunction based on its trademark claims and enjoined WhenU from further using or displaying plaintiff’s trademarks or anything that could be confused with its trademarks.¹⁰²

2. The Second Circuit Reverses the District Court: Hope for Plaintiff Crushed by Reversal

In June 2005, the Second Circuit reversed the Southern District’s entry of a preliminary injunction and remanded with instructions to dismiss 1-800’s trademark infringement claims with prejudice.¹⁰³ In doing so, the Second Circuit temporarily averted a

⁹⁸ *Id.* The Second Circuit took issue with the district court’s dismissal of the small, yet important differences between Plaintiff’s registered trademark and Plaintiff’s URL address. See *1-800 Contacts*, 414 F.3d at 408-09.

⁹⁹ *1-800 Contacts*, 309 F. Supp. 2d at 493. See also *BigStar Entm’t, Inc. v. Next Big Star, Inc.*, 105 F. Supp. 2d 185, 207 (S.D.N.Y. 2000); see also *Brookfield Commc’ns, Inc. v. West Coast Entm’t Corp.*, 174 F.3d 1036, 1062 (9th Cir. 1999). The Southern District explained that actionable confusion under the Lanham Act can take a number of forms. Actual confusion is where plaintiff can prove that defendant was actually confused about the source or sponsorship of the product. However, actual confusion can be difficult to prove, either because the market for the product has not been developed or because plaintiff has acted early enough to preempt the confusion. Other kinds of actionable confusion include the probability of consumer confusion occurring after the point-of-sale, as well as initial interest confusion, are both actionable under the Lanham Act, provided certain criteria are met. *1-800 Contacts*, 309 F. Supp. 2d at 490-91.

¹⁰⁰ 287 F.2d 492, 495 (2d Cir. 1961), *cert. denied*, 368 U.S. 820 (1961).

¹⁰¹ *1-800 Contacts*, 309 F. Supp. 2d at 494-503. The eight factors of the *Polaroid* test include:

1) [T]he strength of Plaintiff’s mark; 2) the similarity between the plaintiff’s and defendant’s marks; 3) proximity of the parties’ services; 4) the likelihood that one party will “bridge the gap” into the other’s product line; 5) the existence of actual confusion between the marks; 6) the good faith of the Defendant in using the mark; 7) the quality of the Defendant’s services; and 8) the sophistication of the consumers.

1-800 Contacts, 309 F. Supp. 2d at 494 (quoting *Polaroid*, 287 F.2d at 495).

¹⁰² *1-800 Contacts*, 414 F.3d at 402-03.

¹⁰³ *Id.* at 403.

circuit split and alleviated a degree of uncertainty in this area of law. The Second Circuit, concurring in the analyses of the *U-Haul* and *Wells Fargo* courts, found that the Southern District erred as a matter of law because neither WhenU's inclusion of 1-800's website address¹⁰⁴ in its SaveNow directory nor WhenU's causing the SaveNow ads to pop up on a user's screen at the same time the user is engaged with plaintiff's website constitutes a use in commerce of 1-800's trademark in violation of the Lanham Act.¹⁰⁵

The Second Circuit rejected plaintiff's claims on five principal counts. First, the court emphasized that WhenU includes in the SaveNow directory 1-800's website address (www.1800contacts.com), as opposed to 1-800's registered trademark (1-800 CONTACTS).

Although the Southern District dismissed the slight differences between 1-800's trademark and website address,¹⁰⁶ the Second Circuit held that, "to the contrary, the differences between the marks are quite significant because they transform 1-800's trademark—which is entitled to protection under the Lanham Act—into a word combination that functions more or less like a public key to 1-800's website."¹⁰⁷ The Second Circuit further explained that it could not hold that WhenU capitalized on plaintiff's goodwill, as the Southern District alleged it did, if WhenU did not reproduce 1-800's actual trademark.¹⁰⁸ Second, the Second Circuit rejected the Southern District's finding that WhenU uses plaintiff's trademarks "in the . . . advertising of" WhenU's advertisers' services because WhenU's pop-up ads do not display plaintiff's trademark.¹⁰⁹ The court explained that the only reason plaintiff's trademark is at all related to the WhenU ads is the "happenstance that 1-800 chose to use a mark similar to its trademark as the address to its web page and to place its trademark on its website."¹¹⁰

Third, like the other pro-WhenU courts, the Second Circuit considered the following facts significant in finding no use in

¹⁰⁴ <http://www.1800contacts.com/index.html>.

¹⁰⁵ *1-800 Contacts*, 414 F.3d at 408-09.

¹⁰⁶ The differences between 1-800 Contact's trademark and URL include: 1) the addition of the "www." prefix and the ".com" suffix in the website; 2) the omission of the hyphen between "1" and "800" in the website; and 3) the omission of the space between "800" and "contacts" in the website. *Id.*; see also *1-800 Contacts*, 309 F. Supp. 2d at 497.

