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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

DIGITAL ENVOY, INC., Plaintiff/Counterdefendant, v. GOOGLE INC., Defendant/Counterclaimant.	CASE NO.: C 04 01497 RS **GOOGLE INC.'S NOTICE OF MOTION AND MOTION FOR SUMMARY JUDGMENT** **(PUBLIC VERSION)** Judge: Hon. Richard Seeborg Courtroom: 4, 5th Floor Date: March 30, 2005 Time: 9:30 a.m.

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NOTICE OF MOTION AND MOTION

PLEASE TAKE NOTICE that on March 30, 2005, at 9:30 a.m. or as soon thereafter as it may be heard, defendant/counterclaimant Google Inc. ("Google") will move and hereby does move, pursuant to Fed. R. Civ. P. 56, for entry of summary judgment in its favor on plaintiff/counterdefendant Digital Envoy, Inc.'s ("Digital Envoy") Amended Complaint, or in the alternative for partial summary judgment as to individual claims in the Amended Complaint or individual issues presented in the motion. Google makes this motion on the grounds that there are no remaining triable issues of fact with respect to Digital Envoy's claim for trade secret misappropriation or any other claim remaining in the case, and that Google is entitled to judgment as a matter of law on those claims.

Google's motion is supported by the following memorandum, the accompanying Declarations of David H. Kramer, Mark Rose and Susan Wojcicki, the argument of counsel and any other matters properly before the Court.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

When offering to license its geo-location technology and data to Google, Digital Envoy expressly encouraged Google to use it in Google's advertising programs. Indeed, Digital Envoy promised that Google could "use it for everything" and that Google would have "unlimited use." Not surprisingly, that is precisely what Google thought it got in the parties' license agreement (the "License Agreement") under which Digital Envoy authorized Google to use the technology and data as Google saw fit in its "Business." But according to Digital Envoy's allegations in this action, its promises to Google were false.

Digital Envoy has charged Google with trade secret misappropriation and related dependent claims. It contends that Google's use of Digital Envoy's data in a Google advertising program known as AdSense for content ("AFC") was not authorized by the License Agreement. To support that contention, it badly misstates the terms of the contract.

Under the License Agreement, Digital Envoy authorized Google to use its technology and data in Google's "Business," defined as "the business of producing and maintaining information technology." From the start of the parties' relationship, Google has "produced" and "maintained" its information search technology through its advertising programs. Indeed, those programs are Google's business. Moreover, Digital Envoy expressly concedes that Google's use of the data in another, indistinguishable advertising program called AdWords is authorized under the License Agreement. Plainly, Digital Envoy itself recognizes that Google produces and maintains its information search technology through its advertising programs. Accordingly, Google's use of Digital Envoy's data in AFC falls squarely within the authorization granted to it by the License Agreement.

Digital Envoy proffers an alternative and unsupportable reading of the license as the basis for its claims. It suggests that Google's authorization to use the data in "producing and maintaining information search technology" actually limits Google to using the data in information search technologies themselves. That interpretation violates basic rules of contractual interpretation and should be rejected. In any event, it does not rescue Digital

Envoy's claims. Google's AFC program is simply another of Google's information search technologies, used by Google to locate relevant commercial information to display to end-users. It operates in the same manner as the AdWords program that Digital Envoy concedes is licensed. Because Google's AFC program is itself an information search technology, Google's use of Digital Envoy's data in that program is authorized, even accepting Digital Envoy's misreading of the License Agreement.

Perhaps recognizing the infirmity of its initial theory, Digital Envoy has shifted course in midstream. It now claims that in using Digital Envoy's data in the AFC program, Google somehow discloses Digital Envoy's data to third parties. But Digital Envoy cannot possibly support that claim. At all times during the operation of the AFC program, Digital Envoy's data remained resident on Google's computers and was accessed only by Google. Google did not disclose or share the contents of Digital Envoy's database with third parties. Accordingly, this new theory cannot salvage Digital Envoy's claims.

Because it cannot show that Google made unauthorized use of its data, Digital Envoy cannot establish a prima facie case of misappropriation. All of its claims should fall for that reason alone. But even if the Court ultimately accepts Digital Envoy's strained contractual interpretation and finds Google's use was unauthorized, summary judgment for Google on the trade secret claim would still be warranted. Given Digital Envoy's promises of "unlimited use" and the testimony of Google's representatives, Digital Envoy cannot possibly show that Google acted unreasonably in believing its conduct was authorized. As a matter of law, Google cannot be held liable for the intentional tort of trade secret misappropriation based upon a reasonable, if erroneous, interpretation of the License Agreement.

II. BACKGROUND

The Parties

Google is a global technology leader focused on improving the ways people connect with information. Its longstanding company mission is to "organize the world's information and make it universally accessible and useful." The utility and ease of use of Google's services have made it one of the world's best known brands, almost entirely through word of mouth from

satisfied users. Visitors to Google's various Internet web sites can locate information in Google's "web index," a database containing the sortable content of more than eight billion Internet pages; they can scan through more than one billion images; or peruse the world's largest archive of online bulletin board messages dating back to 1981. Declaration of Susan Wojcicki ("Wojcicki Decl.") at ¶ 2. Google supports these endeavors through advertising revenue which accounted for approximately 99% of its gross revenues in 2004. Google enables advertisers to deliver cost-effective online advertising by targeting their messages to the content on a given web page that a user is viewing. *Id*.

