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Online Branding: Protecting Your Valuable Keywords

With more and more consumers researching and purchasing goods and services online and search engines such as Google and Yahoo! playing a critical role in determining how people obtain information and make their online buying decisions, it's essential that companies understand the legal issues involved in keyword, or pay-per-click, advertising.

For example, if your competitor's advertisement appears when someone runs a search on Google using your trademark, is this a deceptive business practice or simply smart marketing? Is it trademark infringement or fair competition?

Or, as one legal commentator frames the debate:

"[W]here keyword placement of... advertising is being sold, the portals and search engines are taking advantage of the drawing power and goodwill of these famous marks. The question is whether this activity is fair competition or whether it is a form of unfair free riding on the fame of well-known marks." J. Thomas McCarthy, "McCarthy on Trademarks & Unfair Competition §25:70.1" (2004).

A Company's Bottom Line

The answers to these questions are not purely academic; they have a direct and immediate impact on a company's bottom line. From 2001 to 2006, the growth of Internet retail outpaced total retail by more than 500 percent (U.S. Census E-Stats 2008). Internet advertising also continues to post record figures with revenues in the United States totaling over \$21.2 billion in 2007 (IAB Internet Advertising Revenue Report). Search engine advertising has an unparalleled audience: more than 113 billion searches were conducted in 2007 at the five major search engines, with Google representing almost 64 billion searches (Comscore, Jan. 30, 2008). Retail e-commerce has also exploded since 2000, reaching almost \$34 billion in the first quarter of 2008 (U.S. Census Retail E-Commerce 1st Quarter 2008).

Searches have a dramatic effect on final purchasing decisions, with Web sites being the single greatest influence for online consumers (DoubleClick Touchpoints IV). In fact, for consumers looking to reach official company Web sites, search engines are the most common method (DoubleClick Touchpoints III).

Consider the following hypothetical example: Two parents who want to buy HP computers for their children run a search on Google by typing in the words



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"HP." Thereafter, a search results page appears with bold, highlighted listings at the top of the page and a separate column of listings on the right hand side of the page entitled "Sponsored Links." If the parents click on one of the Sponsored Link listings, they will be transported not to the official HP Web site but, rather, to a discount computer retailer which also has listings for other similar computer manufacturers including HP's competitors. If the parents decide to buy computers manufactured by one of these other competitors, HP loses a customer. Even if the parents do buy HP computers, the company's profit margin will be significantly reduced because the family will buy computers from the discount retailer instead of directly from the manufacturer.

Unknown to many consumers, Sponsored Link search results are simply paid advertisements sold by the search engine to the highest bidder on a particular keyword. In our example, the discount computer retailer's Web site appears as a sponsored link when the parents type in the search term "HP" because the retailer was the highest bidder on the "HP" trademarked keywords. Whenever a consumer clicks through on this sponsored link, the discount computer retailer pays the search engine its bid price for the keyword. This industry known as paid search, "pay-per-click" or keyword advertising accounted for about 99 percent of Google's \$16.6 billion in revenues in 2007.

Keyword advertising has dramatic implications for businesses engaged in e-commerce. As revenues for Internet sales continue to grow, companies will become increasingly reliant on attracting customers through electronic means. Companies that do not aggressively protect their online trademarks may find customers are lured away due to keyword advertising encroachment.

New, Evolving Technology

While there have been a number of legal challenges to keyword advertising, courts have struggled to apply traditional trademark principles to this new and evolving technology. This has resulted in conflicting and inconsistent decisions and sharply divergent views.

Initially, lawsuits alleging online trademark infringement were brought against companies delivering pop-up advertisements to competitors' Web sites. These lawsuits involved many of the same legal issues subsequently addressed in later keyword advertising cases.

In *U-Haul International Inc. v. WhenU.com Inc.*, 279 F.Supp.2d 723 (E.D. Va. 2003), plaintiff U-Haul alleged that WhenU, the pop-up advertising company, infringed U-Haul's trademarks by making competitors' pop-up ads appear on users' computers when they accessed U-

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Continued on page 6

Online Branding: Protecting Your Valuable Keywords

Haul's Web site. The court disagreed, holding that the pop-up ads did not constitute a "use in commerce" of U-Haul's trademarks under the Lanham Act for four reasons:

- First, the pop-up ad window was separate and distinct from the U-Haul Web-site window.
- Second, the appearance of the pop-ups at the same time as the U-Haul Web page was simply the result of "how applications operate in the Windows environment."
- Third, use of the U-Haul URL to generate pop-up ads was internal and in no way advertised or promoted any U-Haul trademark.
- Finally, the pop-up ads did not interfere with the use of U-Haul's Web site and was a user-installed program.

