

Featured Article

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The Future of Trademark Litigation over Keyword Searches after the Second Circuit's Rescuecom Decision

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For many years, search engines and their advertising customers fought a jurisdictional battle against trademark owners asserting infringement actions over the sale of their marks as keywords to trigger both search results and advertising. The largest search engine, Google, has an AdWords program that sells keywords (often trademarks) to advertisers that trigger a "sponsored link," either above or to the side of the actual search, containing an advertisement and a link to the advertiser's own website.

Yahoo has a similar program. The significance to a search engine's business model of the sale of keyword-triggered advertising is highlighted by the statement in Google's 2008 Annual Report that advertising "generated 99% of our revenues in 2007 and 97% of our revenues in 2008 from our advertisers."²

Trademark owners have complained that these programs amount to deceptive "bait and switch" tactics; the user, for example, having asked for Coke in its search term is directed to an advertisement for Pepsi. The search engines challenge that analogy and claim that they are instead providing valuable consumer information. They have also tried to keep such claims out of federal court altogether by arguing that the use of a trademark as a keyword is not a trademark use in commerce within the meaning of the federal trademark statute, known as the Lanham Act.

The search engines had, until recently, found support in a decision from what many consider to be the preeminent appellate court for trademark issues: the Second Circuit. Its decision in *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005), was interpreted by its district courts to mean that the Lanham Act required an allegation that an infringer had actually put a mark on a product or in an advertisement. Use of a trademark in Internet searches (characterized as use in an internal computer directory) could not constitute trademark use and therefore could not

infringe as a matter of law. Outside the Second Circuit, that position was almost universally rejected.

In *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123 (2d Cir. 2009), the Second Circuit rejoined the mainstream and held that such suits should proceed past threshold challenges to the merits of a trademark infringement claim. The decision will certainly restore the Second Circuit's desirability as a forum for trademark plaintiffs. More importantly, it should put the jurisdictional issue to rest nationwide and move the argument to the core trademark infringement issue of whether the sale of trademarks as keywords to trigger search results or advertisements is likely to cause consumer confusion.

The search engine companies would like that issue to be decided broadly in the negative, but, as noted below, it is more likely to be a case-by-case decision based on specific facts. The battle will be fought on many fronts in many different countries.

The Second Circuit's Prior Muddling of the "Use in Commerce" Threshold

1-800 Contacts, Inc. v. WhenU.com, Inc., an opinion authored by then-Chief Judge Walker, concerned the use of pop-up ads. Defendant WhenU provided free software to computer users that monitored the user's Internet activity. As the user typed in a certain word or words, the software would cause a pop-up ad relevant to the typed-in word to appear. Avis, for example, might buy space for a pop-up advertisement; when a user typed certain words into the computer, such as "rental cars" or "Hertz.com," the software would cause the Avis pop-up ad to appear.

The pop-up ads were bought by advertisers. Although, according to the opinion, they could not buy the specific keywords that would trigger the pop-up ads,³ they presumably had a pretty good idea that a competitor's web address would do that. While Avis might not have "bought" the Hertz trademark, it would know that its ad would appear whenever WhenU customers typed in a web address such as "Hertz.com" on their computers.

The Second Circuit held that this activity did not constitute a "use in commerce" under the Lanham Act's infringement provisions, 15 U.S.C. §§ 1114(1) and 1125(a), for three reasons:

- (1) "WhenU's pop-up ads do *not* display the 1-800 trademark" and "have absolutely no tangible effect on the appearance or functionality of the 1-800 website." *1-800 Contacts*, 414 F.3d at 410 (emphasis in original).
- (2) "[T]he appearance of WhenU's pop-up ad is not contingent upon or related to 1-800's trademark, the trademark's appearance on 1-800's website, or the mark's similarity to 1-800's website address." *Id.* It instead results from the "happenstance that 1-800 chose to use a mark similar to its trademark as [its URL] and to place its trademark on its website." *Id.* That is what triggers the competitor's pop-up ad.
- (3) 1-800's web address is not the only keyword that could trigger a competitor's pop-up ad. It could be triggered by an innocuous generic or descriptive term. *Id.*

Rescuecom's "Clarification"

The sale of pop-up ads appears to have died out as a business, possibly because the ads were so annoying that web browsers touted their ability to block them. *Rescuecom Corp. v. Google Inc.* concerned a practice at the heart of search engine revenue: the sale of trademarks as keywords, often to direct the Internet user to a competitor of the trademark owner.

Believing the case to be on "all fours" with *1-800*, the district court dismissed Rescuecom's complaint. The Second Circuit, however, held that it "contrasts starkly" with the prior decision for two reasons:

- (1) "[I]n contrast to *1-800*, where we emphasized that the defendant made no use whatsoever of the plaintiff's trademark, here what Google is recommending and selling to its advertisers is

Rescuecom's trademark." *Rescuecom*, 562 F.3d at 129.