Digital Envoy is one of several companies that generate data that can help users make an educated guess about the approximate geographic location of a visitor to a website. Specifically, Digital Envoy's data attempts to match the unique IP addresses[1] assigned to the computers of individual Internet users to particular countries, regions or metropolitan areas. Declaration of Mark Rose ("Rose Decl.") at ¶ 2.

<u>The Parties' License Agreement</u>

Digital Envoy's CEO, Rob Friedman, introduced his company to Google in an email dated October 24, 2000, stating: "I believe that our geo-targeting product could help you target search results and advertising on a geographic basis." Declaration of David H. Kramer ("Kramer Decl."), Ex. A. Thus, from its very first communication to Google, Digital Envoy encouraged Google to use Digital Envoy's data and technology – specifically its IP Address/location database – both to target search results and to support Google's advertising programs.

When discussions regarding a licensing agreement began, Digital Envoy suggested several additional ways in which Google could use Digital Envoy's data. Kramer Decl., Ex. B (email thread). In his reply, one of Google's negotiators, Steve Schimmel, explained: "We will probably, eventually use your product in all of the ways mentioned. That being said, we will

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[1] An "IP address" or "Internet Protocol Address" is a string of four sets of numbers, separated by periods, such as "241.30.241.28," uniquely assigned to each computer accessing the Internet at a given time. *Name.Space, Inc. v. Network Solutions, Inc.*, 202 F.3d 573, 576 (2d Cir. 2000); *see also* Management of Internet Names and Addresses, 63 Fed. Reg. 31,741 (June 10, 1998).

most likely just use it for advertising targeting for a while (but like to have flexibility)." *Id.* Responding to Google's desire for "flexibility," Digital Envoy then promised Google that Google could use Digital Envoy's technology for any purpose. *Id.* ("The fee that I quoted earlier would be for 'all you can eat' metro-targeting – *you can use it for everything* and there is no volume cap.") (emphasis added). Google replied with an offer to license Digital Envoy's technology if Digital Envoy could meet the following terms: "*Unlimited volume and use* for country targeting.... for ~$3000/mth total." Kramer Decl., Ex. B (emphasis added). Digital Envoy accepted the offer on the condition that the parties finalize an agreement in short order. *Id.* Google then asked Digital Envoy to draft a contract reflecting the $3000/month price and "*unlimited servers, usage and volume.*" *Id.* (emphasis added). Digital Envoy responded with "a draft of an agreement incorporating the terms" the parties had discussed. Kramer Decl., Ex. C. *See also* Kramer Decl., Ex. D (Friedman Dep.) at 82:15-83:5 (draft transmitted was intended to incorporate Google's proposed terms).

Plainly, one of the central terms that the parties had discussed was Digital Envoy's promise of "unlimited use." As Mr. Friedman explained in his deposition, that promise was incorporated into the draft Digital Envoy sent to Google. *Id.* And it appears in the parties' November 2000 License Agreement in the form of a sweeping grant of license rights by Digital Envoy to Google. Kramer Decl., Ex. E.

The License Agreement, which expired in January 2005, authorized Google to use Digital Envoy's data in Google's "Business" – broadly defined as "the business of producing and maintaining information search technology." Kramer Decl., Ex. E (whereas clause defining "Business"). Google was expressly authorized to use the data at any of its "offices and data centers" and to "develop indices, services, or applications that are provided to third parties." Kramer Decl., Ex. E at § 3.[2]

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[2] The full text of the license grant provision states:

Licensor hereby grants Licensee the limited, worldwide right to use in its Business (and not distribute to any third-party in whole or in part) the Product and the Database Libraries. Such right shall be nonexclusive. Such rights shall be strictly limited to the right to:

The language of the License Agreement and the parties' negotiations made plain to Google's representatives that Google's right to use Digital Envoy's technology was expansive. Indeed, from the time they negotiated the contract through the taking today, Google's representatives have always understood that Google had the right to use Digital Envoy's data as Google saw fit, subject only to the limitation that it not distribute or resell the data to third parties.

For example, Matthew Cutts, who negotiated the contract with Digital Envoy and then implemented Google's use of Digital Envoy's technology in Google's advertising program, testified under cross-examination:

> Q. So your understanding is that -- at that point in time, your understanding was that you could use the data in any way you wanted except for giving the complete code to another third-party?
>
> A. I believe that's correct.
>
> * * *
>
> Q: My question is, that understanding, did you have that understanding consistently from the time of entering into the relationship with Digital Envoy to today, that you had the ability to use the information for whatever you wanted, except for moving the whole database to a third-party?
>
> A. I believe I did have that understanding.

Kramer Decl,, Ex. F (Cutts Dep.) at 54:3-7; 64:1-16.

Steve Schimmel, who managed the Digital Envoy relationship for years, likewise testified:

> Q. Did you yourself consider whether or not this sentence was broad enough to suit Google's desire?

> 1. Input, download, and store some or all of the Database Libraries in files and memory; and compile some or all of the Database Libraries at the Site. Licensee may also use the Database Libraries to develop indices, services, or applications that are provided to third parties (e.g. developing a country-specific index of web pages). In no event, however, are the Database Libraries to be sold, licensed, distributed, shared or otherwise given (in any form) to any other party or used outside of the site set forth herein.
>
> 2. Access and use the Database Libraries in the Business only at the Site. The "Site" shall be defined as Google's offices and data centers.

Kramer Decl., Ex. E at § 3.