In a similar holding, a court held that WhenU did not infringe on Wells Fargo's trademarks, because it was "not the 'usual trademark case' where 'the defendant is using a mark to identify its goods that is similar to the plaintiff's trademark.'" *Wells Fargo & Co. v. WhenU.com Inc.*, 293 F.Supp.2d 734, 757-58 (E.D. Mich. 2003). The marks were used internally and pop-ups were a legitimate form of comparative advertising. Furthermore, Wells Fargo failed to establish that consumers were likely to be confused as to the source of the ads.

The '1-800 Contacts' Case

In *1-800 Contacts Inc. v. WhenU.com*, 414 F.3d 400 (2d Cir. 2005), the U.S. Court of Appeals for the Second Circuit adopted the "thorough" analyses by the courts in *U-Haul* and *Wells Fargo* and found them to be "persuasive and compelling." 414 F.3d at 408. Thereafter, courts in the Second Circuit have consistently held that the purchase of a trademarked term for a keyword search is not a use in commerce because it is a mere "internal utilization" of a trademark. *Boston Duck Tours, LP v. Super Duck Tours, LLC*, 527 F.Supp.2d 205, 207 (D.Mass. 2007).

In *Merck & Co. Inc. v. Mediplan Health Consulting Inc.*, 425 F.Supp.2d 402 (S.D.N.Y. 2006), the court found dispositive that the defendant did not place the marks on "any goods or containers or displays or associated documents, nor [did the defendant] use them in any way to indicate source of sponsorship." Id. at 415; see also *Site Pro-I Inc. v. Better Metal, LLC*, 506 F.Supp.2d 123 (E.D.N.Y. 2007). When the trademark is not placed in search results or ads, the defendant cannot be considered to be "passing-off" his goods as manufactured by the plaintiff. *Fragrancenet.com Inc. v. Fragrancex.com Inc.*, 493 F.Supp.2d 545, 550-551 (E.D.N.Y. 2007). However, a claim may be successful if the plaintiff's trademark was displayed in any

of the sponsored links or defendant's actions obstructed access to plaintiff's Web site. See *Rescuecom Corporation v. Google Inc.*, 456 F.Supp.2d 393 (N.D.N.Y. 2006) (noting that the Second Circuit had not yet considered "use in commerce" for keywords); *Hamzik v. Zale Corporation/Delaware*, 2007 WL 1174863 (N.D.N.Y. April 19, 2007).

Nevertheless, a defendant may escape liability under the fair use doctrine, in which a competitor is allowed to use a mark if it sells the plaintiff's products. *S&L Vitamins Inc.*

v. Australian Gold Inc., 521 F.Supp.2d 188 (E.D.N.Y. 2007). Furthermore, keyword claims are even harder to establish than pop-up ad claims because "keywording... involves no aggressive overlaying of an advertisement on top of a trademark owner's Web page." *Merck & Co. Inc. v. Mediplan Health Consulting Inc.*, 431 F.Supp.2d 425, 428 (S.D.N.Y. 2006) (denying reconsideration in reliance of *1-800 Contacts*).

The Ninth Circuit

In contrast, courts in the Ninth Circuit have adopted a far different approach to trademark infringement claims involving keyword advertising. Although the Ninth Circuit has not "squarely addressed" the issue of whether keyword use of a trademark constitutes use in commerce under the Lanham Act, *Rhino Sports Inc. v. Sport Court Inc.*, 2007 WL 1302745 at *8 (D. Ariz. May 2, 2007), the number of successful claims indicates that courts treat the issue as a foregone conclusion. E.g., *Playboy Enterprises Inc. v. Netscape Communications Corp.*, 354 F.3d 1020, 1024 (9th Cir. 2004) (there is "no dispute" that purchase of trademarked terms for sponsored links is a use in commerce).

In the Ninth Circuit, a claim's success depends largely on the court's analysis of a likelihood of confusion including "initial interest confusion." Pursuant to *Brookfield Communications Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999), customer confusion may create initial interest in a competitor's product. Although dispelled before an actual sale occurs, initial interest confusion constitutes infringement because it impermissibly capitalizes on the goodwill associated with a mark. In *Playboy*, the plaintiff could establish initial interest confusion by showing that consumers who were seeking Playboy's site initially believed that unlabeled banner ads were linked or affiliated with Playboy.

