

A Roadmap For The Wary Advertiser

Tuesday, Aug 14, 2007 --- With the ever-growing popularity of internet advertising, search engines have identified and maximized the opportunity to boost their profits by offering keyword advertising to companies throughout the world.

Keyword advertising is simple: a company may bid on and purchase keywords through advertising programs like Google's AdWords or Yahoo's Sponsored Search, and when a user types the keyword into the search engine, an advertisement for the company's website appears as a "sponsored link" either next to or directly above the natural search results that are generated by the search engine's algorithmic search process.

Then, each time a user clicks on a sponsored link, the advertiser pays the search engine a fee. So, the company pays the search engine for the keyword, the search engine directs customers to the company, both make a profit, and everyone is happy.

But there is a wrinkle in this seemingly perfect formula. Companies have begun bidding on and purchasing their competitors' trademarks as keywords in an effort to re-direct lucrative business opportunities their way. Trademark holders, in turn, have filed lawsuits alleging that this practice constitutes a violation of trademark law.

In 2007 alone, courts throughout the country examined this issue in at least six different cases—each time coming to a strikingly different conclusion about what constitutes a trademark violation in the keyword advertising context.

To prove a claim of trademark infringement, the trademark must be: (1) used in commerce; and (2) must be likely to cause confusion regarding the source of the mark [1]. While some courts focus on the use in commerce prong in determining whether keyword advertising constitutes trademark infringement, others focus on the issue of confusion.

The court's interpretation of these two issues will determine whether or not the trademark is deemed to have been infringed by the keyword advertising. The uncertainty of the law in this area has especially significant implications for companies like Google, which generate nearly all their revenue from advertising.

For instance, in 2006, Google generated more than 98.9% of its revenue from advertising [2]. In addition, any company that purchases keyword advertising needs to be careful in order to avoid costly litigation.

Judicial conclusions regarding what constitutes trademark infringement in the keyword context break down by jurisdiction as follows:

(a) New York and the Second Circuit

Generally, the approach followed by New York district courts has been favorable for Google and its customers. This is due to a line of cases holding that use of another company's trademark through keyword advertising does not constitute "use" under the Lanham Act – precedent which developed from the Second Circuit's decision in *1-800 Contacts v. WhenU.com* (June 2005) [3].

Interestingly, *1-800 Contacts* did not involve keyword advertising, but rather involved a pop-up advertiser's internal use of another company's web address (which contained the company's trademark) to trigger pop-up ads [4].

The Second Circuit ruled that such use of a trademark did not violate the Lanham Act and held that "[a] company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to an individual's private thoughts about a trademark" [5].

Following this reasoning, district courts in *Merck v. Mediplan Health Consulting* (March 2006), *Rescuecom v. Google* (September 2006), and *Site Pro-1 v. Better Metal* (May 2007) all held that use of another company's trademark through keyword advertising also does not constitute trademark "use" under the Lanham Act [6].

In *Fragrancenet.com v. Fragrancex.com* (June 2007) [7], the most recently decided keyword advertising case, the Eastern District of New York denied *Fragrancenet* leave to amend its complaint to include a misuse of trademark claim based on *Fragrancex's* use of its trademark as a keyword in Google's search engine [8].

The court cited a series of district court decisions holding that mere use of another company's trademark as a keyword does not constitute "use" under the Lanham Act [9]. Based on these decisions, the court determined that *Fragrancenet's* amended complaint would not survive a motion to dismiss and was therefore futile [10].

In *Hamzik v. Zale* (April 2007) [11], however, the Northern District of New York carved out an important exception to the prevailing rule. The court held that while the reasoning in *1-800 Contacts*, *Merck*, and *Rescuecom* was sound, those holdings did not apply to a case where the trademarked term actually appeared in the sponsored links triggered by the keyword [12].

Accordingly, the court denied the defendant's motion to dismiss, because the appearance of the trademark in the sponsored links generated through Yahoo and Google searches for the trademarked term could give rise to

Lanham Act “use” [13].

(b) Pennsylvania

In *J.G. Wentworth v. Settlement Funding* (January 2007) [14], a Pennsylvania district court reached a result that is arguably in line with the New York holdings, but the court had very different reasoning.