> A. It seemed to reflect the concept of unlimited usage, which is what I understood an [sic] agreement to be.
>
> * * *
>
> Q. Okay. Would you agree that the language could have been more explicit in Google's desire to use Digital Envoy's technology in a general sense in case they think about things they want to do?
> . . .
> [A]: Every call, every e-mail that we'd had together always discussed the concepts of unlimited use, including [Digital Envoy] volunteering additional ways in which we hadn't thought of in which we might use it. So at no time did it ever come into my mind that I'd have to be concerned with such a thing.

Kramer Decl., Ex. G (Schimmel Dep.) at 103:8-11, 105:18-106:5. And Kulpreet Rana, Google's in-house counsel who oversaw the license negotiations, testified:

> I believe I would have interpreted this recitation as being very broad for a few reasons. One is that it describes the business as producing and maintaining information search technology, and another is that in our view, in Google's view, information search technology itself is a very broad function. Our business has been to organize the world's information and to make it universally useful and accessible, and we believe that to be a very broad information search function.

Kramer Decl., Ex. H (Rana Dep.) at 22:3-12, 9:11-15 ("That in my view is a broad grant of rights. The only limitation – well, it's not even a limitation – is it's a right to use in its business, and business is defined earlier in the contract very broadly.").

Based on the understanding of its representatives, Google openly used Digital Envoy's data to support its advertising programs for years without any objection whatsoever from Digital Envoy. Kramer Decl., Ex. D (Friedman Dep.) at 213:2-6.

<u>Google's Advertising Programs</u>

As the parties had discussed, after the License Agreement was signed, Google began using Digital Envoy's data in its advertising programs – first in AdWords, and later in AdSense.

<u>AdWords</u>

The advertising program that Google offers to advertisers is known as AdWords. AdWords permits hundreds of thousands of advertisers to display their messages to Internet users all over the world. If a user "clicks" on a given advertising message, the sponsoring advertiser pays Google for that click. Wojcicki Decl. at ¶ 3.

To implement the AdWords program, Google analyzes the content of advertisers' messages and stores them in an indexed database. When called upon to display a message to an end-user, Google searches this database to find what it believes is the most relevant commercial information using a highly complex, weighted algorithm that takes dozens of factors into consideration. Rose Decl. at ¶ 3.

One of the most important factors Google uses to locate advertisements to display to a user is the user's demonstrated interest in a particular subject. Thus, for example, when a visitor queries Google's web index for "basketball," Google will search its inventory for a basketball-related advertisement to match the user's interest. But the user's demonstrated interest is only the first of dozens of factors used in the search process. Others include, for example, the "clickthrough" rate for a particular advertisement, and the amount of money that an advertiser is willing to pay for a user's click.[3] Wojcicki Decl. at ¶ 4.

In some cases, another factor used in Google's search for a relevant advertisement is the perceived geographic location of the Internet user. Google uses this factor in those instances in which an advertiser has asked that Google display its messages only to users in particular places (*e.g.*, where the advertiser chooses to target its messages only to users in Europe). And for a time, until shortly after this lawsuit was filed, as one step in estimating a user's geographic location, Google often used information from Digital Envoy's IP Address/Location database.[4] Rose Decl. at ¶ 4.

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[3] In the Google AdWords program, Google's advertisers inform Google of the "keywords" to which they want display of their advertisements connected (*e.g.*, display only when users search for the term "basketball"). Advertisers also select the maximum amount they are willing to pay Google each time a user "clicks" on their message (*e.g.*, $.50 per click). Where two advertisers are interested in the same keywords, one advertiser can generally increase its chance of having its message displayed by setting a higher maximum payment per click than another. But because Google is interested in locating advertisements that users find relevant, the advertiser offering the highest maximum cost per click will not necessarily have its message displayed. Users may find another advertiser's message more appealing and thus "click" on that message more often. Google uses the comparative "clickthrough rates" of competing messages as one of the factors in its analysis of which message to display. Wojcicki Decl. at ¶ 5.

[4] Even during this period, there were a variety of circumstances in which Google could not or would not use Digital Envoy's data in an effort to determine an end-user's geographic location. For example, in many instances, Google would not receive or could not determine an end-user's IP address. In such cases, Digital Envoy's IP Address/Location database was of no

In the simplest case, a user would visit Google's own site at www.google.com, and ask that Google provide listings of web pages from its web index for the keyword "basketball." The user's computer would communicate the search query "basketball" along with other information to Google's computers, including the user's IP address. Google would then initiate two separate processes – one to find the results from its web index that may be responsive to the user's query, and the other to locate advertising messages that may be relevant to the user. As one step in the process of identifying potentially relevant advertising messages, Google would typically look up the user's geographic location in the Digital Envoy IP Address/Location Database stored at Google. If certain advertisers had excluded that geographic location from their targeted audience, their messages would be dropped from the selection process. Google would continue its search for the appropriate advertising messages from the remaining candidates using its complex multi-factored algorithm. It would then send the selected advertisements, along with the requested results from its web index, back to the user's computer.[5] At no time in the process would Google allow the user or another third-party to access Digital Envoy's database, or transmit the contents of the database to a third-party. Rose Decl. at ¶¶ 5-7.

