

SPECIAL INTELLECTUAL PROPERTY REPORT

USING SOMEONE ELSE'S NAME, IMAGE OR TRADEMARK

Can famous athletes like Tiger Woods or Anna Kournikova prevent you from using their names or images to sell magazines or works of art? Can a public figure like Rosa Parks object to the use of her name as the title of a rap song? Are you allowed to plant software, or to sponsor Internet key word search terms, which cause advertisements for your company to "pop up" when a consumer searches for your competitor?

Intellectual property laws protect intangible assets from unauthorized use. Such assets can include the name of a celebrity or company. Here is a brief synopsis of recent court cases that are of interest.

USING TIGER WOODS' NAME TO SELL ARTWORK

Rick Rush painted a work of art entitled "The Masters of Augusta" with views of Tiger Woods in different poses. The artist published and sold over 5,250 lithographs, each of which was signed "Rick Rush" and was sold with a narrative about Tiger Woods. The licensing agent for Tiger Woods usually charges third parties to use Woods' name and likeness. Thus, it sued the artist.

With respect to trademark infringement based on the use of the name "Tiger Woods," the court found that the source of the print was identified as the artist. Woods' name was used only to describe the content and, thus, was a fair use.

With respect to the use of Woods' likeness, the court held that generally a person's likeness can never function as a trademark except when it is used consistently in the advertising of a particular product. The court ruled against Woods. *ETW Corp. v. Jireh Publishing, Inc.* 332 F.3d 915 (2003).

USING ROSA PARKS' NAME TO SELL ALBUMS

A rapper released an album with a song entitled "Rosa Parks." Rosa Parks brought suit. The court balanced the rapper's First Amendment rights against Rosa Parks' right to protect the commercial use of her name by applying an "artistic relevance" test. It held that book titles, album titles, song titles, and the like may reflect

celebrities' names, except when the names have no artistic relevance to the work.

Though the judges decided that a jury would have to decide whether the song's title, "Rosa Parks," had any relevance to the content of the song, they let it be known that, if it were up to them, they would find that this was little more than "a marketing tool" to draw attention to the album.

"The First Amendment cannot permit anyone who cries 'artist' to have *carte blanche* when it comes to naming and advertising his or her work, art though it may be." *Parks v. La Face Records*, 329 F.3d 437 (6th Cir. 2003).

USING ANNA KOURNIKOVA'S NAME TO SELL MAGAZINES

Tennis star Anna Kournikova sued Penthouse Magazine for false advertising and false endorsement when the magazine's cover said that Kournikova had been "caught close up on nude beach" and, inside the magazine, showed partially nude photographs of a woman who was (incorrectly) identified as Kournikova. The court ruled in favor of the magazine. First, it found that, taken in context, readers of Penthouse would have understood that the photographs were obtained and published without Kournikova's permission, preventing consumers from "believing that she had consented to their publication." Second, the court found that there could be no valid false advertising claim absent some proof of competitive injury, such as evidence of lost sales or lost endorsement agreements caused by the publication of the photos, or other "losses that would flow from her position as a competitor for male dollars spent on photographs of young, attractive women wearing little or no clothing." Third, the court held that the First Amendment barred the false endorsement



By Greg Sater

claim, given Kournikova's status as a public figure and the lack of proof that Penthouse "subjectively intended" for consumers to believe that Kournikova had voluntarily posed in Penthouse and had endorsed the magazine. *Kournikova v. General Media Communications, Inc.*, 278 F. Supp.2d 1111 (C.D. Cal. 2003).

USING YOUR COMPETITOR'S NAME OR TRADEMARK TO TRIGGER YOUR POP-UP ADVERTISEMENTS

When confronted with the cutting edge advertising scheme of a company called WhenU.com, two different courts recently came to the exact opposite conclusion. One perceived an obvious violation of trademark law, while the other saw no violation at all.

WhenU has a program that consumers download from the Internet (frequently for some other purpose, without knowing that it also has a hidden advertising function). Companies that compete against "brand name" companies pay WhenU to have their advertisements saved inside the WhenU software.

When the computer user who has the software in his hard drive searches for a brand name company, the software causes the advertisement of the competitor, WhenU's client, to "pop up." It "pops up" in front of, and blocks out, the web site of the brand name company.

