2004

Missing the Mark: The Trademark Battle over Software-Based Contextually Targeted Advertising on the Internet

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MISSING THE MARK:
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SOFTWARE-BASED CONTEXTUALLY
TARGETED ADVERTISING
ON THE INTERNET

INTRODUCTION

Imagine you are the chief executive officer of a medium-sized, nationally known and largely successful business known as Acme Corporation. Like most businesses, your company realized the importance of the Internet as a source of product or service information, advertisement and sales. With the launch of the corporation’s website five years ago, www.acme.com, came increased publicity, product recognition, and overall sales. You are puzzled, however, by the recent report on your desk that states that online sales have slowed despite a steady increase in store sales. Confused and concerned, you decide to put the report aside for a moment, take your mind off of it, and purchase the game console that your son has been begging you to buy him for months. It’s for his birthday... why not?, you think to yourself. Besides, acme.com is having a ten-percent-off sale.

As you reach your Internet browser, you type in Acme’s web address. As usual, your browser immediately directs you to the Acme website. You are about to click the link to the electronics department when a small ad from one of your competitors suddenly pops up, in a separate browser, across the bottom of your computer screen and company website. It reads, “Looking for a great deal?, Get 15% off any XYZ.com purchase.”
within XYZ's ad is a box that reads "Click for More Details" and a link to the xyz.com website. As you scan the ad you also notice a disclaimer that reads: "This is a WhenU offer and is not sponsored or displayed by the websites you are visiting. More . . . ."[1]

The above hypothetical situation illustrates the recent craze in online advertising—software-based contextually targeted advertising provided by companies such as WhenU, Inc. and Gator Corp., now known as Claria Corp. This form of advertising is distinguishable from existing Internet advertising schemes. It utilizes consumer-downloaded software that examines a consumer's web surfing behavior via keywords, URLs, and search terms currently in use on the consumer's computer web browser. Then, it selects relevant pop-up advertisements or coupons based on the consumer's apparent interests.[3] Unlike traditional pop-ups, which are delivered on a search engine results page, these advertisements are delivered at a more crucial moment—after the consumer has reached a company's website and when she is most apt to make a purchase.[4] Advertisers associated with corporate giants, such as Microsoft, Ford, and American Express, have embraced this innovative advertising concept and have reaped the benefits of increased online consumer sales.[5] Conversely, other corporations, such as 1-800 Contacts, Wells Fargo, and U-Haul[6] have cursed it, claiming such advertising defaces commercial websites, steals profits, and, most importantly, violates their trademark rights.[7]

This Comment addresses the question of whether software-based contextually targeted pop-up advertisements should give rise to liability under existing federal trademark laws. Part I explores the rise of contextually targeted online advertising, beginning with its origins and focusing on the services and software-based tech-

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5. Id.
nology provided by one of the leading contextual advertising firms—WhenU.com, Inc. Part II gives a brief overview of applicable federal trademark laws—specifically trademark infringement, unfair competition, and the fair use defense. Part III summarizes three recent district court opinions addressing contextual Internet advertising by WhenU, two of which ruled in favor of the advertising firm, and the other against it. These rulings have laid the groundwork for federal review at the Court of Appeals level, a potential circuit split, and perhaps ultimately a review by the United States Supreme Court.

Part IV analyzes these rulings and ultimately concludes that while the courts were faced with the difficult task of squaring WhenU’s innovative advertising technology with traditional trademark concepts such as “use in commerce” and “likelihood of consumer confusion,” the decisions missed the mark. WhenU exploits, for economic gain, the goodwill associated with trademarks by capitalizing on consumer knowledge of, and interest in, these marks in much the same way as a cybersquatter. This form of exploitation, having been held sufficient “use in commerce” under the Lanham Act in cybersquatting cases, should also be sufficient in the context of software-based contextual advertising. On the other hand, after a careful examination of WhenU’s visual presentation of its pop-up advertisements, as well as the modern web user and her expectations regarding these advertisements, courts should conclude that consumers are not confused as to the source or sponsorship of WhenU advertisements. Accordingly, WhenU’s advertising scheme, though seemingly offensive, is nevertheless permissible under federal trademark laws.

I. NEW INNOVATIONS IN INTERNET ADVERTISING: SOFTWARE-BASED CONTEXTUALLY TARGETED ADVERTISING

A. The Rise of E-Commerce and Targeted Internet Advertising

The inception of the Internet, with its vastly increasing popularity and ease of access, led to the inevitable rise of e-commerce. With the rise of e-commerce came the need for new marketing strategies. Though traditional mediums for marketing and advertising, such as print, radio, and television, remain important means to disseminate product and service information to consumers, the
Internet has become a more significant and effective medium for advertising. It has also become a way to reach out to more attractive groups of consumers—those who are younger, more affluent, and better educated.\(^{10}\) Targeted online advertising, whereby select advertisements are directed towards demographic groups or related to a specific consumer’s interests, has further enabled advertisers to more effectively reach out to consumers.

With consumer online spending up thirty-five percent from 2002 to a record-setting $18.5 billion during the 2003 holiday season,\(^11\) it is no wonder that online advertising is now considered a “necessary element of any comprehensive integrated marketing communication campaign.”\(^12\) Consumer online spending is rising to record levels each year,\(^13\) and smart business owners and advertisers are taking notice. For instance, according to a September 2003 Nielsen//NetRatings report,\(^14\) the biggest-spending advertisers are moving more dollars to online advertising for the first time.\(^15\) Online advertising expenditures for major players in the auto industry such as Honda, General Motors, Ford, and Nissan, have increased 90.5 percent.\(^16\) This sharp increase in online advertising and consumer spending indicates that “retailers are doing a much better job of appealing to customers through online channels as well as successfully integrating various channels to reach out to customers effectively.”\(^17\)

The art of appealing to online consumers using registered trademarks and targeted advertising has taken on many forms throughout the Internet era. One of the first targeted advertising tools developed to increase traffic to commercial websites was

\(^{10}\) Anne Keaty et al., Can Internet Service Providers and Other Secondary Parties Be Held Liable for Deceptive Online Advertising?, 58 BUS. LAW. 479, 479 (2002).