Digital Envoy concedes that Google was fully licensed under the License Agreement to operate its AdWords program in this fashion, and to display advertisements to users visiting Google's own website at www.google.com. Kramer Decl., Ex. D (Friedman Dep.) at 91:20-92:5 (testifying that License Agreement affirmatively authorizes (and does not prohibit) Google's use of Digital Envoy's technology to display geo-targeted ads on www.google.com); *see also* Kramer Decl., Ex. I (Friedman email to Schimmel dated Feb. 6, 2004 "we agree that Adwords is just a subcategory of Information search. . . . I think it should be covered under our current agreement."). Thus, Digital Envoy admits that Google's use of Digital Envoy's data to help target advertisements to end-users was fully authorized, and was part of Google's "Business" of "producing and maintaining information search technology." *Id.* *See also* Kramer Decl., Ex. E

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use. In other instances, Google would receive a user's IP Address, but that address could not be located within Digital Envoy's database. Rose Decl. at ¶ 4 n.1.

(License Agreement) at § 3. Digital Envoy further admits that in this process, Google was not selling, licensing, distributing, sharing or otherwise giving Digital Envoy's data to any third-party. *Id.*

AdSense

In early 2002, Google formally launched what is now known as its AdSense program. AdSense allows Google to display advertisements to users visiting a participating third-party publisher's web site. If a user clicks on a message displayed on the third-party site, the advertiser pays Google, and Google shares a portion of that payment with the third-party publisher. Wojcicki Decl. at ¶ 6.

The mechanical process by which Google searches for the advertising messages to display to users visiting third-party sites is identical, in relevant part, to the process used to locate advertising messages to display to users visiting Google's own site. Indeed, the process of selecting advertising messages is run by the same computers using virtually identical multi-factored and weighted algorithms. As before, an end-user's geographic location may be one of the variables used in the process of locating the right messages to display. And Google often used Digital Envoy's IP Address/Location data as one of several factors in making its determination about a user's geographic location in AdSense.[6] Rose Decl. at ¶ 8.

Google used Digital Envoy's data in AdSense in the same way it used it in AdWords. The Digital Envoy data remained at all times on Google's computers only. At no time in operating the AdSense program did Google permit the third-party publishers to access Digital Envoy's data or transmit the information in Digital Envoy's database to them. Just as in AdWords, Google alone accessed the data to aid in its search for relevant advertising messages. Rose Decl. at ¶¶ 8-9.

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[5] This process (and the associated computations) occurs in a matter of milliseconds. Rose Decl. at ¶ 6.

[6] Several of the third-party publishers participating in the AdSense program did not provide Google with the IP Address of the end-user visiting their site. Others provided Google with their own assessment of the user's geographic location or information suggesting a particular location. In such cases, Google made no use of the Digital Envoy data in determining the user's geographic location. Rose Decl. at ¶ 8 n.2.

Today, Google's AdSense program takes two forms. In AdSense for search ("AFS"), Google's advertising messages are displayed to end-users who query a web index while visiting a third-party publisher's site. Again, the user's query is the principal factor that Google weighs in locating relevant advertisements. It then selects specific messages using its multi-factored algorithm, and displays them alongside responsive listings from the web index. Wojcicki Decl. at ¶ 7. In AdSense for content ("AFC"), Google's advertising messages are displayed to end-users alongside particular content on the third-party publisher's site. Google analyzes the content the user is viewing and uses that analysis, rather than a specific query by the end-user, to guide its search for relevant advertisements. Thus, if an individual is reading an article on baking at the Washington Post's site, Google may display advertising messages matching that interest, though again, the specific advertisement(s) selected will depend on a host of factors including, perhaps, the user's geographic location. Wojcicki Decl. at ¶ 8.

This Litigation

Earlier this year, amidst the hype surrounding Google's impending public offering, Digital Envoy demanded higher license fees from Google. It claimed, for the first time, that Google was exceeding the scope of the license granted to it. Specifically, Digital Envoy claimed that by using Digital Envoy's data in its AdSense for content program, Google was breaching the License Agreement because AFC was allegedly not part of Google's "Business" of "producing and maintaining information search technology." *See* Digital Envoy's Amended Complaint at ¶¶ 39-42; Kramer Decl., Ex. I.

From the start of the parties' relationship, Google had always "produced and maintained" its "information search technology" through its advertising programs. It responded to Digital Envoy's claim by highlighting the parties' discussions in which Digital Envoy had repeatedly promised Google "unlimited use" of its technology, and noted that the parties had specifically emphasized advertising as Google's intended use. Kramer Decl. Ex. I (Schimmel email response, Feb. 6, 2004). Google also explained that the advertising programs themselves were part and parcel of Google's information search technology. *Id.* Accordingly, Google reiterated

its consistently-held belief that it had every right to use Digital Envoy's technology to help target advertisements in its AFC program. *Id.*

When Google refused what it perceived as extortionate demands, Digital Envoy filed suit against Google in Georgia, in violation of the forum selection clause in the License Agreement. Kramer Decl., Ex. E at § 12 (forum selection clause). Upon Google's motion, the Northern District of Georgia transferred the case here. *Digital Envoy, Inc. v. Google, Inc.*, 319 F. Supp. 2d 1377 (N.D. Ga. 2004). In its Order effecting the transfer, the Georgia court concluded that interpretation of the License Agreement was at the heart of the case and recognized that Digital Envoy's claims "will almost certainly fail if Google's use of its technology is found to be within the scope of the agreement." *Id.* at 1380.

When Digital Envoy filed an amended complaint in this Court, it again claimed that Google's use of Digital Envoy's data in AFC exceeded the scope of the use authorized by the License Agreement, and thus constituted willful trade secret misappropriation. Amended Complaint at ¶¶ 44-50 (Count I). Digital Envoy tacked on additional state law claims based upon the same predicate allegation. *Id.* (Counts II-V); Kramer Decl., Ex. D (Friedman Dep.) at 223:6-14.