In the first case, U-Haul sued WhenU because the "pop up" ad of one of U-Haul's competitors would appear when computer users would search for "U-Haul." The court granted judgment for the defendant finding no "use" of U-Haul's mark in commerce within the meaning of trademark law. Although WhenU's software used U-Haul's trademark, it only used it in its internal directory (which is hidden to the computer user). The court held that WhenU would have been liable for trademark infringement if it had used U-Haul's trademark "to identify the source of WhenU's goods or services" and not used it merely for a "machine-linking function."

Another court, however, recently facing the same conduct by the same defendant, reached precisely the opposite conclusion. It held that WhenU's software did "use" the trademark of the plaintiff "in commerce," by using it inside its hidden directory of search terms to trigger the "pop up" ads of WhenU's clients.

The plaintiff in the second case prevailed by pleading it as a case of "initial interest confusion." Courts are increasingly applying the doctrine of initial interest confusion to give trademark owners a remedy when their competitors act unfairly by causing consumers who are specifically looking for the trademark owners on-line (by typing in the trademarks as a search term) to end up exposed to the *competitors'* on-line advertisements. This may not cause confusion as to

WHAT'S NEW

Marshall Rutter represented several retail stores in a copyright infringement action brought by movie studios to ban the manufacture and sale of Sony Betamax video tape recorders in the 1970s and early 1980s. The landmark decision of the U. S. Supreme Court was entered 20 years ago in *Universal v. Sony*. The Court ruled that the manufacture and sale of the Betamax recorders were not copyright infringements, as the primary use of the Betamax was time-shifting (personal, non-commercial recording of television shows for the convenience of the owner of the Betamax). An audio broadcast of a BBC radio interview of Marshall on the 20th anniversary of the Court's decision may be found on the RHD web site, www.rutterhobbs.com.

Marc Petas and **Sara Harris**, of RH&D's real estate department, recently assisted various clients in the successful closings of the 1) sale of development property for \$22,500,000, 2) purchase of a large industrial building which involved numerous environmental issues and a like-kind reverse exchange, and 3) the purchase of numerous commercial properties with triple net leases totaling a purchase price of over \$27,000,000.

Greg Sater, whose practice is focused on intellectual property and complex business litigation, recently successfully settled a series of cases in which the litigants were arguing about who invented and who owned the rights to a number of top selling infomercial or "As Seen On TV" products. Greg also recently successfully settled and/or obtained injunctions in intellectual property infringement and false advertising cases involving clients in such diverse fields as LASIK eye surgery, exercise equipment, paintball sport products, children's toys, cosmetics, and kitchen cutlery.

Fred Fenster recently appeared on KFWB News to discuss the art of jury selection. He also appeared on CNBC Bull's Eye program to dissect the recent trial of Martha Stewart. Fred is the editor of the chapters on civil discovery in the law practice books *California Pretrial Practice & Forms*, released by James Publishing.

source, *per se*, because the consumers may immediately realize the ruse; nevertheless, it harms the trademark owners because the consumers have been introduced to their competitors' product offerings, thanks to the

trademarks that were used without permission.

See: *U-Haul International, Inc. v. WhenU.com*, 279 F. Supp.2d 723 (E.D. Va. 2003) and *1-800 Contacts, Inc. v. WhenU.com*, 69 U.S.P.Q. 2d 1337 (S.D.N.Y. 2003).

SPONSORING YOUR COMPETITOR'S NAME OR TRADEMARK AS A KEY WORD IN A SEARCH ENGINE

Advertisers pay Internet search engines for key words. This is called "keying." For instance, if we at Rutter Hobbs & Davidoff wanted to advertise our legal services on the Internet, we could pay a search engine for the key word "lawyer" so that our firm's name and web site, www.rutterhobbs.com, would come up either at or near the top of the search results whenever someone searches for the word "lawyer." We would be what is called a "sponsored site." Some search engines also sell banner ads that appear on the computer screen when certain key words have been inputted. We could have our logo or banner appear every time someone types in "lawyer."