\(^{12}\) Keaty, supra note 10, at 479.

\(^{13}\) The 2002 and 2003 holiday seasons have shown record growths in online consumer spending. See Press Release, Nielsen//NetRatings, supra note 11.


\(^{16}\) Id.

\(^{17}\) Press Release, Nielsen//NetRatings, supra note 11 (quoting Abba Bhagat, senior analyst at Nielsen//NetRatings).
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“keyword metatagging.” A keyword metatag comprises part of a website’s HTML code. HTML code is a computer programming language which not only instructs a web browser, such as Microsoft Internet Explorer, how to display a particular website, but also assists a search engine, such as Yahoo!, to identify the contents of that website and index it among other websites. 

When an Internet user enters a search term that corresponds with the website’s keyword metatags, the search engine is likely to display that website among a list of websites matching the consumer’s interest.

Controversy over keyword metatagging arose when website owners began using competitors’ registered trademarks as keyword metatags in order to lure potential customers away from their competitor’s websites. For example, Performance Shoe Company may include Nike registered trademarks, such as “Nike,” “Air Jordan,” and “Air Max,” as keyword metatags for its website. A keyword search for Nike or Nike products will produce results that include both Performance’s and Nike’s websites. If Performance increases the frequency of Nike trademarks as keyword metatags, it is more likely that a search engine will rank Performance’s website higher than Nike’s.

A second targeted Internet advertising tool that has developed is “triggering” or “keying.” This occurs when search engine operators program their servers to link banner or pop-up advertisements to certain search terms or keywords. Search engines then sell these keywords to interested advertisers. When an Internet user enters the designated keyword into the search engine, an advertisement from the company who bought that keyword will pop up near the top of the search engine results page. Clicking on the advertisement will take the web user to the advertiser’s webpage. Triggering became controversial when search engines began to sell registered trademarks as keywords, often to a trademark owner’s competitor and without compensation to the trademark owner. As a result, a web user searching for a certain trademarked brand may be confronted with a competitor’s advertisement and be tempted to click on it. If she does, she will be diverted from the

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19 Id. at 40.
20 See G. Peter Albert, Jr. & Rita A. Abbati, Metatags, Keywords, and Links: Recent Developments Addressing Trademark Threats in Cyberspace, 40 SAN DIEGO L. REV. 341, 343-44 (2003); see also Sidbury, supra note 18, at 40-41 (noting that a competitor can lure consumers away by using a company’s keywords in its keyword metatags).
21 See Albert, supra note 20, at 358.
22 Id.
webpage she was originally searching for and may ultimately be persuaded to buy the competitor’s products.23

B. WhenU, Inc.’s Advertising Technology

Founded in 2000, WhenU has emerged as one of the industry’s leaders in software-based contextually targeted Internet advertising.24 The New York company describes itself as a “global Desktop Advertising Network” that delivers relevant and useful advertisements driven by consumers’ expressed interest at key moments in their research or buying process.25 To do so, WhenU combines “mass reach with precision targeting technology.”26

WhenU’s targeting technology differs in two respects from traditional pop-up advertising. First, WhenU relies on user-downloaded, software-based technology. Its proprietary software, called “Save” or “SaveNow” (hereinafter “SaveNow”) is typically bundled with other popular and free Internet software, including those for screensaver programs and file sharing applications.27 It can also be downloaded from WhenU.com.28 Upon initiating the download process, the web user is notified that the free screensaver or file-sharing software is supported by contextual marketing from WhenU, in much the same way free television is supported by advertising, and is presented with information about WhenU’s SaveNow program.29 The user is then asked to read WhenU’s licensing agreement, which explains that the software generates contextually relevant advertisements and coupons utilizing pop-ups,30 and is given two opportunities to cancel the installation process.31 By affirmatively accepting the terms of the licensing agreement, the web user expressly consents to the installation of SaveNow software and voluntarily opts-in to receive WhenU pop-

up advertisements. \textsuperscript{32} SaveNow software can be uninstalled at any
time by removing it from the computer or by uninstalling the
screensaver or file sharing software. \textsuperscript{33}

Once installed, SaveNow software operates at the desktop
level with Microsoft Windows. \textsuperscript{34} It uses a directory of commonly
used search terms, commonly visited web addresses, and various
keyword algorithms indexed into service and product categories
“much the same way as a local Yellow Pages indexes businesses
into categories.” \textsuperscript{35} The program scans the web user’s Internet ac-
tivity to determine whether any of the entered search terms or web
addresses match information in WhenU’s directory. \textsuperscript{36} When a
match is found and an associated product or service category is
identified, the SaveNow program determines whether the user
should receive a randomly selected pop-up advertisement or cou-
pon geared towards that user’s interests. \textsuperscript{37} If so, the contextually
relevant advertisement is triggered and pops up on the web user’s
computer screen. It is displayed in a separate window, generally in
front of any existing windows, \textsuperscript{38} and may be small, large, or appear
as a horizontal panoramic window that runs along the bottom of
the user’s screen. \textsuperscript{39} The pop-up will often contain the advertiser’s
trademarks. A web user can remove the advertisement at any
time by clicking either on the visible portion of the intended website or
the advertisement’s “x,” or close, button. \textsuperscript{40}

Second, traditional pop-up advertisements are delivered as
separate windows on the search engine’s results page before the
web user reaches her intended website. Conversely, WhenU pop-
ups are delivered at a more controversial moment—when the web
user has reached the commercial website and has began the re-
search or buying process.