As the litigation has progressed, Digital Envoy has apparently become less enamored of the theory set forth in its Amended Complaint, and has concocted another basis for its trade secret charge. Digital Envoy now additionally contends that Google's use of its data in AFC exceeds the scope of the License Agreement because Google, in operating AFC, somehow disclosed Digital Envoy's data to third parties. But as noted, no such disclosure took place. As in all of Google's advertising programs, in AFC, Digital Envoy's data remained at all times on Google's own computers and was not accessed by any third-party.

III. ARGUMENT

A party is entitled to summary judgment as a matter of law where the pleadings and evidence show that there is no genuine issue of material fact on the claim in question. Fed. R. Civ. P. 56(c). Where the moving party does not have the burden of proof on a particular issue, it need not introduce evidence to obtain a summary judgment. Rather, it need only show the Court

that there is an absence of evidence to support the nonmoving party's case. *See Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986); *Cline v. Industrial Maint. Eng'g & Contracting Co.*, 200 F.3d 1223, 1229 (9th Cir. 2000).[7]

DIGITAL ENVOY'S TRADE SECRET MISAPPROPRIATION CLAIM FAILS AS A MATTER OF LAW BECAUSE DIGITAL ENVOY CANNOT SHOW MISAPPROPRIATION.

To establish a *prima facie* case of trade secret misappropriation, the plaintiff has the burden to prove that (1) it owns information that is a trade secret; (2) the defendant misappropriated the trade secret by acquiring, disclosing or using the trade secret through improper means; and (3) the defendant's actions damaged the plaintiff. Cal. Civ. Code §3426 *et seq.*; *Sargent Fletcher, Inc. v. Able Corp.*, 110 Cal. App. 4th 1658, 1666 (2003) (plaintiff bears burden on each element of claim); *see also Imax Corp. v. Cinema Tech., Inc.*, 152 F.3d 1161, 1164 (9th Cir. 1998) (plaintiff has the burden to identify each alleged secret and prove secrecy); *see also* Kramer Decl., Ex. E at § 12 (California choice of law clause). In this action, Digital Envoy cannot offer evidence to establish the required element of "misappropriation."

Digital Envoy contends that Google has engaged in misappropriation by using Digital Envoy's data, without Digital Envoy's consent, while knowing or having reason to know that such use was unauthorized. Amended Complaint at ¶ 46 (alleging *misuse*); Cal. Civ. Code §3426.1(b)(2)(B)(ii) ("Misappropriation" statutorily defined as "use of a trade secret . . . *without express or implied consent* by a person who, . . . [a]t the time of the use, *knew or had reason to know* that his knowledge of the trade secret was . . . [a]cquired under circumstances giving rise to a duty to limit its use") (emphasis added). Digital Envoy's misappropriation charge is meritless for at least two reasons.

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[7] Even if summary judgment or summary adjudication of an entire claim is not warranted, Federal Rule of Civil Procedure 56(d) allows a court to grant partial summary judgment, thereby reducing the number of facts at issue in a case. Fed. R. Civ. P. 56(d); *State Farm Fire & Cas. Co. v. Geary*, 699 F. Supp. 756, 759 (N.D. Cal. 1987). If for any reason the Court believes that summary judgment or summary adjudication of entire claims is unavailable, Google respectfully requests that the Court grant it summary adjudication with respect to the specific issues raised herein, including the interpretation of the License Agreement, the operation of Google's AFC program, and any other issues the Court believes are appropriate for resolution.

First, Digital Envoy cannot show that Google's use of Digital Envoy's data in AdSense for content was unauthorized. Digital Envoy authorized such use under the terms of the parties' License Agreement.

Second, even if Google's use was not authorized, Google did not know or have reason to know that it was prohibited from using Digital Envoy's data as it did. The evidence uniformly demonstrates that (1) Google believed that the License Agreement permitted use of Digital Envoy's data in AFC, and (2) Google's contract interpretation was eminently reasonable. As a matter of law, given that Google acted based on a reasonable interpretation of the License Agreement, Google cannot face liability for intentional misappropriation – even if its reasonable interpretation is ultimately deemed to have been incorrect.

A. Google Did Not Engage in Misappropriation Because Digital Envoy Authorized Google to Use Its Data in AdSense for Content.

1. Use in AdSense for Content Is Use in Google's Business of "Producing and Maintaining Information Search Technology."

Digital Envoy has conceded that Google was expressly authorized to use Digital Envoy's data as part of its AdWords program to display geo-targeted advertisements on Google's own sites. That concession is fatal to Digital Envoy's claims. It reveals Digital Envoy's recognition that Google's use of the data to support its advertising programs constituted use by Google of the data in Google's "Business" of "producing and maintaining information search technology."

In an attempt to avoid the consequences of its concession, Digital Envoy offers an obvious misreading of the License Agreement, hoping to distinguish AdSense for content from AdWords. According to Digital Envoy, Google's use in AFC is not authorized because the program is not itself an "information search" technology. That assertion is wrong, but it is beside the point in the first instance. The License Agreement did not restrict Google to those uses of Digital Envoy's data that themselves constitute "information search technology." Rather, the License Agreement expressly authorized Google to use the data in its "business" of "*producing and maintaining* information search technology." Digital Envoy's attempt to read the words "producing and maintaining" out of Google's license is improper as a matter of law.