¹⁰⁷ *1-800 Contacts*, 414 F.3d at 408-09.

¹⁰⁸ *Id.* at 409. The court noted in a footnote that because WhenU had not used 1-800's actual trademark, the court did not have to address the issue of whether WhenU's inclusion of 1-800's actual trademark would constitute an infringing "use." *Id.* at n.11.

¹⁰⁹ *Id.* at 409-10; see also *1-800 Contacts*, 309 F. Supp. 2d at 489.

¹¹⁰ *1-800 Contacts*, 414 F.3d at 410.

commerce: the WhenU ads are branded with the WhenU mark, appear in a separate and distinct window, do not divert users from the 1-800 website, and do not alter the results that a user will obtain when searching the web with the 1-800 URL or trademark.¹¹¹ Furthermore, 1-800's URL is not the only term in the SaveNow directory that can trigger a competitor's ad to pop up over 1-800's website; a user who uses a search engine (e.g., Google) to search other terms in the SaveNow directory, such as "eye care" or "contacts," may similarly be led to 1-800's website and subsequently receive a WhenU-generated pop-up depicting an ad of a 1-800 competitor.¹¹²

Fourth, the court held that WhenU's inclusion of 1-800's URL in the scrambled SaveNow directory cannot constitute an actionable use because the URL is not accessible to the user or the general public. According to the court: "[a] company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to a [sic] individual's private thoughts about a trademark. Such conduct simply does not violate the Lanham Act."¹¹³

Fifth, regarding the Southern District's finding that WhenU's advertisers unjustly benefit from plaintiff's goodwill, the Second Circuit held that WhenU's behavior in this respect does not violate trademark law. The court analogized the situation to a drug store that juxtaposes its generic brand product on a shelf with brand names of the same product. Similarly, when a consumer seeks out the 1-800 brand, WhenU alerts the consumer to alternative products, discounts and/or special rates related to 1-800's product.¹¹⁴ This kind of product placement intentionally seeks to exploit the goodwill of the brand name. The court discerned no difference between WhenU's pop-up ads and the drug store's placement of its generic brands.¹¹⁵

The Second Circuit did not address the likelihood of consumer confusion in light of its holding on the use prong of its trademark analysis.¹¹⁶

¹¹¹ *Id.* at 410-11.

¹¹² *Id.* at 410.

¹¹³ *Id.* at 409.

¹¹⁴ *Id.* at 410-11. 1-800 challenged this analogy because, unlike in a drug store, 1-800's website was the only trademark that a consumer saw before the WhenU ad would pop up. The court asserted, however, that 1-800's argument failed to account for the fact that a user "who has installed the SaveNow software receives WhenU pop-up ads in a myriad of contexts, the vast majority of which are unlikely to have anything to do with 1-800 or the . . . [user's] input of the 1-800 website address." *Id.* at 411.

¹¹⁵ *Id.*

¹¹⁶ *Id.* at 412. In a footnote, however, the court noted that it would be "fairly

3. *Second Circuit v. Southern District*: Form Triumphs Over Substance

One of the primary differences between the Southern District's and Second Circuit's analyses was the weight given to the slight differences between 1-800's actual trademark that appears on its website (1-800 Contacts) and 1-800's URL that WhenU uses in the SaveNow directory (www.1800contacts.com).¹¹⁷ It is likely that the only reason WhenU decided to use 1-800's URL, and not its trademark, in WhenU's internal directory is because WhenU programmed its directory so that particular URLs would trigger particular ads.¹¹⁸ If WhenU's trademark and URL were identical, WhenU would probably have used 1-800's trademark. Furthermore, in all likelihood, 1-800's URL differs from its trademark simply because 1-800 altered its mark to comply with proper Internet protocol (i.e., the need for the "www." prefix and ".com" suffix). Accordingly, for the Second Circuit to reason that 1-800's trademark is only related to the WhenU ads because of the "happenstance" that 1-800 chose a website address similar to its trademark was to put form over substance.¹¹⁹

The Second Circuit's argument that WhenU's use of 1-800's URL in the SaveNow internal directory is not actionable because it is akin to an "individual's private thoughts about a trademark"¹²⁰ similarly reflected the court's reluctance to adapt traditional trademark principles to modern technology.¹²¹ When Congress drafted the Lanham Act in 1946,¹²² Congress could not have been expected to envision a method whereby an advertiser could "use" marks in an advertisement without overtly displaying them. Imagine, for instance, a print, television or radio ad in which J&R effectively uses Circuit City's trademark to benefit J&R without actually displaying Circuit City's mark. The ad would not be particularly effective because in traditional media, what you see is what you get. However, WhenU's software application is a product of modern technology that was not previously available to advertisers. That is precisely why the WhenU technology has been

incredulous" for a user to believe that 1-800 sponsored the WhenU ads given that users who downloaded the SaveNow software were accustomed to seeing many WhenU ads pop up in various context. *Id.* at n.14.