(last visited Jan. 26, 2004).
\textsuperscript{34} 1-800 Contacts, 2003 U.S. Dist. LEXIS 22932, at *14.
\textsuperscript{35} Wells Fargo & Co., 2003 U.S. Dist. LEXIS 20756, at *22.
WhenU maintains that it takes “every step possible to preserve consumer privacy.”
does not track user data, use cookies, track clickstream data, compile a centralized database of
users, or engage in any type of user profiling. \textit{Id}.
\textsuperscript{37} U-Haul Int’l, Inc., 279 F. Supp. 2d at 726. This Comment is concerned with WhenU
advertisements from website owner’s competitors, not coupons for that website.
\textsuperscript{38} WhenU.com, Introduction & Creative Formats, at http://www.whenu.com/creative_-
\textsuperscript{40} 1-800 Contacts, Inc. v. WhenU.com, No. 02 Civ. 8043 (DAB), 2003 U.S. Dist. LEXIS
WhenU maintains that its innovative technology brings "significant value to consumers and marketers alike." Today, just four years after it was founded, WhenU has more than four hundred network advertisers, including big name companies such as British Airways, JP Morgan Chase, General Motors, Verizon, Microsoft, and American Express. The company boasts a current annual growth rate of fifty percent, and its network audience has increased to more than thirty million active user desktops. WhenU’s clients have been pleased by the results. One small business owner maintains that after signing on with WhenU, his online sales skyrocketed by thirty-three percent over sales obtained through search engine referrals. The success of WhenU and other companies like it has made contextual advertising "one of the hottest buzzwords of 2003."

While WhenU has enjoyed great success, it has also faced uphill battles. Two features of WhenU’s innovative technology have angered trademark owners. First, trademark owners complain that WhenU’s directory includes web addresses with registered trademarks, for example www.uhaul.com, thereby allowing WhenU advertisers to gain customers by misappropriating the goodwill and reputation associated with their trademarks. This occurs because advertisements are triggered solely by the web users’ knowledge of, and interest in, the product or service associated with the registered trademark. The trademark owner, however, may never reap the benefits of establishing and marketing the trademark because consumers, upon seeing a pop-up advertisement promoting a better deal or another similar product or service, are lured to the competitor’s website where they ultimately may make a purchase.

WhenU and its advertising clients argue that the directory does not infringe upon the rights of trademark owners. Web ad-
addresses are included in the directory only to identify the website itself, determine the participating web user’s interest category, and transmit contextually relevant advertisements. The company, therefore, does not place the trademark owners’ trademarks in commerce. Furthermore, unlike search engine pop-up advertising, WhenU does not sell trademarks as keywords to competitors. Advertisers are not allowed to buy a specific company’s web address for purposes of triggering a competing advertisement or targeting a specific website. WhenU advertisers purchase categories of goods or services, such as “finance.mortgage” or “Air Travel,” paying for the delivery of their advertisements only to SaveNow users who are interested in those purchased categories. Advertisers are not guaranteed that their advertisements will appear when a SaveNow user accesses a particular competitor’s website. Interestingly, WhenU advertisers cannot exclude themselves from the directory. Competing advertisements could be triggered when users visit their websites as well.

Second, trademark owners object to the delivery of WhenU pop-up advertisements. Though pop-up advertising is not a novel concept, the timing of WhenU’s advertisements sparks much more competition among businesses. Less controversial is the advertisement from Vision Direct that pops up on the search engine results page after a user searches for contact lens information or 1-800 Contacts’ website. This is an example of traditional search engine pop-up advertising. More controversial, however, is the WhenU advertising case where the user is searching for, or has entered, 1-800 Contacts’ web address and, upon accessing the website, receives a pop-up advertising a product or better deal from Vision Direct—one of 1-800 Contacts’ strongest competitors. Trademark owners argue that not only do WhenU advertisers exploit the goodwill associated with their trademarks and use it

52 Id. at 65.
54 Id.
56 Id. at *21.
59 Id.
60 Id. at *26-27.
61 Id. at *110-11.
62 This was the situation that occurred in 1-800 Contacts, Inc., 2003 U.S. Dist. LEXIS 22932, at *22-23.
to "gain crucial credibility in the initial phases of a deal," but also that the placement of pop-up advertisements on top of trademark owners' websites confuses consumers. Arguably, web users may think that the advertisement from WhenU is somehow associated with the trademark owner or that the owner has consented to the use of the competing pop-up advertisement. As a result, they may click on the advertisement, be diverted from their intended website, and ultimately make a purchase on the advertiser's website.

WhenU counters that its advertisements are not confusing. WhenU's advertisements do not use the website owner's trademarks in any way in the advertisements themselves. Advertisements pop up in separate windows that are clearly labeled as WhenU advertisements, either through the display of a green "$" symbol in the corner of the window and the "SaveNow" designation with the disclaimer: "This is a WhenU offer and is not sponsored or displayed by the website you are visiting. More...", or the disclaimer alone. When the consumer clicks on "More," a dialog box opens that contains information about the advertisement and a link to WhenU's "Frequently Asked Questions" webpage. Furthermore, WhenU argues that SaveNow users are accustomed to receiving WhenU offers while surfing the Internet. It is, therefore, unlikely that a SaveNow user would think the competitor's advertisement is sponsored by or affiliated with the trademark owner.

II. THE TRADEMARK CHALLENGES TO WHENU'S POP-UP ADVERTISEMENTS

A. Trademark Law

Surrounding the controversy over WhenU's advertising is the federal statute governing the rights of trademark owners—the Lanham Act. The Lanham Act defines a trademark as any word,
name, symbol, or device used by a person to identify and distinguish goods or services from those of others and to indicate the source of those goods or services.\textsuperscript{72} Trademark laws are guided by one overarching policy, the protection of consumers from fraud and confusion.\textsuperscript{73} In essence, these laws seek to ensure that brand information delivered to consumers is accurate. As one judge stated: "By ensuring correct information in the marketplace, the [trademark] laws reduce losses caused by misunderstanding and deceit and thus permit consumers and merchants to maximize their own welfare confident that the information presented is truthful."\textsuperscript{74}

In addition to the protection of consumers against confusion, two additional policies have been advanced for the protection of trademarks. First is the reduction of consumer search costs when shopping and making purchasing decisions.\textsuperscript{75} Trademarks "enable the consumer to discover in the least possible amount of time and with the least possible amount of head-scratching whether a particular brand is that firm's brand or a competitor's brand."\textsuperscript{76} Those trademarks that have become associated with expectations of a particular quality or reputation from past consistent performance enable consumers to use the trademark alone as a basis for their choice.\textsuperscript{77} Trademarks minimize purchasing risks and virtually eliminate the consumer's cost of acquiring information about products and services.\textsuperscript{78} Second is the idea that trademark owners should not have their hard work, success, and the resulting goodwill associated with their trademark misappropriated.\textsuperscript{79}

WhenU's contextual advertising technology has been attacked on essentially two grounds: trademark infringement and unfair competition.\textsuperscript{80} Section 32 of the Lanham Act sets forth a cause of action for the infringement of registered trademarks.\textsuperscript{81} The law prohibits a party from using "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

\textsuperscript{72} Id. § 1127.