- (2) "[I]n contrast with the facts of *1-800* where the defendant did not 'use or display,' much less sell, trademarks as search terms to its advertisers, here Google displays, offers, and sells Rescuecom's mark to Google's advertising customers when selling its advertising services. In addition, Google encourages the purchase of Rescuecom's mark through its Keyword Suggestion Tool." *Id.*

Rescuecom also addressed two issues that the Second Circuit characterized as misunderstandings of the *1-800* decision. First, the court rejected Google's and amici's contention that *1-800* had suggested that "use of a trademark in a software program's internal directory precludes a finding of trademark use." *Id.* Second, it rejected the argument that the Sponsored Links were analogous to a retailer's placing its generic storebrand product next to a trademarked product on store shelves in order to induce a customer seeking the trademarked product to buy the generic version. Product placement, the court held, was not:

a magic shield against liability It is not by reason of absence of a use of a mark in commerce that benign product placement escapes liability; it escapes liability because it is a benign practice which does not cause a likelihood of consumer confusion. In contrast, if a retail seller were to be paid by an off-brand purveyor to arrange product display and delivery in such a way that customers seeking to purchase a famous brand would receive the offbrand, believing they had gotten the brand they were seeking, we see no reason to believe the practice would escape liability merely because it could claim the mantle of "product placement."

Id. at 130.

Aside from *Rescuecom*'s contribution to trademark law jurisprudence, the opinion is interesting from the perspective of appellate jurisprudence due to the difficult path the court took to get to its resolution. A basic tenet of the rules governing federal appellate courts is that a precedential decision of one three-judge panel within the Circuit binds subsequent panels. Only a decision of the court en banc, or an intervening decision of the Supreme Court casting doubt on a prior panel decision, permits rejection of the prior decision.⁴ Neither had occurred with respect to the *1-800* decision.

Rescuecom therefore walked a thin line: the opinion was careful to state that the recent but much-criticized decision authored by its then-Chief Judge was correct on its facts, but then took pains to limit the future impact of that prior decision. Indeed, since the business of selling word-triggers for pop-up ads seems to have run its course, limiting *1-800* strictly to its facts may effectively undercut its precedential value.

What is highly unusual is that the panel repudiated the reasoning of a prior Second Circuit opinion through the mechanism of a supposedly non-precedential Appendix on the meaning of the phrase "use in commerce" in the Lanham Act that is longer than the opinion itself. The Appendix states that at least one of the rationales of *1-800* concerning the definition of "use in commerce" had followed the "questionable" reasoning of two district courts outside the Second Circuit. *Rescuecom*, 562 F.3d at 131. Put more bluntly, at least one of the *1-800* panel's rationales for its decision was wrong.

The Appendix states that, although its discussion of "use in commerce" "does not affect the result of this case," "[t]he judges of the *1-800* panel have read this Appendix and have authorized us to state that they agree with it." *Id.* at 140. The Appendix concludes on the odd note that, although not just the unanimous panel but two judges from the *1-800* panel agree with its discussion of "use in commerce,"⁵ it is "dictum and not a binding opinion of the court" and that it would be "helpful for Congress to study and clear up" the issue. *Id.* at 140–41.

The Second Circuit's prior view of "use in commerce" was an anomaly. Courts elsewhere either held or assumed without discussion that purchasing a competitor's trademark to trigger search-engine advertising constitutes use in commerce under the Lanham Act.⁶ Accordingly, and given the pressing economic issues to deal with, it is unlikely that Congress will take up the Second Circuit's invitation to clear up an issue that no longer divides the federal courts. Moreover, notwithstanding the *Rescuecom* panel's characterization of its Appendix as dictum, few district judges or other appellate panels are likely to disagree with a legal analysis published with the concurrence of five Second Circuit judges, and few are likely to cite *1-800* in a positive light or even at all.

Google's argument to the district court had begun with the observation that: "For some reason, rules and propositions that are easily understood in more traditional contexts often become hopelessly muddled when applied to the Internet."⁷ In the absence of legislative action, courts will continue to muddle through competing analogies to traditional contexts on a case-by-case basis, most likely with mixed results. Given the dependence of search engines on advertising revenue, the next phase of litigation could make each trademark infringement suit potentially a "bet-the-company" case.

The issues to be faced include both analytic and factual ones. Analytically, what is the best non-Internet analogy to the AdWords program? Google and amici such as the Electronic Frontier Foundation have presented it as a consumer service. It is, they say, good for consumers looking for a specific product to be informed of a larger array of options. Contextual advertising is used in a variety of contexts, including the placement of competitive products on the same retail shelf or placing a billboard next to a competitor's place of business.

