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BRAND DEFENSE

When it comes to Internet search keywords and trademark protection, the legal landscape is still uncertain. For now, it's up to hoteliers to protect their brand online.

...by PETER M. RIPIN

BEFORE LEAVING ON A BUSINESS TRIP to Los Angeles, I wanted more information about the hotel where I was staying; so I ran an Internet search by entering the hotel's name next to the words "Los Angeles." At the top of the first search-results page were two listings shaded in light blue under the words "Sponsor Results" -- one for Expedia and the other for downtown Los Angeles hotels. On the right and bottom of the page were another eight "Sponsor Results", none of which included the hotel's official Website.

I clicked on the second sponsored result on the right side of the page which was entitled "A1 Discount Hotels (the hotel's trademark): Service oriented company offers substantial discounts in over 90 Los Angeles area...." After clicking on this link, I was transported to a Website for an affiliate of Hotels.com where approximately 100 different Los Angeles hotels were listed in small type. In much larger print, next to a box entitled "Read About Our Lowest Rate Guarantee," I was asked to select dates of travel and number of rooms. After entering this information and clicking "go", I then received a listing of 25 different Los Angeles hotels, none of which included the hotel for

which I'd originally been searching.

Fortunately for my hotel, I had already booked my reservation and decided not to change it. However, if I hadn't already been booked there, I might not have initially realized that the sponsored listings were merely paid ads purchased from Yahoo by the highest keyword bidders on the hotel's trademark. Even if I later realized I was somewhere other than the brand's official Website, I might still have been coaxed away from my original choice by one of the competing brands being offered. Finally, even if I did book my original hotel choice on the third-party Website, the hotel's profit margin would be about 18 to 30 percent less than if I had booked the reservation directly on the hotel's own Website.

This example illustrates how third party sites can affect a hotel brand's online business. A recent survey by Hospitality Sales and Marketing Association International found that hotel branded Websites are driving Internet business, account for 75 percent of online reservations, and produce the highest average daily rate. Combine this with the fact that more and more consumers are using the Internet to book hotel rooms and that search engines are becoming a critical part of this marketing mix, and it becomes obvious why it's so important for hotels to defend their brands in the online arena.

"Leakage" of revenue from hotel brand Websites to third party sites is approximately \$1 billion, according to Smith Travel Research. A leading hotel brand recently studied the impact of a third-party site's discontinuation of keyword buys and concluded 40 percent of that site's revenues came from keyword buys and search-engine placement. If this 40 percent average holds true for all third-party sites, as much as \$400 million of the \$1 billion leakage cited by Smith Travel Research may be attributable to this diversion of trademarked keywords by third-party sites.

While a number of legal challenges to both pop-up and keyword advertising have resulted in some important decisions, this is still very much an unsettled and evolving area of the law. The very first decision in this area was issued in 2002 when a federal judge in Virginia issued a preliminary injunction preventing Gator (now known as Claria), one of the leading pop-up advertising companies, from sending pop-up ads to the *Washington Post* and *New York Times*. Thereafter, however, the pop-up advertising companies, WhenU.com and Gator, won two important victories:

In a case decided in 2003, a different federal judge in Virginia dismissed a lawsuit by U-Haul which argued that WhenU's SaveNow pop-up program infringed on U-Haul's copyrights and trademarks by sending its competitors' pop-up ads to U-Haul's Website. Although the court acknowledged that the average computer user who accessed U-Haul's Website would not expect to

find a pop-up ad from U-Haul's competitor on the Website, the court nevertheless dismissed the lawsuit because it found that the computer user had made a "conscious decision to install the WhenU program (which generated these ads)"; that WhenU's pop-up window was separate and distinct from U-Haul's Website; and that the incorporation by WhenU of the U-Haul URL in the SaveNow directory in order to generate competitor's pop-up ads was not an illegal use of a trademark because WhenU merely used the marks for a "pure machine linking function" and in no way advertised or promoted U-Haul's Web address or any other U-Haul trademark.

In the next case, a federal judge in Michigan denied Wells Fargo's request for a preliminary injunction against WhenU after concluding that Wells Fargo was unlikely to prevail on its claims of copyright and trademark infringement. The court held that WhenU did not use Wells Fargo's trademark per se in its advertising since the pop-up ads did not display those trademarks. In addition, the court held that there was no trademark infringement because WhenU only used the mark in its directory to determine what ads to display for consumers and did not hinder access to Wells Fargo's Website.

It certainly seemed like WhenU and the pop-up advertisers were on a roll until a decision which came down in New York at the end of 2003. In that case, a contact lens retailer named 1-800 Contacts brought a lawsuit against WhenU after it sent pop-up ads for Vision Direct, a direct competitor, to the 1-800 Contacts Website. This time, the Court granted a preliminary injunction to 1-800 Contacts after concluding that it was likely to succeed on its trademark infringement claims because there was a strong likelihood of customer confusion arising from the appearance of the pop-ups. The opinion stated:

The fact that (WhenU's) pop-up ad for competing Internet contact lenses retailers appears shortly after a consumer types into the browser bar (1-800 Contacts') trademarked name and accesses (its) homepage increases the likelihood that a consumer might assume (WhenU's) pop-up ads are endorsed or licensed by 1-800 Contacts.