\textsuperscript{73} 1 J. THOMAS McCARTHY, McCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed. 1996).

\textsuperscript{74} Falcon Rice Mill, Inc. v. Cmty. Rice Mill, Inc., 725 F.2d 336, 348 (5th Cir. 1984).

\textsuperscript{75} 1 McCARTHY, supra note 73, § 2:5.

\textsuperscript{76} Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc., 781 F.2d 604, 609 (7th Cir. 1986).

\textsuperscript{77} 1 McCARTHY, supra note 73, § 2:5.

\textsuperscript{78} Id.

\textsuperscript{79} Id. § 2:1.

\textsuperscript{80} The plaintiff in U-Haul International, Inc. v. WhenU.com, Inc. brought a federal trademark dilution claim against WhenU, but for purposes of this Comment, only the trademark infringement and unfair competition claims will be addressed. 279 F. Supp. 2d 723 (E.D. Va. 2003).

any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive."\(^8\)

To establish a valid claim for trademark infringement, a plaintiff must prove that: (1) she is the owner of a registered trademark; (2) the trademark was used by the defendant in commerce; and (3) such use is likely to cause confusion among the consuming public.\(^8\)

Section 43(a) of the Lanham Act, otherwise known as the federal unfair competition law, sets forth a cause of action for the misuse of unregistered trademarks.\(^8\) A party may be liable for unfair competition if that party "uses in commerce any word, term, name, symbol, or device . . . which is likely to cause confusion, or to cause mistake, or to deceive as to the . . . origin, sponsorship, or approval of [that party's] goods, services, or commercial activities by [the plaintiff]."\(^8\)

In an unfair competition claim, a plaintiff must generally establish that: (1) her unregistered mark merits protection under the Lanham Act;\(^8\) (2) the defendant used the mark in commerce; and (3) such use is likely to cause confusion.\(^8\)

The "use in commerce" and "likelihood of confusion" elements are the central focus of any unfair competition or trademark infringement claim. Since sections 32 and 43(a) are identical with respect to these two elements, they will be considered together for purposes of this Comment. When services are involved, the Lanham Act provides that a trademark is "used in commerce" if it is "used or displayed in the sale or advertising of services and the services are rendered in commerce."\(^8\)

Implicit in this definition is the requirement that the trademark be used in a trademark sense, meaning that the trademark must act as a source identifier.\(^8\) To determine whether a likelihood of confusion exists—that is, whether an appreciable number of ordinary prudent purchasers likely would be confused as to the source or sponsorship of the services in question\(^9\)—courts weigh eight factors. These factors are: (1) the strength of the plaintiff's trademark; (2) the degree of similarity between the parties' marks; (3) the proximity of the services; (4) the likelihood that the plaintiff will "bridge the gap" be-

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\(^8\) Id. § 1114(1)(a).
\(^8\) Id. § 1125(a)(1)(A).
\(^8\) To merit protection, the mark must either be descriptive and possess secondary meaning, or it must be suggestive or arbitrary/fanciful. Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 9 (2d Cir. 1976).
\(^7\) 1 McCARTHY, supra 73, § 3:9.
\(^7\) 3 McCARTHY, supra 73, § 23:2.
between the services; (5) the existence of actual confusion; (6) the defendant's good faith; (7) the quality of the defendant's product; and (8) the sophistication of the consumers.91

It is important to note, however, that in the context of Internet advertising cases, confusion can exist at two points in time—prior to or at the time of purchase. Traditional, or point-of-sale, confusion exists when a consumer is actually or potentially confused as to source or sponsorship of the goods or services in question at the time she makes her purchase.92 Pre-sale, or initial interest confusion, occurs when a consumer seeking a particular trademarked product or service is initially lured to a competitor's product or service because of that competitor's use of a confusingly similar trademark, notwithstanding the fact that the consumer later receives information that dispels any confusion that otherwise would have existed at the time of actual purchase.93 Although the confusion has been eliminated, the consumer may decide, for mere convenience or other reasons, to purchase the good or service from the competitor. The competitor, therefore, benefits from the goodwill associated with the trademark by initially confusing consumers into checking out the competing product or service. Although the principle of initial interest confusion is not universally recognized, several federal courts have accepted it.94

Not every use of another party's trademark violates federal trademark laws. The "fair use" defense permits a person to use another party's trademark when the mark is not used as a source identifier but is instead used to describe the trademark holder's goods or services.95 In essence, the defense furthers the notion of free competition by establishing that a trademark owner's rights are not absolute and a trademark cannot be used to "stifle competition."

Comparative advertising is considered one form of trademark fair use. To establish fair use, the defendant must show that: (1) the product or service was not readily identifiable without use of the trademark; (2) only so much of the mark was used as was reasonably necessary to identify the product or service; and (3) the

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92 3 McCarthy, supra 73, § 23:5.
96 Sidbury, supra note 18, at 56.
use did not suggest sponsorship or endorsement by the trademark holder.97

B. The WhenU Cases

Software-based contextually targeted advertising is a new concept for the Internet and for federal courts. Despite its novelty, legal challenges against software-based advertising networks have quickly mounted.98 WhenU, in particular, has come under heavy fire for trademark violations, facing several lawsuits in the four years it has been doing business.99 This section summarizes the facts and outcomes of three of those lawsuits.