In January 2004, based on the developing doctrine of initial interest confusion (discussed above), the Ninth Circuit Court of Appeals held that it is unlawful for search engines (for instance, Google) to solicit companies to

pay them a fee for those companies' names and web site addresses to be listed whenever consumers type in a competitor's brand name as a key word search term. It is unfair because the consumer who is searching for the trademark owner by name is exposed and is introduced, in the consumer's search results, to *the competitor*.

How would you feel if a competitor of yours were to pay AOL so that *its* name or *its* web site address came up in the search results, whenever your potential customers typed in *your* company's name? You would not be happy! In the case that recently held this to be unlawful, Playboy sued Netscape because whenever consumers typed in "Playboy," their search results included sponsored links to adult web sites that were neither Playboy nor Playboy-endorsed. *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004).

Greg Sater handles complex business litigation matters and trials with an emphasis on disputed intellectual property rights. You can reach Greg at (310) 286-1700, or by email at gsater@rutterhobbs.com.

RESTRICTING AN EX-EMPLOYEE'S RIGHT TO COMPETE WITH A FORMER EMPLOYER

An employer's worst nightmare is that a trusted employee will quit without notice, join a major competitor and deliver a devastatingly successful knockout blow by capturing the former employer's most profitable, prestigious and visible accounts.

To stop such crippling behavior, companies have resorted to requiring their employees to sign non-competition agreements. Unfortunately, however, such covenants are generally unenforceable under California law since they unfairly preclude the employee from engaging in a lawful profession, trade or business in the designated field of endeavor (Business & Professions Code, Section 16600).

Reinforcing this precept is the recent decision by the court of appeal in *Thompson v. Impaxx, Inc.* In that case, the employee was asked to sign a covenant which read: "For a period of one (1) year following the termination of employment, I will not call on, solicit or take away any of (the company's) customers or potential customers with whom I have had any dealings as a result of my employment with the (Company)."

In determining that this provision was void, the court specifically rejected the Company's position that the language did not constitute a true covenant not to

compete even though it did not prevent the former employee from pursuing his chosen profession; it did not prohibit him from working for a competitor or accepting the business of former customers if they solicited him; the former employee had the right to contact the Company's customers with whom he did not have any dealings during his association with the former employer; and, the covenant was limited to one year.

Nevertheless, the court of appeal ruled that the covenant was anti-competitive and therefore unenforceable. In reaching this result, the court asked the following rhetorical question: "Why else would (the Company) ask employees to sign (the contract containing the provision)?"

Despite the negative ramifications of the court's opinion, however, employers are not without rights. As one court noted: "Agreements designed to protect an



By Fred Fenster

-Continued on back page

RESTRICTING AN EX-EMPLOYEE'S RIGHT

- Continued from page 3

employer's proprietary information do not violate Business and Professions Code Section 16600." Such information includes the identity of the Company's customers, their purchasing history, product preferences, pricing structure and related information that is not generally available to competitors. In short, these preferred customers "are a real asset to the business and the foundation upon which its success, and indeed its survival rests."

Another case expanded this concept, stating that Section 16600 "does not invalidate an employee's agreement not to disclose his former employer's confidential customer lists or other trade secrets or not to solicit those customers."

Under the Uniform Trade Secrets Act, any "formula, pattern, compilation, program, device, method, technique, or process" can be protected from being utilized by a former employee if it "derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use." Providing a company takes reasonable measures to limit access to this information, a former employee can be enjoined from using it to the former employer's detriment or to the ex-employee's benefit.

To invoke these legal rights, employers must guard their trade secrets, protect their customer lists and restrict access to proprietary customer information. To do so, employers can take simple steps, such as requiring employees to sign confidentiality agreements and monitoring access to computer programs containing proprietary information. In such circumstances, it is more likely the courts will enforce the right of the company to ensure competitive fairness by limiting the former employee's actions.

To the extent that a former employee tries to raid the company's key people and obtain the business of its most profitable accounts, claims can be asserted for unfair competition, unlawful interference with the company's prospective business advantage and, if there is an agreement with the customer, improper interference with a contractual relationship.

In sum, although there is a general policy supporting the American competitive spirit, the law will protect employers from theft of trade secrets and blatant unfair competition.