¹¹⁷ See *1-800 Contacts*, 414 F.3d at 408-09; *1-800 Contacts*, 309 F. Supp. 2d at 478-79.

¹¹⁸ See *supra* note 24.

¹¹⁹ See *1-800 Contacts*, 414 F.3d at 410.

¹²⁰ *Id.* at 409.

¹²¹ *Rachman & Kibel*, *supra* note 5.

¹²² 15 U.S.C. §§ 1051-1141 (2005).

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described as “revolutionary”¹²³ and why many courts are hesitant to enjoin it.

IV. DISCUSSION

After the Second Circuit’s decision in *1-800 Contacts*, it appears that, at least for the time being, the state of the law regarding pop-up ads generated by Internet contextual marketing companies is settled in favor of contextual marketers.¹²⁴ Nevertheless, it remains somewhat disturbing that WhenU’s advertisers are able to capitalize on the time, effort, and resources expended by Internet providers to build their favorable reputations and goodwill. If, as this Recent Development suggests, the Southern District’s reasoning is compelling whereas principal aspects of the pro-WhenU courts’ reasoning are flawed, it is necessary to examine why three of the four courts held for WhenU. Arguably, the answer is that even though the pro-WhenU courts failed to incorporate modern technology into their trademark analyses, it was actually a keen awareness of this technology and a concern for its development that drove the pro-WhenU courts’ opinions. Specifically, the pro-WhenU opinions highlight three principal factors that guide their holdings: 1) a preference for a competitive marketplace; 2) WhenU’s objective success; and 3) the potential for similar future advancements that the Internet embodies.

The *Wells Fargo* and Second Circuit *1-800 Contacts* opinions reveal an underlying preference for the competitive atmosphere that WhenU’s marketing program engenders. The *Wells Fargo* court specifically stated that enjoining WhenU would harm the public because “WhenU benefits participating consumers by improving access to relevant, useful and money-saving information about products and services that interest them. WhenU’s advertisements increase the choices available to consumers and thereby promote competition.”¹²⁵ Later in the opinion, the *Wells Fargo* court reiterated its preference for competition when it stated that “[g]ranting an injunction to protect plaintiffs from the rigors of competition also threatens the integrity of the competitive

¹²³ See *1-800 Contacts*, 309 F. Supp. 2d at 481.

¹²⁴ See *1-800 Contacts*, 414 F.3d at 413. On November 28, 2005, the Supreme Court refused to review the Second Circuit’s decision. According to Eric Goldman, however, a law professor at Marquette University, the Supreme Court’s denial of certiorari does not end the “multi-front battle” in which WhenU is engaged because “[c]ompanies such as 1-800-Contacts have lobbied state legislatures around the country to make WhenU.com’s services illegal.” Sarah Lai Stirland, *COURTS: High Court Rejects Trademark Infringement Review*, NAT. JOURNAL’S TECH. DAILY, Nov. 28, 2005.

¹²⁵ *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734, 756 (E.D. Mich. 2003).

process . . . Federal policy has long favored . . . comparative advertising and disfavored restrictions on such advertising.”¹²⁶ Similarly stressing the importance of competition, the Second Circuit noted that “it is routine for vendors to seek specific ‘product placement’ in retail stores precisely to capitalize on their competitors’ name recognition.”¹²⁷

Ultimately, to understand and appreciate the current state of the law, it is important to recognize the value of the innovative nature of WhenU’s contextual marketing technology. According to Avi Naider, CEO of WhenU, the software was designed to “‘revolutionize marketing from implied interest, interests that are deducted [sic] based on who a consumer is and what their personal information is, to actual interests, when you shop, when you travel, when you invest.’”¹²⁸ The WhenU software is unique because it delivers the ads to a consumer at the exact moment the consumer needs them, without tracking consumer behavior or gathering any personal consumer information.¹²⁹ In this way, contextual marketers reduce the need for expensive demographic studies, while increasing the probability that their ads will reach core members of their target audience.¹³⁰

Despite the company’s legal woes, WhenU’s progressive use of the Internet has been successful. WhenU’s advertisers include companies such as J.P. Morgan, Verizon Wireless, Priceline.com, Monster.com, British Airways, and the Fox Network.¹³¹ According to WhenU’s website,¹³² “WhenU advertisers generally see click-through rates (CTRs) of 3-20%, and conversion rates from 0.8% to 7%, considerably higher than the industry standard.”¹³³ The

¹²⁶ *Id.* at 772.