The first plaintiff to launch an attack against WhenU’s advertising scheme was U-Haul.100 In that case, WhenU included U-Haul’s web address in its directory, thereby triggering competing advertisements whenever an Internet user’s web browsing activity matched the directory category containing that web address.101 The truck and trailer rental company sued WhenU in the United States District Court for the Eastern District of Virginia, alleging violations of federal trademark infringement and unfair competition laws under sections 32 and 43(a) of the Lanham Act.102 Both parties filed motions for summary judgment, and in September 2003, WhenU ultimately prevailed on its motion.103

The case centered solely on the “use in commerce” element of both Lanham Act claims. U-Haul asserted that the following three actions constituted use of U-Haul’s trademark in commerce: (1) the appearance of WhenU pop-up advertisements on U-Haul’s website; (2) the inclusion of U-Haul’s web address in the WhenU directory; and (3) the interference of WhenU’s pop-up advertisements with a consumer’s use of U-Haul’s website.104

Addressing the sufficiency of U-Haul’s evidence regarding “use in commerce,” Judge Lee ruled that there was no genuine is-

97 New Kids on the Block v. News Am. Publ’g, Inc., 971 F.2d 302, 308 (9th Cir. 1992).
101 Id. at 728.
102 Id. at 726.
103 Id.
104 Id. at 727.
sue of material fact because U-Haul "[failed] to show how a pop-up advertisement appearing in a separate window on an individual's computer obstructing U-Haul's advertisement [was] a 'use' of U-Haul's trademarks in commerce." In reaching its conclusion, the court first rejected the argument that WhenU used U-Haul's trademarks because their pop-up advertisements formed a single visual presentation with U-Haul's website. The court held that the "use in commerce" element could not be satisfied "merely because trademarks [were] simultaneously visible to a consumer." The presentation of WhenU pop-ups on U-Haul's website amounted to nothing more than comparative advertising—a fair use of U-Haul's marks under the Lanham Act. Second, the district court refused to hold that the inclusion of U-Haul's web address in the WhenU directory constituted use of U-Haul's trademark in commerce. Unlike other Internet advertising methods, WhenU neither sold U-Haul's trademark to its advertising clients, nor displayed U-Haul's mark or web address when the advertisement popped up. The trademark was only used for a "pure machine-linking function." Last, the court concluded that WhenU's advertisements did not interfere with U-Haul's website because the SaveNow software did not interact with U-Haul's computer servers and the pop-ups did not alter the appearance of, or hinder access to, the company's website. Without interference on WhenU's part, there was no use of U-Haul's trademark. On this point, Judge Lee paid special attention to the fact that WhenU advertising is consumer driven, as web users consent to the installation of SaveNow software and can control the display of advertisements once they pop up. Accordingly, because U-Haul could not establish that its trademark was "used in commerce," WhenU was entitled to summary judgment.

Shortly after U-Haul was decided, WhenU was handed another victory, this time from the United States District Court for the Eastern District of Michigan. In Wells Fargo & Co. v.  

105 Id.
106 Id.
107 Id. at 728.
108 Id. at 727-28.
109 Id. at 728.
110 Id.
111 Id.
112 Id. U-Haul cited several cases that purportedly held that interference with a webpage constituted "use in commerce" under the Lanham Act. Id.
113 Id. at 728-29.
114 Id. at 729.
WhenU.com, Inc., financial services companies Wells Fargo and Quicken Loans brought an action for preliminary injunction against WhenU for trademark infringement under section 32 of the Lanham Act. This claim arose after WhenU included their web addresses in its directory and delivered competing pop-up advertisements to users of their websites. Not surprisingly, the plaintiffs argued that WhenU used their trademarks in commerce in the same three ways cited in *U-Haul*. The plaintiffs also contended that WhenU’s advertisements created a likelihood that Internet users would be confused as to whether Wells Fargo or Quicken Loans sponsored or approved the pop-up advertisements.

After a lengthy discussion of WhenU’s advertising technology, the Internet, and Microsoft Windows operating environment, the court held that WhenU neither used Wells Fargo’s or Quicken Loans’ trademarks in commerce, nor created a likelihood of confusion as to the source of its pop-up advertisements. In dispensing with the plaintiffs’ “use in commerce” arguments, the district court’s opinion echoed Judge Lee’s reasoning in *U-Haul*. For example, the *Wells Fargo* court stated that “when WhenU’s advertisements pop up and partially overlap plaintiffs’ [web]sites on the computer screen, it seems apparent to the user that what is appearing . . . are two distinct sources of material. . . . [P]laintiffs’ marks [do not] appear to be part of the WhenU window. In other words, the presentation . . . is not ‘seamless’. ” The court further cited the Sixth Circuit’s assertion that “[w]hen a domain name is used only to indicate an address on the Internet, it is not functioning as a trademark” as support for its holding that WhenU’s inclusion of Wells Fargo’s and Quicken Loans’ web addresses in its directory did not constitute use of the plaintiffs’ trademarks.

Though the district court could have disposed of the case after concluding that WhenU did not use Wells Fargo’s or Quicken Loans’ trademarks in commerce, Judge Edmunds, in dicta, wrapped up the case by concluding that the plaintiffs failed to es-

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116 Id. at *2, *22-23.
117 Id. at *67. The three ways were: (1) hindering Internet users from accessing Wells Fargo’s and Quicken Loans’ commercial websites; (2) simultaneously presenting pop-up advertisements with their websites; and (3) using Wells Fargo’s and Quicken Loans’ web addresses in the WhenU directory to trigger the delivery of competing advertisements. Id.; see also *U-Haul Int’l, Inc.*, 279 F. Supp. 2d at 727.
119 Id. at *2-63, *99.
120 Id. at *75.
establish that consumers would likely be confused as to the source, sponsorship, or approval of WhenU’s pop-up advertisements.\textsuperscript{123} She stated: “[T]he fact that WhenU advertisements [were] conspicuously branded, and state[d] on their face, ‘This is a WhenU offer and is not sponsored or displayed by the website you are visiting. More . . . ’ . . . dispels any likelihood of confusion.”\textsuperscript{124} Additionally, the court refused to adopt an initial interest confusion standard.\textsuperscript{125} Wells Fargo’s and Quicken Loans’ motions for preliminary injunction were therefore denied.\textsuperscript{126}