See Cal. Civ. Code §1641 (stating rule of contract interpretation that all words in contract should be given effect); *Aozora Bank, Ltd. v. 1333 North Cal. Blvd.*, 119 Cal. App. 4th 1291, 1296 (2004) (rejecting contract interpretation that would render words in contract "mere surplusage."); *Hard v. Cal. State Employees Ass'n*, 112 Cal. App. 4th 1343, 1348 (2003) (deeming interpretation that would render language meaningless an "irrational construction").

Taking the License Agreement as written, with every word given meaning, there can be no dispute but that Google's use of Digital Envoy's data in AFC was authorized. Google "produces and maintains" its "information search technology" through its advertising programs. As noted, roughly 99% of Google's revenues for 2004 came from advertising. Absent this advertising, Google obviously would have enormous difficulty "producing or maintaining" anything at all.

That should be the end of the matter. Because Google's AFC program is part of Google's "business" of "producing and maintaining information search technology," Google was expressly authorized to use Digital Envoy's data in that program. Google is thus entitled to summary judgment on Digital Envoy's claims that such use constituted trade secret misappropriation or was otherwise unlawful.

2. Use in AdSense for Content Is Use in Google's "Information Search Technology" Itself.

Digital Envoy's attempt to rewrite the parties' agreement to limit Google to using Digital Envoy's data directly in Google's information search technology should be rejected. But even if the Court were to consider this strained revision of the license, Google's use of the data in AdSense for content would remain authorized because the AFC program is simply another one of Google's information search technologies.

In the AFC program, Google searches for and displays commercial information that it believes best matches the interests of end-users visiting a third-party publisher's site. The search process is complex, and weighs a host of factors in an effort to find those messages in Google's inventory that are most likely to be relevant to a particular end-user. In short, Google's advertising programs have always been another way of helping people find relevant information.

See, e.g., Kramer Decl., Ex. H (Rana Dep.) at 23:17-22 ("We view advertisements as another source of information for users. When users are searching for information, we try to provide them a variety of information that they will find relevant. Some of which is in the form of advertisements, and some of which is not."); Ex. F (Cutts Dep.) at 114:19-115:16, 117:13-24 ("We think of ads as just another type of search;" "I don't think Google draws a dichotomy between ads and between searching over the web or searching any other type of information because I believe that Google believes that returning the best information possible is the best way to get information to users . . . .").

Digital Envoy is in no position to contend otherwise. From the very start of the parties' discussions, Digital Envoy suggested that Google utilize Digital Envoy's data in its advertising programs. Kramer Decl., Ex. A ("our geo-targeting product could help you target search results and advertising on a geographic basis"). And Digital Envoy has conceded that Google was authorized to do so when displaying advertisements on its own site. Kramer Decl., Ex. I (Friedman email to Schimmel dated Feb. 6, 2004) ("we agree that Adwords is just a subcategory of Information search. . . . I think it should be covered under our current agreement."). In making that concession, Digital Envoy has already acknowledged that Google's advertising programs are information search technologies.

The selection of advertisements for display in the AFC program is performed by the same computers, using algorithms that are materially identical to those used in Google's AdWords program. In both programs, Google's computers receive a request to locate advertising messages and then search for those messages that Google believes will be of most interest to the end-user. Rose Decl. at ¶¶ 5-9. That the messages in AFC are displayed on third-party sites, as opposed to Google's own site, in no way alters the fact that they are selected through an information search process.[8]

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[8] *See* Kramer Decl., Ex. H (Rana Dep.) at 23:24-24:10 ("Q. And in the AdSense for Content program, how is it that the user is searching for information? A. When a user visits a Web page, it is because they are interested in the content of that page. And our AdSense for Content service attempts to provide the user, again, with information that is of interest or relevant to what they are viewing or what they are looking for. It does so by using the content of

To manufacture some distinction between the program it concedes is licensed and the AFC program it claims is not, Digital Envoy points out that advertising messages on Google's site are displayed only after an end-user queries Google's web index. In the AFC program, by contrast, Google displays advertisements based on the content of the page a user is viewing, regardless of whether the user has queried Google's web index. This purported distinction, however, is irrelevant. The License Agreement nowhere limits Google's use to displaying advertising messages on www.google.com or Google's own web sites. Likewise, it nowhere requires that Google only display advertising messages on screens presented after end-users submit queries on Google's Internet search engine.[9] Indeed, the License Agreement imposes no limitations at all concerning end-users, their location, their queries, or the display of advertising. Even under Digital Envoy's misinterpretation, the only limitation is that Google use Digital Envoy's data in an information search technology.

Because Google's use of Digital Envoy's data in AFC is use in Google's information search technology itself, such use is authorized even under Digital Envoy's attempted revision of the License Agreement. Accordingly, such use cannot support Digital Envoy's claim for trade secret misappropriation and related torts. Google's is entitled to judgment as a matter of law on the claim.

3. Google Does Not Disclose Digital Envoy's Data to Third Parties in Operating AdSense for Content.

Perhaps recognizing the weakness in the misappropriation theory espoused in its complaint, Digital Envoy has shifted its focus to an alternative theory as the case has progressed.

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the Web page as a way to, as a proxy or a way to determine what the user – what type of information the user is searching for.")