The *Playboy* court limited the scope of its holding, noting that it was "evaluating a situation in which defendants display competitors' unlabeled banner advertisements, with no label or overt comparison to [Playboy], after Internet users type in [Playboy's] trademarks." *Playboy Enterprises Inc.*, 354 F.3d at 1030. However, later courts analyzing the *Playboy* decision further addressed a number of factors for considering likelihood of confusion, including

- (1) proximity of the two brands of goods,
- (2) similarity of the marks and the trademark,
- (3) the "low degree of consumer care [to] be expected of Internet consumers" and the difficulty in identifying "which results are sponsored," and
- (4) the intent of the party (the search provider) in using the mark. *Google Inc. v. American Blind & Wallpaper*, 2007 WL 1159950 at *5 (N.D. Cal. April 18, 2007) (citation omitted).

If potential customers were not lured to a competitor's product, consumer confusion would not occur because "[d]eception, it bears emphasizing, is essential to a finding of initial interest confusion." *Designer Skin, LLC v. S&L Vitamins Inc.*, 2008 WL 2116646 at *3 (D. Ariz. May 20, 2008). Therefore, a finding of initial interest confusion might be avoided if trademarked search term purchasers clearly identified their sources to

consumers. *Rhino Sports Inc.*, 2007 WL 1302745 at *7.

Other courts outside the Second and Ninth circuits which have addressed the issue have generally (but not always) sided with the Ninth Circuit's pro-plaintiff position.¹

Analysis

As the foregoing demonstrates, the law in this area can best be characterized as in a state of uncertainty and flux, if not total disarray. As courts continue to grapple with these issues, it is clear that, at least for the time being, a plaintiff is better off bringing its trademark infringement lawsuit in California, not in New York, and is more likely to succeed if its competitor uses its trademark in the headings or text of its sponsored ad without describing or comparing the competing product and without offering it for sale. Under this scenario, a company is more likely to prevail in an action against its competitor than against a discount retailer who is reselling its products.

In view of these legal uncertainties, what actions should companies take to protect their online brands? The first thing they should do is insist that their marketing partners, including discount retailers, respect their trademarks. Specifically, they should limit keyword advertising in their contracts with these partners and make sure that those prohibitions are enforced.

Other proactive steps which companies should take include tracking and monitoring the use of their trademarks on the Web; becoming the high bidder on their own trademarks; and when an infringing use is discovered, complaining to both the search engine and the competitor. Although Google originally honored requests from trademark owners to discontinue keyword advertising sales triggered by trademarks, it changed its policy several years ago. Presently, Google permits this practice although if it does receive a complaint, it may require the advertiser to remove the trademarked term from the text of the ad. In contrast, Yahoo! no longer permits competitor keyword trademark bidding.

Conclusion

The bottom line is that keyword advertising poses a serious threat to a company's profitability. Since the law in this area is changing as rapidly as the technology, it's essential that companies obtain sound legal advice to protect their online brands.

1. See *Buying For The Home, LLC v. Humble Abode, LLC*, 459 F.Supp.2d 310, 323 (D.N.J. 2006) ("[A]s both the Plaintiff and Defendant candidly point out, the law is unsettled regarding whether the purchase of another's protected mark as a search engine keyword can constitute unfair competition or infringement"); *J.G. Wentworth, S.S.C. Limited Partnership v. Settlement Funding*, 2007 WL 30115 (E.D. Pa. Jan. 4, 2007) (court held that defendant made trademark use of plaintiff's marks in Google's keyword advertising program but that such use did not create a likelihood of confusion); *GEICO v. Google*, 330 F.Supp.2d 700 (E.D. Va. 2004); *GEICO v. Google*, 2005 WL 1903128 (E.D. Va. Aug. 8, 2005); *International Profit Associates Inc. v. Paisola*, 2006 WL 3302850 at *6, n. 3 (N.D. Ill. Nov. 14, 2006); *Vulcan Golf, LLC v. Google Inc.*, 2008 WL 818346 (N.D. Ill. March 20, 2008) (denying the motion to dismiss because "use" was defined broadly by other courts); *Edina Realty Inc. v. The MLSonline.com*, 2006 WL 737064, (D. Minn. March 20, 2006); *Rescuecom Corporation v. Computer Troubleshooters USA Inc.*, 2005 WL 4908692 *3 (N.D. Ga. Sept. 16, 2005) (noting that the issue was an "open question"); *North American Medical Corporation v. Axiom Worldwide Inc.*, 522 F.3d 1211, 1219 (11th Cir. April 7, 2008) (applying the "plain meaning of the language of the statute").