WhenU’s success in court, however, was short-lived. In December 2003, the United States District Court for the Southern District of New York, in 1-800 Contacts, Inc. v. WhenU.com,\textsuperscript{127} enjoined WhenU from including 1-800 Contacts’ web address in its directory and delivering competitive pop-up advertisements to Internet users based on that inclusion.\textsuperscript{128} The contact lens retailer sued WhenU and its advertising client Vision Direct for trademark infringement and unfair competition after Vision Direct’s advertisements began popping up on 1-800 Contacts’ website.\textsuperscript{129}

Addressing “use in commerce,” Judge Batts held that WhenU used the 1-800 Contacts trademark in two ways. First, “by causing pop-up advertisements to appear when SaveNow users have specifically attempted to find or access [p]laintiff’s website,”\textsuperscript{130} WhenU displayed 1-800 Contacts’ trademark “in the advertising of”\textsuperscript{131} Vision Direct’s services.\textsuperscript{132} In the court’s opinion, the consumer’s knowledge of 1-800 Contacts, Inc. and its website was a product of the company’s goodwill, reputation, and trademark branding success. By capitalizing on such knowledge, goodwill, and reputation with precisely timed pop-up advertisements from competitors, WhenU used the 1-800 Contacts trademark.\textsuperscript{133} Second, WhenU’s inclusion of the web address www.1800contacts.com in its directory constituted sufficient use of a version of the

\textsuperscript{123} Id. at *84-85.
\textsuperscript{124} Id. at *99 n.23.
\textsuperscript{125} Id. at *85-88 (stating that the Sixth Circuit, unlike several other circuits, has not adopted an initial interest confusion standard).
\textsuperscript{126} Id. at *112.
\textsuperscript{127} No. 02 Civ. 8043 (DAB), 2003 U.S. Dist. LEXIS 22932 (S.D.N.Y. Dec. 22, 2003).
\textsuperscript{128} Id. at *119. 1-800 Contacts’ web address was included in WhenU’s “eye care” category.
\textsuperscript{129} Id. at *16.
\textsuperscript{130} Id. at *3, *22-23.
\textsuperscript{131} Id. at *55.
\textsuperscript{132} See 15 U.S.C. § 1127 (2000) (stating that a trademark is “used in commerce” for purposes of the Lanham Act when “it is used or displayed in the sale or advertising of services and the services are rendered in commerce”).
\textsuperscript{133} 1-800 Contacts, Inc., 2003 U.S. Dist. LEXIS 22932, at *54.
1-800 Contacts trademark in the advertising of Vision Direct services.\textsuperscript{134} The court also refused to give any weight to the holdings in \textit{U-Haul} and \textit{Wells Fargo}, stating only that “[t]his Court disagrees with, and is not bound by these findings.”\textsuperscript{135}

1-800 Contacts also prevailed on the “likelihood of confusion” element, largely due to the district court’s adoption of an initial interest confusion standard—an issue in the case that WhenU addressed in a mere footnote in a brief.\textsuperscript{136} With respect to the analysis of the eight \textit{Polaroid} factors listed above,\textsuperscript{137} the most notable points came from the court’s discussion of purchaser sophistication and WhenU’s use of disclaimers in its pop-up advertisements.

Although the court correctly acknowledged that Internet consumers are more sophisticated than ordinary consumers and are not “passive coach-potato[es],”\textsuperscript{138} it nonetheless dismissed the argument that this increased sophistication reduced the likelihood of consumer confusion.\textsuperscript{139} In its opinion, the court explained:

\begin{quote}
[W]hether or not consumers of replacement contact lenses on the Internet are ‘sophisticated’ [does] not change the harm that flows from initial interest confusion, since that harm arises when consumers’ interest is diverted from [1-800 Contacts’] products by association of [its] trademark with [WhenU’s advertisements and Vision Direct’s] products.\textsuperscript{140}
\end{quote}

According to the court, even sophisticated purchasers interested in 1-800 Contacts’ products may be initially confused and believe that a Vision Direct pop-up advertisement was sponsored by 1-800 Contacts. Despite the fact that any initial confusion may be later dispelled upon arriving at Vision Direct’s website, the consumer may nonetheless decide to purchase from Vision Direct.\textsuperscript{141} Furthermore, the WhenU branded window did not mitigate any initial interest confusion because at the time the lawsuit was filed, advertisements only contained a “?” symbol for consumers to click on for more information about the source of WhenU’s advertise-

\textsuperscript{134} Id. at *55.
\textsuperscript{135} Id. at *59 n.43.
\textsuperscript{136} Id. at *91-93, *68. In the footnote, WhenU argued that the plaintiffs could not establish initial interest confusion “because consumers [were] not drawn to another online location without knowing where they [were] being taken.” Id. at *68.
\textsuperscript{137} See supra note 91 and accompanying text.
\textsuperscript{138} 1-800 Contacts, Inc., 2003 U.S. Dist. LEXIS 22932, at *97.
\textsuperscript{139} Id.
\textsuperscript{140} Id.
\textsuperscript{141} Id. at *99-100.
ments. In the court's view, this form of disclaimer with "terms . . . buried in other web pages, requiring viewers to scroll down or click on a link," was ineffective.

As U-Haul, Wells Fargo, and 1-800 Contacts illustrate, the fate of WhenU's advertising software is unclear. The parties have appealed and the battle continues. With two courts ruling in favor of WhenU, one against it, and all three decisions having been decided by different district courts in separate reviewing circuits, a circuit split is foreseeable.