Trademark owners, on the other hand, have argued that even if consumers are not ultimately confused by Sponsored Links, they cause subliminal or initial interest

confusion. Both concepts have been recognized in trademark law but have not been universally accepted.

Subliminal confusion was a basis for the Second Circuit's decision in *Playboy Enterprises, Inc. v. Chuckleberry Publishing, Inc.*, 687 F.2d 563 (2d Cir. 1982), that the use of "Playmen" in an adult magazine's title or subtitle infringed the "Playboy" mark, but it has only rarely been referred to since. The related and more widely accepted concept of "initial interest confusion" holds that "the use of another's trademark in a manner calculated 'to capture initial consumer attention, even though no actual sale is finally completed as a result of the confusion, may be still an infringement.'" *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1062 (9th Cir. 1999) (quoting *Dr. Seuss Enterprises. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1405 (9th Cir. 1997)).⁸ Indeed, the Ninth Circuit relied on initial interest confusion in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), to deny summary judgment to a search engine using trademarked keywords.

Are consumers confused by Sponsored Links or are they sufficiently Internet-savvy at this point to understand that they are advertisements rather than part of the objective search results? Is the sale of trademarked keywords analogous to deceptive bait and switch tactics or to "a benign and even beneficial form of comparison shopping"? *Hearts on Fire Co. v. Blue Nile, Inc.*, No. 08-CV-11053, 2009 BL 71613 (D. Mass. Mar. 27, 2009). Courts in the Second Circuit have yet to deal with that issue because, until *Rescuecom*, that circuit's district courts had held that such practices did not meet the statutory threshold of trademark use. Decisions elsewhere on the merits of likelihood of confusion have shown no consistent trend.⁹

None of the extant decisions have dealt with all of the factors, both general and case-specific, of "content and context" that should be analyzed according to the thoughtful and nuanced analysis of Judge Gertner's *Hearts on Fire* decision:

- (1) the overall mechanics of web-browsing and internet navigation, in which a consumer can easily reverse course;
- (2) the mechanics of the specific

- consumer search at issue;
- (3) the content of the search results webpage that was displayed, including the content of the sponsored link itself;
- (4) downstream content on the Defendant's linked website likely to compound any confusion;
- (5) the web-savvy and sophistication of the Plaintiff's potential customers;
- (6) the specific context of a consumer who has deliberately searched for [a] trademarked [product] only to find a sponsored link to [that product's] retailer [or competitor]; and, in light of the foregoing factors,
- (7) the duration of any resulting confusion.

Id. at 23.

The resolution of many of the factual issues identified in *Hearts on Fire* may ultimately turn into a battle of consumer surveys. In the only AdWords case known to have gone to trial, *Government Employees Insurance Co. v. Google, Inc.*, No. 04-CV-00507 (E.D. Va. Aug. 8, 2005), the district court found that the plaintiff's survey was too flawed to justify finding a likelihood of confusion as to Google's use of GEICO's trademark as a keyword if the Sponsored Links did not reference the mark in the heading or text, but established likelihood of confusion when the GEICO trademark did appear in the heading or text of the sponsored link.¹⁰ The court did not rule whether Google itself was liable for that confusion, but instead stayed the case to allow the parties to try to resolve the remaining issues. *Id.* at 21. The rest is shrouded in mystery, but a Google search of GEICO shows no Sponsored Links.

Another major case, *American Airlines, Inc. v. Google, Inc.* in the Fort Worth federal district court, was already shaping up as a battle of survey experts when it settled.¹¹ The terms of the settlement are confidential, but there are two indications that the stipulated dismissal with prejudice was not the result of American Airlines giving in: (1) a Google search of American Airlines turns up no Sponsored Links; and (2) several months after settling with Google, American Airlines brought the same kind of action in the same court against Yahoo for what that search engine calls "Sponsor Results."

The players on both sides of the Sponsored Links issues seem determined to up the ante. On May 11, 2009, a company called FPX, LLC filed a complaint against Google and others in the Marshall, Texas, district court (long a favorite of patent plaintiffs) attempting to assert trademark claims as a class action on behalf of a putative class of owners of registered trademarks sold by Google as part of its AdWords program.¹² *The Hearts on Fire* decision would counsel against the class action route, though Google may actually prefer that it be resolved that way. And according to a recent article in *The New York Times*, Google recently decided to "expand to more than 190 new countries its policy of allowing anyone to buy someone else's trademark as a trigger for an ad."¹³

Though the use of trademarks is increasingly global and the Internet makes them even more so, trademark law is inherently national. The future of AdWords and similar programs will not just be decided here. The highest courts of Austria, France, and Germany have referred the issue to the European Court of Justice, which heard argument on the French case last March. If there is no international consensus, then an Internet search result in France or Japan may differ from one here by more than just language.