Fred Fenster is a trial attorney with almost three decades of experience representing notable sports figures, as well as a multitude of other clients in complex business disputes. He can be reached at (310) 286-1700, or by email at ffenster@rutterhobbs.com.

RUTTER

HOBBS &

DAVIDOFF

INCORPORATED
LAWYERS

1901 Avenue of the Stars
Suite 1700
Los Angeles, CA
90067-6801

Address Service Requested

On January 1, 2004, the long awaited federal anti-spam statute began to strike back at the nationwide barrage of spam facing on-line computer users. As a result, the anti-spam statutes of 37 states, including the powerhouse California statute that also was to become effective on January 1, 2004, were simultaneously pre-empted by the new Act, which creates uniform U.S. legislation to regulate and combat spam.

Although the Act does not expressly define spam, most on-line users feel they know spam when they see it — unsolicited, unwanted commercial e-mail that flagrantly trespasses on their computer space, squanders their time, contaminates their computers and subjects them to offensive messages and other harmful consequences. With tempers rising, more colorful language often is used to describe spam. The findings of Congress include the following:

- E-mail is an important means of communication used by millions daily, both personally and commercially, but its convenience and efficiency are threatened by spam (most being fraudulent or deceptive), currently accounting for more than half of all e-mail traffic and growing.
- Significant time is spent accessing, reviewing and discarding spam with an attendant risk of valuable messages being lost, overlooked or inadvertently deleted, thus reducing the reliability and usefulness of e-mail.
- Spam imposes significant monetary costs on businesses and non-profit institutions that cannot handle the huge influx of spam without increased infrastructure investment.
- Many spammers disguise the source of their e-mails, including misleading information in the subject lines and failing to provide or refusing to honor an "opt-out" mechanism so the recipient can bar future spam from the sender.
- Many bulk spammers use computer programs or on-line services to harvest e-mail addresses on an automated basis.
- Multi-state legislation has been unsuccessful in addressing spam.

Significantly, Congress acknowledges that federal legislation alone cannot solve the abuses of spam, but rather technological approaches and cooperative efforts with other countries also will be necessary. Although not stated in the findings, some experts believe that the final prong of defense will be the savvy, strategically defended e-mail recipient.

Many will find it maddening to know that on-line ads

directed to spammers already are hawking publications that claim to identify "loopholes in the law" and "tips and tricks to use the loopholes." Regrettably, it is predictable that some spammers will evade the new Act, including moving their operations offshore.

In viewing the necessarily brief highlights summary below, note that this complex new Act is more than twenty single-spaced pages in length and that its title alone is over ten words — "Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003" or for short the "CAN-SPAM Act of 2003." Some would have preferred a title that would yield an acronym like "CAN-NOT SPAM Act" or "SCRAM-SPAM Act."

SOME HIGHLIGHTS OF THE ACT

- *Preemption.* The Act generally supersedes all state anti-spam legislation that expressly regulates the use of commercial e-mail, except to the extent state statutes bar falsity or deception in any portion of a commercial e-mail. Because of this exception, a portion of California's anti-spam statute may survive. State laws relating to fraud or computer crime, as well as state laws not specific to electronic mail such as trespass, contract or tort law also are not superseded.
- *Opt-Out.* Commercial e-mail must include "clear and conspicuous notice of the opportunity . . . to decline to receive further commercial" e-mail messages from the sender. If the recipient has opted-out, then the sender must cease transmission within 10 business days after the sender receives the opt-out request. The California statute would have reversed this process by barring the sender from transmitting commercial e-mail to a recipient unless the recipient had specifically consented ("opted-in") to receiving it. On-line users whose mailboxes are flooded with huge quantities of spam would have preferred the tougher opt-in requirement under the California approach.
- *Labels, Misleading Headers.* Commercial e-mail must be labeled with "clear and conspicuous identification that the message is an advertisement or a solicitation" together with a "valid physical postal address of the sender." False or misleading headers are barred.
- *Address Harvesting, Dictionary Attacks and Other Aggravated Violations.* The Act also bars obtaining e-mail addresses through automated means from websites or



By Sam Poss

proprietary on-line services of other persons (harvesting) or through automated generation by permuting names, letters or numbers (dictionary attacks), automated creation of multiple e-mail accounts to make barred transmissions and relaying e-mails from a "protected" computer.