[9] On this point, the drafting history of the Agreement is highly probative. The original draft of the Agreement proposed licensing Google to use Digital Envoy's technology in its "business of producing and maintaining *an Internet search engine*." Kramer Decl., Ex. J (Draft of agreement) (emphasis added). In the final agreement, the "Internet search engine" language was stricken. In its place, the parties substituted the language "information search technology," making the grant of the license considerably broader. Kramer Decl., Ex. E; Ex. D (Friedman Dep.) at 205:21-23, 206:12-15 (acknowledging change broadened the grant of license to Google). Digital Envoy's attempt to re-insert a restriction tying Google's use to an "Internet

It now claims that in operating AFC, Google improperly disclosed or distributed Digital Envoy's data to third parties in violation of its license grant. Digital Envoy thus contends that Google's use of its data in AFC was not authorized. This new charge is both mystifying and baseless.

In operating AFC, Google in no way distributed, disclosed, shared or otherwise gave Digital Envoy's data to any third-party. At all times, Digital Envoy's data remained on Google's own computers. The data was accessed only by Google itself, as part of Google's multi-factored process for selecting advertisements to display to end-users. Rose Decl. at ¶¶ 8-9. In short, there is nothing at all to Digital Envoy's new theory.

Digital Envoy seems to believe that Google violated the license's prohibition on disclosing or sharing data because it allowed third-party publishers to benefit from a Google service in which Google used the data internally. That is, even though the publishers did not ever obtain or access Digital Envoy's data, Digital Envoy objects because publishers earned money from advertisements that were selected through a process that may have included Google's internal use of Digital Envoy's data. This reading of the license's prohibition on *disclosure* of the data to third parties is frivolous.

The license clause at issue proscribes distributing, sharing or *otherwise giving* Digital Envoy's data to other parties. Kramer Decl., Ex. E (License Agreement) at § 3. Thus, the prohibition is focused on methods by which Google might *give* Digital Envoy's data to others. There is no prohibition on allowing third parties to benefit from a Google service in which Google makes only internal use of the data. In fact, the clause immediately preceding the disclosure prohibition expressly authorizes Google to provide services to third parties using the data: "Licensee may also use the Database Libraries to develop indices, services, or applications that are provided to third parties." *Id.* Digital Envoy thus asks the Court to invent a prohibition that does not exist, and ignore an affirmative authorization that does.[10] Its newly-manufactured theory should be rejected out of hand.

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search engine" is as baseless as its request that the Court ignore the "producing and maintaining" language altogether.

[10] Digital Envoy's suggestion that Google was not entitled to permit third parties to benefit from Digital Envoy's technology makes no sense. In virtually every use that Google made of

B. Google Did Not Engage in Misappropriation Because Google Did Not Know or Have Reason to Know That It Was Prohibited From Using Digital Envoy's Data in AdSense for Content.

Even if the Court were to somehow find that Google was not authorized to use Digital Envoy's data in Google's AFC program, Digital Envoy's "misappropriation" charge would still fail. Digital Envoy cannot show that Google knew, or had reason to know, that its broad license to use Digital Envoy's data excluded use of the data in AFC. *See* Cal. Civ. Code § 3426.1(b)(2)(ii) (defining "misappropriation" to require "use of a trade secret of another . . . by a person who . . . [a]t the time of . . . use, *knew or had reason to know* that his or her knowledge of the trade secret was . . . [a]cquired under circumstances giving rise to a duty to . . . limit its use") (emphasis added).

The individuals who negotiated the License Agreement for Google have uniformly testified to their consistent understanding that Digital Envoy broadly granted to Google the right to use Digital Envoy's data for *any* purpose. *See, e.g.*, Kramer Decl., Ex. G (Schimmel Dep.) at 105:25-106:5 ("Every call, every e-mail that we'd had together always discussed the concepts of unlimited use, including [Digital Envoy] volunteering additional ways in which we hadn't thought of in which we might use it. So at no time did it ever come into my mind that I'd have to be concerned with such a thing."); Ex. H (Rana Dep.) at 8:15-10:16, 20:2-14; Ex. F (Cutts Dep.) at 53:20-54:7.

It is no surprise that Google's representatives held this view in light of the parties' negotiations over the license agreement. From the start, Digital Envoy's representative was aware that Google intended to use Digital Envoy's data in various ways, including in Google's advertising programs. Kramer Decl., Ex. B ("I was assuming you'd be using [Digital Envoy's technology] in targeting your new advertising push."); *Id.* ("we will probably, eventually use your product in all of the ways mentioned. That being said, we will most likely just use it for

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Digital Envoy's data, a third-party benefited in some manner from the data. For example, in the undisputedly authorized AdWords program, Google theoretically enabled advertisers to better target their messages through use of Digital Envoy's data. Those advertisers gained the benefit of Digital Envoy's technology without themselves having licensed the technology from Digital Envoy. Digital Envoy concedes that such use was authorized. Thus, the fact that third parties benefit from the technology could not bar Google's use of the technology.

advertising targeting for a while (but like to have flexibility)."). Indeed, Digital Envoy told Google that Google could use Digital Envoy's technology however it wished. *Id.* ("The fee that I quoted earlier would be for 'all you can eat' metro-targeting – *you can use it for everything* and there is no volume cap.") (emphasis added). Google responded to that representation with an offer to license Digital Envoy's technology if Digital Envoy could meet the following terms: "*Unlimited volume and use* for country targeting . . . . *for ~$3000/mth total.*" Kramer Decl., Ex. B (emphasis added). And when Digital Envoy accepted, contingent upon entering an agreement quickly, Google again highlighted the requirement that the contract provide for "unlimited usage." *Id.* Digital Envoy accepted, supplying "a draft of an agreement incorporating the terms" the parties had discussed. Kramer Decl., Ex. C. Given this sequence, Google could not have had an understanding other than that it was entitled to make "unlimited use" of the Digital Envoy's data and technology and "use it for everything," including its advertising programs.