The plaintiff alleged trademark infringement arising out of the defendant’s use of plaintiff’s trademarks in Google’s AdWords program, but did not allege that the trademarks appeared in the resulting sponsored links [15].

Unlike the New York district courts, the Pennsylvania court found that such an act constitutes trademark “use” [16]. The court noted that the use of trademarks as keywords was “not analogous to ‘an individual’s private thoughts’” and held that “[b]y establishing an opportunity to reach consumers via alleged purchase and/or use of a protected trademark, defendant has crossed the line from internal use to use in commerce under the Lanham Act” [17].

Nonetheless, the court dismissed the claim as a matter of law on the grounds that there was an insufficient likelihood of confusion because the defendant’s sponsored links appeared as separate and distinct results [18]. Even though the court dismissed the claim by applying the “likelihood of confusion” prong instead of the “use” prong, the end result was the same as that reached in the Second Circuit.

(c) Virginia

The leading Virginia case is not as favorable to search engines and their customers as the decisions in New York and Pennsylvania.

In *GEICO v. Google* (August 2005) [19], after determining that keyword advertising constituted Lanham Act “use,” a Virginia district court allowed plaintiff GEICO to admit an expert survey on the question of confusion, even with respect to sponsored links that did not include GEICO’s trademarks [20].

Though the court granted Google partial summary judgment with respect to the sponsored links that did not include GEICO’s trademarks, it did so only after stressing the inadequacy of GEICO’s expert survey. Furthermore, the court emphasized that its ruling applied only to the specific facts at hand [21].

(d) New Jersey

In *800 JR-Cigar v. Goto.com* (July 2006) [22], the District of New Jersey was even less sympathetic to the search engine defendant. The court found trademark “use” as a matter of law and held there was enough evidence of confusion to preclude summary judgment for Goto, despite the fact that JR did not allege that its trademarks appeared in any of its competitors’ links [23].

While Goto's keyword system was slightly different from Google's in that it actually ranked paid advertisers before natural listings (rather than in a separate sponsored link section) [24], it is not clear that this difference had a significant impact on the court's decision.

Three months later, in *Buying for the Home v. Humble Abode* (October 2006) [25], the District of New Jersey held that the purchase of trademarked terms as keywords constituted Lanham act "use" even though the sponsored links appeared on the far right of the screen [26].

The court focused on several facts: the purchase of the keyword was a commercial transaction, the defendant's use of the keyword was tied to advertising defendant's goods, and the defendant's advertising provided direct access to defendant's website [27].

(e) California, Arizona, Illinois, and Texas

In the remaining jurisdictions that have addressed this issue, courts have declined to discuss the "use" element in detail and have shifted the focus to likelihood of confusion. Like the Virginia and New Jersey district courts, courts in these jurisdictions have been largely unsympathetic to search engines and their customers.

In *Google v. American Blind & Wallpaper Factory* (April 2007) [28], a California district court noted that the Ninth Circuit would assume Lanham Act "use" where a trademarked term was used as a keyword and therefore denied Google summary judgment with respect to the "use" element [29].

The court went on to deny Google summary judgment on the likelihood of confusion element as well, despite the fact that American Blind did not allege that its trademarks appeared in any sponsored links [30]. In finding a sufficient likelihood of confusion, the court relied heavily on an expert study that was strongly criticized by Google [31].

In *Rhino Sports v. Sport Court* (May 2007) [32], Rhino sought to modify a permanent injunction so as to be able to use the words "Sport Court" as a keyword on Google's AdWords [33]. Rhino advanced the argument that the law had changed such that the mere use of trademarks in AdWords did not constitute trademark "use" and thus was not likely to cause confusion [34].

A district court in Arizona rejected this argument, holding that decisions within the Ninth Circuit indicated no change with respect to the confusion element and that because the Ninth Circuit had not squarely addressed the "use" element, there was no change in the law on that matter either [35].

Courts in Illinois and Texas have reached similar conclusions. In *International Profit Associates v. Paisola* (November 2006) [36], an Illinois district court sidestepped the issue of "use" by quickly mentioning it in a footnote [37]. The court then held that International Profit had made an adequate showing of

success on its trademark infringement claim to receive a temporary restraining order [38].