- *Adult Advertising.* Sexually oriented advertising must be indicated in the subject line or the text of the first page and such content must not be visible when the e-mail is initially opened.

- *Fraudulent and misleading transmission.* Several provisions of the Act address misleading and fraudulent practices, including anti-fraud provisions added to the U.S. Criminal Code.

- *Legal Spam.* The Act in effect creates legal spam that the Act regulates. At least one consumer advocate has criticized the Act as a "bill of rights for spammers." As noted, one alternative would have been to bar all spam not previously consented to by the recipient, that is, the "opt-in" mechanism of the now preempted California statute.

- *Application.* The Act generally applies to commercial e-mail, meaning e-mail whose primary purpose is the commercial advertisement or promotion of a product or service including content of commercial websites.

- *Safe Harbor.* "Transactional or relationship messages" are excluded from the definition of commercial e-mail, thus exempting them from the opt-out provisions of the Act. The current narrow definition of this term does not extend to a preexisting business relationship, an exemption many commentators anticipated. For example, specific communications confirming an agreed to commercial transaction or provision of warranty information regarding a purchased product are exempt, although the mere existence of a business relationship does not create an exemption.

- *Enforcement.* The Act may be enforced by the Federal Trade Commission ("FTC"), certain other federal agencies (in specific cases), state attorney general actions in federal courts and suits by Internet service providers, in addition to criminal prosecutions for fraud and other serious violations. Unlike the preempted California statute, consumers will have no private cause of action for spam. Remedies in civil actions include injunctive relief, damages equal to actual loss or statutory damages of up to \$250 per illegal e-mail to a maximum of \$2 million. Treble damages are possible for willful and knowing violations or "aggravated violations." Courts also have discretion to award the costs of such an action and attorneys' fees. Criminal penalties include fines and imprisonment for up to five years.

- *FTC-Prescribed Duties.* In addition to its general authority to issue regulations regarding the Act, the FTC

has been delegated broad authority to shape, sharpen and enhance the Act, including the following:

- *DO-NOT-E-MAIL Registry.* Provide a plan and time table for establishing a nationwide DO-NOT-E-MAIL registry within six months, with authority to establish and implement the registry, within nine months.
- *Primary Purpose.* Define "primary purpose" of an e-mail to address the vital issue of what e-mail is covered by the Act, within 12 months.
- *Safe Harbor.* Expand or contract the safe harbor (transactional or relationship message).
- *Subject Line Identifier.* Issue a plan for required subject lines in commercial e-mail such as "ADV" or other identifier, within 18 months.
- *Adult Content Alert.* In consultation with the U.S. Attorney General, prescribe clearly identifiable warning marks for sexually oriented e-mail, within 120 days.
- *10-Business Day "Opt-Out."* Modify the 10-business day period (if determined to be appropriate) for a sender to remove an "opt-out" recipient from its e-mail list.
- *Whistleblower Reward.* Issue a report establishing a system for rewarding "whistleblowers" with a reward of not less than 20% of the total civil penalty collected for violations of the Act, within nine months.
- *Report.* In consultation with the Department of Justice, submit a report with a detailed analysis of the effectiveness and enforcement of the Act including recommendations, within 24 months.

Although some anti-spammers and other consumer advocates have criticized the CAN-SPAM Act for not including the more restrictive provisions of state legislation (such as Illinois and California) or observed critically that there has not yet been a reduction in spam volume, it is too early to reach any conclusions about the ultimate impact of the Act. Clearly, the Act provides a much-needed uniform federal approach. The FTC will be making numerous determinations that will substantially affect the Act and there will be other opportunities ahead to further develop and fine-tune the statute.

Of course, the legislative process will always lag behind the Internet pace of the new electronic world. Dealing effectively with the ingenuity of tenacious spammers during the foreseeable future will require the ongoing application of new technology, cooperation with other nations and on-line users educated to combat spam from their own computers.

Sam Poss is an experienced business lawyer whose practice includes Internet, computer and high technology transactions. He can be reached at (310) 286-1700, or by email at sposs@rutterhobbs.com.