Further, from the time the License Agreement was signed in November 2000 until this dispute arose in February 2004, Digital Envoy never so much as hinted that Google's use of Digital Envoy's data was somehow limited. Kramer Decl., Ex. D (Friedman Dep.) at 213:2-6. It certainly raised no objection when the AFC program was launched to widespread press attention in March 2003, even though it clearly knew about the program. Kramer Decl., Ex. K (Google press release); Ex. L (Google's April newsletter discussing its ad network circulated at Digital Envoy on May 1, 2003). In fact, in October 2003, Digital Envoy boasted of Google's use of its data in Google's advertising network. *Id.*, Ex. M (Friedman email dated October 24, 2003 referencing Google's advertising network: "[redacted]"). Digital Envoy certainly gave Google no reason to believe that Google was not authorized to use Digital Envoy's data in its advertising programs.

Finally, the License Agreement itself in no way informed Google that it was barred from using Digital Envoy's data in AFC. Indeed, as discussed above, Google continues to believe that the license expressly authorized such use. But even if it did not, no juror could find that Google's understanding of the contract was unreasonable.

Google has found no court to ever have imposed trade secret liability on a party for using alleged secrets under a reasonable, but ultimately erroneous, belief that such use was authorized by a license agreement.[11] That is not surprising, as trade secret misappropriation is an intentional tort. *See Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1326, 1338 (S.D. Fla. 2001) (applying California law). Thus, where a party acts in good faith, liability should not attach.

Indeed, California courts addressing the analogous issue of tortious "bad faith" denial of insurance coverage have barred tort liability as a matter of law where an insurer has acted based upon a reasonable, if mistaken, interpretation of a contract. *Opsal v. United Servs. Auto. Ass'n*, 2 Cal. App. 4th 1197, 1205-07 (1991) (overturning jury verdict on "bad faith" claim where, as a matter of law, insurer's erroneous interpretation of policy was not "unreasonable"); *see also Guebara v. Allstate Ins. Co.*, 237 F.3d 987, 992 (9th Cir. 2001) (observing that, under California law, "bad faith" claim against insurance company "can be dismissed on summary judgment if the defendant can show that there was a genuine dispute as to coverage"); *Dym v. Provident Life & Accident Ins. Co.*, 19 F. Supp. 2d 1147, 1151 (S.D. Cal. 1998) (no tort liability as a matter of law for insurer whose "error was not based on a mistake regarding the facts surrounding plaintiff's disability fact but rather a mistake as to how the disability provision should be interpreted").

California has thus already recognized the impropriety of imposing intentional tort liability on a party that acted based upon a reasonable but erroneous contractual interpretation.

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[11] In fact, in the only case on point, the D.C. Circuit went far further than the position advocated by Google here. *See Aktiebolaget Bofors v. United States*, 194 F.2d 145, 147 (D.C. Cir. 1951). According to that court, a trade secret licensee can *never* be held liable for tort in connection with alleged unauthorized use of licensed trade secrets. Rather, any claim against the licensee must sound in breach of contract. ("[O]ne who has lawfully acquired a trade secret may use it in any manner without liability unless he acquired it subject to a contractual limitation or restriction as to its use. In the event a licensee uses the secret for purposes beyond the scope of the license granted by the owner is liable for breach of contract, but he commits no tort, because the only right of the owner which he thereby invades is one created by the agreement of disclosure."). Google does not contend that a trade secret licensee can never be held liable for misappropriation; merely that such liability cannot be imposed where the licensee acts based upon a reasonable, if mistaken, interpretation of the license.

As the "reasonableness" standard in the insurance context is akin to the "reason to know" standard imposed by California's Trade Secret Act, that same principle should apply here.[12]

Given Google's reasonable interpretation of the License Agreement, Digital Envoy cannot – as a matter of law – demonstrate that Google had "reason to know" that it could not use Digital Envoy's data in AFC. Accordingly, even if Google's understanding of the license is not validated by the Court, Digital Envoy would still be unable to raise a triable issue of fact as to Google's supposed trade secret misappropriation. Google is thus entitled to summary judgment on the claim.

IV. CONCLUSION

Google's use of Digital Envoy's data in AFC was expressly authorized by the parties' License Agreement. Google is thus entitled to summary judgment on all of Digital Envoy's claims in this action. But even if the Court should find that Google was not licensed, Google's reasonable understanding of the parties' agreement shields it from intentional tort liability. Google thus respectfully requests, in the alternative, that the Court grant it partial summary judgment on Digital Envoy's claim for trade secret misappropriation, or on the specific issues raised herein.

Respectfully Submitted,

Dated: February 23, 2005

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David H. Kramer

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Google Inc.

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[12] California courts are particularly solicitous of the insurer-insured relationship, describing it as a "special" one, akin to a "fiduciary" relationship. *See, e.g., State Farm Fire & Cas. Co. v. Superior Court*, 216 Cal. App. 3d 1222, 1226-27 (1986)("The relationship between an insurer and an insured is akin to a fiduciary relationship.") If California is willing to relieve quasi-fiduciaries of tort liability where they act based upon a reasonable, but erroneous contract interpretation, it would be at least as willing to do the same in the context of an ordinary commercial relationship.