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² Google Inc., Annual Report (Form 10-K), at 20 (Feb. 13, 2009), available at http://investor.google.com/pdf/2008_google_annual_report.pdf.

³ "WhenU does not link trademarks to any particular competitor's ads, and a customer cannot pay to have its pop-up ad appear on any specific website or in connection with any particular trademark." 1-800 Contacts, 414 F.3d at 412.

⁴ See, e.g., *Consub Delaware LLC v. Schahin Engenharia Limitada*, 543 F.3d 104, 109 (2d Cir. 2008).

⁵ 1-800 was decided by two judges because the third passed away after argument but before the decision was written.

⁶ See, e.g., *Hearts on Fire Co., LLC v. Blue Nile, Inc.*, No. 08-CV-11053, 2009 BL 71613 (D. Mass. 2009). Judge Gertner noted in that opinion that the appellate courts for the Ninth and Tenth Circuits have upheld Lanham Act claims on similar facts, as have district courts elsewhere, and the First Circuit had assumed the legitimacy of such a claim without deciding.

⁷ *Rescuecom Corp. v. Google, Inc.*, No. 04-CV-01055, Memorandum of Law in Support of Defendant Google Inc.'s Motion to Dismiss at 7 (N.D.N.Y. Nov. 8, 2004).

⁸ The concept of initial interest confusion is traced to the Second Circuit's opinion in *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 260 (2d Cir.1987), and has been adopted by the Courts of Appeal for the Third, Fifth, Sixth, Seventh, Ninth, and Tenth Circuits. See *Checkpoint Systems, Inc. v. Check Point Software Technologies, Inc.*, 269 F.3d 270, 280 (3d Cir. 2001); *Elvis Presley Enterprises Inc. v. Capece*, 141 F.3d 188, 204 (5th Cir. 1998); *PACCAR Inc. v. TeleScan Technologies*, 319 F.3d 243, 253 (6th Cir. 2003); *Promatek Industries, Ltd. v. Equitrac Corp.*, 300 F.3d 808, 810-13 (7th Cir. 2002); *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238 (10th Cir. 2006). The First, Fourth, Eleventh, and Federal Circuits have explicitly avoided ruling on the issue. See *Hearts on Fire Co., LLC v. Blue Nile, Inc.*, No. 08-CV-11053, 2009 BL 71613 (D. Mass. 2009); *Lamparello v. Falwell*, 420 F.3d 309, 315-18 (4th Cir. 2005); *North American Medical Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1222 (11th Cir. 2008); *Weiss Associates, Inc. v. HRL Associates, Inc.*, 902 F.2d 1546, 1549 (Fed. Cir. 1990).

⁹ Compare, e.g., *J.G. Wentworth, S.S.C. LP v. Settlement Funding LLC*, No. 06-CV-00597 (E.D. Pa. Jan. 4, 2007) (dismissing infringement claim because "no reasonable factfinder could find a likelihood of confusion under the set of facts alleged" concerning use of competitor's trademarks both as metatags to a website and as keywords bringing up a sponsored link under the AdWords program), with, e.g., *North Am. Medical Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211 (11th Cir. 2008) (affirming district court finding of likelihood of success on proving trademark infringement based on use of competitor's trademarks as metatags but remanding on irreparable harm issue); *Deltek, Inc. v. Luvo Sys., Inc.*, No., 09-CV-00330, 2009 BL 84746 (E.D. Va. Apr. 20, 2009) (preliminarily enjoining competitor's use of trademarks as metatags to a website as likely to confuse).

¹⁰ While noting criticism of a consumer survey that might affect its ultimate weight, the court in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020, 1026-27 (9th Cir. 2004), nevertheless held that such a survey introduced by the plaintiff generated an issue of fact on actual confusion requiring denial of summary judgment to the defendant.

¹¹ No. 07-CV-00487, Agreed Final Judgment (N.D. Tex. July 17, 2008)

¹² *FPX, LLC v. Google, Inc.*, No. 09-CV-00142, Complaint (E.D. Tex. May 11, 2009). According to a recent report, the CEO of the plaintiff and her husband "are connected to a network of entities that have made . . . more than \$72 million . . . through patent litigation" in that court by what are termed "patent trolls." Andrew Longstreth, "Unmasking Plaintiffs in Google Case," *AmLaw Litigation Daily*, May 18, 2009.

¹³ Miguel Helft, *Companies Object to Google Policy on Trademarks*, *New York Times*, May 15, 2009, at B1.