The judge also took note of a survey undertaken by an expert hired by 1-800 Contacts which showed that 68% of WhenU's Savenow users did not know they had the software installed on their computers and that 76% of those who did know did not know what the software did. In addition, the survey found that 59% of Savenow users believed that pop-up ads were placed on sites by the site's owners and 52% believed such ads were pre-screened and approved by the Websites on which they appeared. The survey results indicated to the Judge that "a consumer is likely to associate a Vision Direct pop-up ad generated by the Savenow program with the 1-800 Contacts Websites on which it appeared". Finally, the judge also found that the use by WhenU of 1-800 Contacts.com as a term in the SaveNow directory triggering

Vision Direct pop-ups added to the likelihood of customer confusion and trademark infringement.

Even though the facts in the 1-800 Contacts case were very similar to the facts in the U-Haul and Wells Fargo cases, the judge in the 1-800 Contacts case reached the exact opposite result as the other two judges. After this decision, Claria announced that it was canceling its IPO in the face of numerous lawsuits concerning pop-up advertising including a lawsuit by InterContinental Hotels. Since the 1-800 Contacts case has been appealed, we can expect a more authoritative decision on this topic shortly.

In 2004, two significant decisions were rendered on keyword advertising. In the first case, Playboy sued Netscape Communications for selling advertisers the use of the trademarked terms "playboy" and "playmate" to generate banner ads on the search engine's Website. Playboy claimed that consumers who saw unlabeled ads were likely to be confused about whether Playboy had sponsored them. Although the lower court originally dismissed the case, the California appellate court reversed this decision stating that the keyword advertising could lead to "initial interest confusion" because some consumers who were seeking Playboy's site may initially believe that unlabeled banner ads were linked or affiliated with Playboy.

The court noted that although the consumers who clicked on these ads might thereafter realize that they were not at a Playboy sponsored site, they also might be perfectly happy to remain on the advertiser's site and purchase their competing product. The court concluded that since the consumer would have reached the competitor's site because of Netscape's use of Playboy's mark, this use could constitute trademark infringement. As a result, the Court of Appeals reversed the lower court's decision and sent the case back down for a trial.

Shortly thereafter, Netscape settled with Playboy for an undisclosed amount rather than risk putting a fundamental part of its business model at risk. However, it's important to note that the Court's decision in this case was a limited one which only addressed ads which would be confusing to the consumer. In other words, the court did not address a situation where a banner ad clearly identified its source with its sponsor's name or which overtly compared its competing products to Playboy's. Instead, the court limited its holding to competitors' banner ads which were unlabeled and which did not compare themselves to Playboy.

While Google had originally gone out of its way to comply with trademark owners who requested that the company stop using trademarked keywords to sell ads, it announced a change in policy in April 2004 and stated that it would now allow advertisers to base their ads on trademarks. A few weeks later, Google and Overture were sued by GEICO in Virginia based on a set of

facts similar to the Playboy case. Initially, after Google and Overture moved to dismiss the case, the court denied the motion and Overture decided to settle out of court. However, on December 15, 2004, after presiding over two days of trial, the judge ruled that there was insufficient evidence of trademark infringement and that Google could continue to sell keyword advertising triggered by GEICO's trademark.

While this decision appears -- for the moment, at least -- to have stemmed the recent legal tide against the pop-up and keyword advertising companies, it remains to be seen whether other federal judges in similar cases pending against Google will adopt the court's reasoning. In one such case, Google is being sued by a home furnishing company called American Blind and Wallpaper Factory which claims that Google engaged in trademark infringement by selling paid links for the words "American", "blind" and "wallpaper" to the company's competitors. This case may help to decide whether a company can purchase generic keywords which are also part of a hotel's trademark such as, for example, Holiday Inn.

Notwithstanding the legal uncertainties, there are a few protective steps hotels can and should take: Prohibit keyword buying and pop-up advertising in contracts with third party sites and enforce those prohibitions. Indeed, it's important to recognize that third party sites are contractual partners of hotel brands. Recently, InterContinental Hotels adopted new standards requiring its third party distributors to agree, among other things, not to bid on or purchase placement rights for InterContinental's trademarks or to engage in predatory advertising methods which was defined to include pop-up advertising. When InterContinental was unable to reach an agreement with Expedia and Hotels.com on these standards, it severed the relationship. Other options include paying the search engines "ransom" by bidding on your own trademark and/or seeking the advice of counsel concerning possible legal action. Although the legal route can be costly, it can also be highly effective. Since we clearly haven't received a "final answer" from the courts on these issues, it's important that hotels take proactive steps to protect their online brands. >>>

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