¹²⁷ *1-800 Contacts*, 414 F.3d at 411.

¹²⁸ *1-800 Contacts*, 309 F. Supp. 2d at 481.

¹²⁹ *See id.*; *see also* Yu, *supra* note 5.

¹³⁰ *See* Lerner, *supra* note 6, at 232.

¹³¹ WhenU—Company Info, http://www.whenu.com/company_info.html (last visited Feb. 3, 2006); Declan McCullagh, *Adware’s Going Mainstream, Report Says*, CNET News.com, June 30, 2004, http://news.com.com/2102-1024_3-5253029.html.

¹³² <http://www.whenu.com/>.

¹³³ WhenU—Why Advertise with WhenU, http://www.whenu.com/ad_why.html (last visited Nov. 13, 2005). A “click-through rate” (CTR) is the number of times, expressed as a percentage, that a visitor to a particular webpage clicks on an ad located on that webpage. For example, if every three out of 100 visitors to weather.com click on the Verizon ad for superpages.com, the Verizon ad is said to have a CTR of 3%. A CTR greater than 2% is considered highly successful. Searchwebservices.com—Clickthrough Rate, http://searchwebservices.techtarget.com/sDefinition/0,,sid26_gci747549,00.html (last visited Feb. 3, 2006). A “conversion rate” is the ratio of visitors that take the action on a website that the owner of the site wanted them to take (e.g., click on a particular ad or buy a particular product) to the total number of visitors to the site. Average conversion rates vary by industry. For example, between December 1, 2003 and March 1, 2004, the average conversion rate was 2.1% in the travel industry, 3.9% in the specialty store industry, and

company also boasts that “[t]he success of advertising with WhenU is confirmed by the highest retention rate in the advertising industry. More than 90% of WhenU’s advertisers renew their campaigns, and most choose to increase their monthly ad buy due to our exceptional ROI [return on investment].”¹³⁴ In mid-2004, it was reported that studies released by Tacoda Systems for Snapple and Revenue Science for American Airlines showed that contextual marketing “really helps advertisers identify and convert consumer segments.”¹³⁵

In light of these statistics and studies, as well as the virtues of a competitive marketplace, it is understandable that the pro-WhenU courts were reluctant to stifle novel technologies that have demonstrated potential for growth and success. According to Professor John Deighton, an expert in interactive marketing, “a preliminary injunction in [WhenU litigation] would have ‘some short-term immediate impacts and some chilling long-term impacts.’ Specifically . . . competition in the advertising sector might be chilled.”¹³⁶ Professor Deighton further cautioned that:

The Internet is not a decade old and we have seen enormous fortunes made and lost. That process must be allowed to continue if the right model to support this wonderful institution is going to be discovered . . . unnecessarily harsh restrictions on this initiative would discourage others from similar initiatives or improved initiatives.¹³⁷

The *Wells Fargo* court echoed Professor Deighton’s sentiments when it noted that preliminarily enjoining WhenU could “chill the efforts of other companies seeking to develop forms of ‘push technology,’”¹³⁸ and thereby follow in WhenU’s footsteps. However, in the meantime, “as still newer methods of advertising emerge and parties consider the impact of such methods on their businesses, the legal battles that will likely ensue will continue to test the courts’ application of off-line standards to the online world.”¹³⁹

6.1% in the catalog industry. Bryan Eisenberg, *Benchmarking an Average Conversion Rate*, CLICKZ (June 4, 2004), <http://www.clickz.com/experts/crm/traffic/article.php/3362641>.

¹³⁴ WhenU—Why Advertise with WhenU, http://www.whenu.com/ad_why.html.

¹³⁵ Chang Yu, *Behavioral Marketing’s Coming of Age*, CLICKZ (Aug. 25, 2004), http://www.clickz.com/experts/media/behavioral_marketing/article.php/3398681.

¹³⁶ 1-800 Contacts v. WhenU.com, Inc., 309 F. Supp. 2d 467, 482 (S.D.N.Y. 2003). Professor Deighton testified at one of the hearings for the Southern District’s *1-800 Contacts* case. *Id.*

¹³⁷ *Id.*

¹³⁸ *Wells Fargo & Co. v. WhenU.com, Inc.* 293 F. Supp. 2d 734, 756 (E.D. Mich. 2003).

¹³⁹ *Rachman & Kibel*, *supra* note 5.

V. CONCLUSION

In light of the most recent development in this area of law, online providers seeking to enjoin companies like WhenU from using contextual marketing and other similar technological innovations on the grounds of trademark infringement may fare better by lobbying Congress to revise the Lanham Act. Ultimately it is Congress' responsibility to clarify the extent to which trademark law should apply to the ever-evolving, novel possibilities that the Internet has created.

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