With respect to the portion of the claim addressing the use of trademarked terms in Google's AdWords, the court held that it was sufficient for International Profit to show through affidavits that Paisola had used their trademarks in a manner likely to cause confusion [39].

Similarly, in *Kinetic Concepts v. Blue Sky Medical Group* (November 2005) [40], a Texas district court ignored the "use" question entirely and denied the defendant summary judgment on the confusion prong, noting that mere use of a trademarked term as a keyword was likely to create confusion [41].

Conclusion

Given the significant variation in legal precedent from jurisdiction to jurisdiction, advertisers and search engines should be careful in purchasing or selling trademarked terms as keywords.

These companies should be aware of the various judicial decisions and recognize that the choice of forum could be critical in determining whether they win or lose a lawsuit. In addition, the companies should also recognize that this area of law is still developing and thus, is quite uncertain.

In general, keyword advertisers that use trademarked terms should beware that while helpful precedents are available, there is still plenty of ammunition for trademark owners to mount infringement suits [42].

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[1] 15 U.S.C. § 1114(1)(a) (2000).

[2] See http://investor.google.com/fin_data.html.

[3] *1-800 Contacts v. WhenU.com*, 414 F.3d 400 (2d Cir. 2005).

[4] See *id.* at 404, 408.

[5] See *id.* at 409.

[6] See *Merck v. Mediplan Health Consulting*, 425 F.Supp.2d 402 (S.D.N.Y. 2006) at 415-416; *Rescuecom Co. v. Google*, 456 F.Supp.2d 393 (N.D.N.Y. 2006) at 403; *Site Pro-1 v. Better Metal*, 2007 U.S. Dist. LEXIS 34107 (E.D.N.Y. May 9, 2007) (unpublished) at *13-14.

[7] *Frangrancenet.com v. Fragrancex.com*, 2007 U.S. Dist. LEXIS 48373 (E.D.N.Y. June 12, 2007) (unpublished).

[8] See id. at *1.

[9] See id. at *23-30.

[0] See id. at *32.

[1] *Hamzik v. Zale Co.*, 2007 U.S. Dist. LEXIS 28981 (N.D.N.Y. April 18, 2007) (unpublished).

[2] Id. at *9-11.

[3] Id.

[4] *J.G. Wentworth v. Settlement Funding*, 2007 U.S. Dist. LEXIS 288 (E.D. Pa. January 4, 2007) (unpublished).

[5] See id. at *4, 23.

[6] See id. at *17.

[7] Id.

[8] Id. at *23-24.

[9] *GEICO v. Google*, 2005 U.S. Dist. LEXIS 18642 (E.D. Va. August 8, 2005) (unpublished).

[20] See id. at *11-12, 16-17.

[21] See id. at *20-27.

[22] *800-JR Cigar v. Goto.com*, 437 F.Supp.2d 273, (D.N.J. 2006).

[23] See id. at 292.

[24] See id. at 285.

[25] *Buying for the Home v. Humble Abode*, 459 F.Supp.2d 310 (D.N.J. 2006).

[26] See id. at 321, 323.

[27] See id. at 323.

[28] *Google v. American Blind & Wallpaper Factory*, 2007 U.S. Dist. LEXIS 32450 (N.D.Cal. April 18, 2007) (unpublished).

[29] See id. at *20-21.

[30] See id. at *4, 34.

[3] See id. at *27-34.

[32] Rhino Sports v. Sport Court, 2007 U.S. Dist. LEXIS 32970 (D.Ariz. May 2, 2007) (unpublished).

[33] See id. at *21.

[34] See id. at *22

[35] See id. at *23-26

[36] Int'l Profit Assocs. v. Paisola, 461 F.Supp.2d 672 (N.D.Ill. 2006)

[37] See id. at 677

[38] See id. at 676-677

[39] See id. at 677

[40] Kinetic Concepts v. Blue Sky Med. Group, 2005 U.S. Dist. LEXIS 32353 (W.D.Tex. Nov. 1, 2005)

[4] See id. at 33-34

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