III. MISSING THE MARK: AN ANALYSIS OF THE WHENU CASES

The foregoing discussion illustrates the importance of software-based contextually targeted Internet advertising to both emerging and well-known businesses. It also illustrates the challenges this form of advertising brings for trademark owners and federal courts. Federal trademark laws were not drafted with the Internet in mind. Until Congress takes measures to modernize the Lanham Act, courts must adapt while being careful not to stretch or strain the law beyond reasonable limits. They must distinguish the web user from the ordinary consumer, pay special attention to the web user's current expectations regarding pop-up advertisements, and focus on fundamental differences between Internet advertising methods. This Part argues that while the U-Haul, Wells Fargo, and 1-800 Contacts courts were faced with the difficult task of squaring WhenU's innovative advertising technology with traditional trademark concepts, such as "use in commerce" and "likelihood of consumer confusion," they missed the mark in their analyses. Each decision, however, sheds light on and captures a part of what should have been the appropriate result—that is, that although WhenU uses trademarks in commerce, this use does not cause consumer confusion and is not actionable under the Lanham Act.

A. Trademark Use—"Use in Commerce" and the Fair Use Defense

The holdings in U-Haul and Wells Fargo that WhenU's inclusion of web addresses in its directory was for "pure machine-linking function[s]," and therefore not "use in commerce" under

142 Id. at *100-02.
143 Id. at *102.
144 Id.
145 Rajzer, supra note 95, at 428.
the Lanham Act, are misplaced. The focus should not be on the technical use of the web addresses in question—that is, to locate and identify web pages on the Internet—but rather on how WhenU’s advertising scheme exploits the goodwill associated with trademarks. Such exploitation has been held to constitute trademark use in other contexts under the Lanham Act.

To reiterate, the Lanham Act provides that a trademark is "used in commerce" when it is placed in any manner on goods, or when the mark is used or displayed in the sale or advertising of services and those services are rendered in commerce. In the Internet advertising context, courts have struggled to define exactly what actions constitute unlawful trademark use. For guidance in cases involving software-based contextual advertising, it is useful to look to cybersquatting cases where courts found "use in commerce" under the Lanham Act. Both types of cases involve the use of web addresses, or domain names.

In Panavision International, L.P. v. Toeppen, trademark owner Panavision sued Toeppen under federal trademark dilution laws after discovering that Toeppen had registered the domain name www.panavision.com and was willing to sell it back to Panavision for $13,000. The Ninth Circuit Court of Appeals was presented with the difficult task of determining, for the first time, whether Toeppen’s use of the Panavision mark solely to make up part of an Internet address could otherwise constitute unlawful trademark use. To resolve the issue, the court focused not on the technical use of the web address as a location tool, but rather on Toeppen’s intent and concluded that it was his exploitation of the value of Panavision’s mark that constituted unlawful "use in commerce" under the Lanham Act. For example, because Panavision’s trademarks were so well recognized, consumers attempting to locate the company’s website would likely type in www.panavision.com. However, they would arrive not at Panavision’s website but at Toeppen’s website. Panavision was, therefore, unable to capitalize on the value of its trademark to gain business for itself. On the other hand, Toeppen recognized that he could exploit the value of Panavision’s trademark to force the

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149 Cybersquatting is the act of registering, trafficking in, or using a domain name with a bad-faith intent to profit from the goodwill of a trademark belonging to someone else. Id. § 1125(d).
150 Panavision Int’l, L.P. v. Toeppen, 141 F.3d 1316, 1319 (9th Cir. 1998).
151 Id. at 1324-25.
152 Id. at 1325.
company to purchase the web address from him, albeit at an inflated price well beyond what he paid to register the website in the first place. Toeppen, therefore, improperly used Panavision's trademarks as source identifiers to cash in on the company's hard work and success. The court stated: "Toeppen... misstates his use of the Panavision mark. His use is not as benign as he suggests... He 'act[s] as a "spoiler," preventing Panavision and others from doing business on the Internet under their trademarked names unless they pay his fee." The Panavision case evidences that the parameters set by courts for defining "use in commerce" are exceedingly broad. The case further supports the argument that the Lanham Act's "use in commerce" element is met whenever a party uses a web address to exploit the goodwill and reputation associated with another party's trademark for economic or competitive reasons. Accordingly, the court in 1-800 Contacts was correct when it found that WhenU used the lens retailer's trademarks in commerce by including the web address www.1-800contacts.com in its directory. The web addresses for U-Haul, Wells Fargo, and 1-800 Contacts were not used merely to identify the location of commercial webpages on the Internet. Instead, WhenU used these addresses to capitalize on the consumers' knowledge of, and interest in, trademarked products and services. By triggering competing advertisements when consumers visited the trademark owners' websites, WhenU used the web addresses as a source identifier and exploited the value of these trademarks for commercial gain. As such, this is the type of unlawful use encompassed under the Lanham Act. The fact that consumers agreed to this form of exploitation by accepting the terms of WhenU's licensing agreement should not be the focus of, or change, a court's "use in commerce" analysis. Furthermore, software-based contextual advertising should not be considered a form of trademark fair use or comparative advertising. First, WhenU's use of trademarks for its source-identifying function eliminates this defense. Second, WhenU could have delivered contextually relevant advertising to consumers interested in discount contact lenses, mortgages, or moving

153 Id.
154 Id. (quoting Panavision Int'l, L.P. v. Toeppen, 938 F. Supp. 616, 621 (1996)).
157 Id. at *57.
158 Id. at *55.
159 See Rajzer, supra note 95, at 435.
services without capitalizing on U-Haul's, Wells Fargo's, and 1-800 Contacts' trademarks. Third, WhenU's directory triggers not only competitive advertisements but also coupons sponsored by the owners of the websites that consumers visit. For example, "1800Flowers.com might pay WhenU to display coupons to its users when they reached the 1800Flowers [web]site. Or Delta might pay WhenU to show a Delta coupon [or advertisement] when the user was on travel-related sites—including, perhaps, the Web sites of competing airlines." The dual use of the directory to trigger competing advertisements as well as trademark owner-sponsored coupons casts doubt on the argument that directory web addresses are used solely as a means to trigger comparative advertisements.

B. "Likelihood of Consumer Confusion"

While the above discussion indicates that WhenU's exploitation of the goodwill associated with various trademarks should constitute "use in commerce," some amount of free-riding and exploitation is permissible under the Lanham Act unless such occurrences also cause consumer confusion. Courts should be careful not to let their beliefs about the offensiveness of WhenU's advertising hinder their ability to appropriately analyze this element. A careful examination of the visual presentation of WhenU's advertisements, as well as web users and their expectations regarding pop-up advertisements, should lead courts to conclude that there is no source or initial interest confusion.

First, as the court in 1-800 Contacts recognized, consumers on the Internet today are more sophisticated than traditional consumers. Furthermore, with each new visit to the World Wide Web, they become more accustomed to the technology that surrounds

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162 Shea, supra note 94, at 552-53. Shea argues that "[courts] spin tales of confusion that enable them to enjoin practices they find offensive to trademark owners." Id. at 552. The "key part of [the likelihood of confusion analysis] is understanding the expectations of Internet users in using [pop-up advertising] technology." Id. at 547.

For example, it is likely that traditional pop-up advertising initially generated some amount of consumer confusion. Today, however, pop-up advertising is not a new concept on the Internet. Consumers have become familiar with this form of advertising and have even developed "banner blindness" in response to the onslaught of pop-up advertising. It is highly probable, therefore, that consumers now understand that the advertisements they see do not always originate from the owner of the website they are visiting. In fact, some commentators even argue that the recent craze in pop-up advertising has led consumers to expect to see advertisements that have no connection, affiliation, or sponsorship with the trademark owner's website. Accordingly, the fact that targeted advertisements are triggered when a web user visits a website listed in the WhenU directory should not be "sufficient to confuse consumers into thinking there is a relationship." 

Second, the delivery and presentation of WhenU pop-up advertisements further strengthens the argument that consumers are not confused about their source or sponsorship. A quick glance at a WhenU advertisement will reveal that it is not sponsored by the trademark owner. WhenU pop-up advertisements are delivered to the consumers' desktops in separate, WhenU-branded windows that explicitly state: "This is a WhenU offer and is not sponsored or displayed by the website you are visiting. More..." Such a disclaimer significantly reduces or eliminates any likelihood of consumer confusion. As the Ninth Circuit Court of Appeals recently observed in a similar search engine pop-up advertising case: "[W]e are not addressing a situation in which a banner advertisement clearly identifies its source with its sponsor's name...[d]oing so might eliminate the likelihood of initial interest confusion that exists in this case."

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164 Shea, supra note 94, at 551.
165 Id. at 548. "Banner blindness" is defined as "the tendency of Internet users to ignore banner advertisements, even when the ads contain information that the users may be actively seeking." Saunders, supra note 23, at 567 n.182.
166 Shea, supra note 94, at 550-51.
167 See, e.g., id.
168 Id. at 551.
170 Wells Fargo & Co., 2003 U.S. Dist. LEXIS 20756, at *99 n.23 ("In [the Sixth Circuit], courts have found disclaimers such as the ones employed by WhenU to be 'very informative' and have relied on them in declining to find confusion.").
Third, many of WhenU’s advertisements contain its advertising clients’ widely recognized trademarks. The combined effect of the WhenU disclaimer along with the simultaneous presentation of trademarks owned by such clear competitors as American Express and Visa, Ford and Toyota, makes it even more apparent that the pop-up advertisement is sponsored by a competitor. Consequently, in the event that a SaveNow user clicks on the WhenU pop-up advertisement and is diverted to the competitor’s website, it is not because she thinks the advertisement is sponsored by the website she is visiting. More likely, it is because she is interested in more information about the competing product or in search of a better deal. Thus, WhenU pop-up advertisements act more to distract or entice consumers, rather than to confuse them.

The 1-800 Contacts court, therefore, was erroneous in concluding that the lens retailer satisfied the Lanham Act’s “likelihood of confusion” element. It was also erroneous to rely on the initial interest confusion doctrine to support this holding. As was correctly pointed out by the Ninth Circuit, courts should not “expand the reach of initial interest confusion from situations in which a party is initially confused to situations in which a party is never confused.” It is not “reasonable to find initial interest confusion when a consumer is never confused as to source or affiliation, but instead knows, or should know, from the outset that a product or web link is not related to that of the trademark holder . . . .” Accordingly, for all the reasons stated above, SaveNow users know, or should know, that WhenU pop-up advertisements are not connected, affiliated, or sponsored by the website they are visiting. Courts, therefore, should be unwilling to rule against WhenU with respect to the “likelihood of confusion” element. The 1-800 Contacts court’s willingness to rule against WhenU on this element suggests that the court either failed to understand the web user’s experience or let its beliefs regarding the offensiveness of WhenU’s advertising practices overshadow a proper analysis of the facts.

**Conclusion**

Software-based contextually targeted advertising has revolutionized the Internet advertising industry and has become advertis-
ing’s newest obsession. Like all Internet advertising fads, however, software-based contextual advertising will likely be replaced by new innovations in advertising technology. In the meantime, as the *U-Haul*, *Wells Fargo*, and *1-800 Contacts* cases illustrate, courts have struggled with how to apply traditional trademark concepts such as “use in commerce” and “likelihood of consumer confusion” to advertising in this context. With appeals and trials on the horizon, courts are presented with other important opportunities to properly resolve these issues.

For guidance in analyzing software-based contextual advertising and for support of the position that WhenU’s advertising practices meet the Lanham Act’s “use in commerce” element, courts should look to cybersquatting cases, specifically *Panavision International, L.P. v. Toeppen*.¹⁷⁷ Both types of cases involve a similar use of web addresses to exploit not only the hard work and success of trademark owners, but also the resulting goodwill associated with their marks. Furthermore, it is important for courts to recognize that while WhenU pop-up advertisements may be offensive to trademark owners, they nevertheless do not confuse consumers and should not be enjoined under the Lanham Act.

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¹⁷⁷ 141 F.3d 1316 (9th Cir. 1998).

† J.D. Candidate, 2004, Case Western Reserve School of Law. I would like to thank Deborah Wilcox, both for sparking my interest in trademark law and for her assistance in writing this Comment, as well as my friends and family, for their patience and support.