LJN LAW JOURNAL NEWSLETTERS

The Corporate Counselor®

Volume 19, Number 7 • December 2004

ALM

The Tangled Web

Recent Developments In Internet 'MarkMatching' And Contextual Advertising

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Your marketing specialist approaches you with a great idea for Internet advertising — purchasing trademarks of your company's competitors and for complimentary products as keywords to match Internet users conducting searches in your product category to an advertisement for your company. Do you advise your company to purchase third-party trademarks as keywords? How have the courts dealt with this scenario? How can you reduce risks associated with purchasing third party trademarks as keywords? What are the international implications? This article addresses these issues.

Contextual Advertising: A Revolution in Internet Advertising

Contextual advertising targets advertisements based upon an Internet user's actual online behavior. Contextual advertisements, for example, are designed to trigger a pop-up for Travel Co. when the user employs a search engine for "vacations," displays a banner about Weight Loss Co. when a user visits a web site about dieting, and brings-up Car Company as the "sponsored" result on the search engine results page when a user searches for "trucks." Advertisers generally do not pay for these types of ads until a user "clicks" on them, which makes contextual advertising a targeted and cost-effective marketing tool.

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Contextual advertising providers (CAPs), such as adware companies and search engine marketers (SEMs), accomplish this feat by programming their systems to match interested consumers to contextual advertising based on "keywords." Keywords are pre-identified relevant terms that CAPs use to trigger appropriate contextual advertising. Keywords are generic terms, such as "cars" and "insurance," but also can be trademarks, such as "Ford" and "Allstate." Once an advertiser purchases a certain keyword or set of keywords, instances of those words in a user's searching or browsing behavior will trigger the advertiser's ad.

Keywords are generally selected in two manners:

- CAPs create fixed lists of relevant keywords for each product category, which they market as a whole for use by advertisers within that category; or
- Users select the specific keywords (with or without the aid of the CAP) they want associated with their advertising.

In either instance, trademarks as keywords may be used to trigger contextual advertising. The intentional use (sale or purchase) of third-party trademarks as keywords, a practice we have labeled "markmatching," has caused considerable tension between trademark owners and both CAPs and the advertisers themselves.

From the CAPs and often from the advertisers' perspective, markmatching should be considered a permissible noncommercial use or fair use of a trademark that places an advertisement in front of a potential purchaser, which is no different from other types of competitive advertising. Certain trademark owners disagree with this position and consider markmatching to be an infringing use of their marks, which improperly diverts Internet traffic from their sites and confuses consumers as to the source of the products they encounter via pop-up ads, banners and sponsored search results.

So, should your company markmatch?

What the Courts Say

In the last 2 years, courts within the United States and Europe have confronted the competing interests of CAPs, advertisers, and trademark owners in connection with markmatching practices, often with conflicting decisions.

Adware companies generally market pre-defined keyword lists, which advertisers are unable to access, control or even view, but which often include trademarks as keywords. This practice has made adware companies susceptible to lawsuits, for example, WhenU.com, Inc. appeared before three different courts in 2003 and obtained contradictory results for essentially the same fact pattern.

In *U-Haul International v. WhenU.com, Inc.*, 279 F. Supp. 2d 723 (E.D. Va 2003), the court granted defendant's motion for summary judgment holding that the inclusion of U-Haul's trademark and URL in a fixed keyword list to generate contextual pop-up advertisements did not constitute "use" of a mark in commerce within the meaning of the Lanham Act. In *U-Haul*, the court concluded that such use constituted a "pure machine-linking function" that did not interfere with U-Haul's Web site and did not interact with U-Haul's server or systems. In *Wells Fargo & Co. v. WhenU.com, Inc.*, 293, F. Supp. 2d 734 (E.D. Mich. 2003), the court followed the *U-Haul* line of reasoning and denied Wells Fargo's motion for a preliminary injunction based on similar allegations.

"Use in commerce" in these cases apparently hinged on three factors:

1) That WhenU.com did not explicitly market or sell the specific trademarks as keywords to advertisers, but instead included them in a fixed and proprietary keyword database;
2) The resulting markmatching was an automated function that was not evident to the end user, irrespective of the appearance of branded competitive pop-up ads over the plaintiffs' Web sites; and

3) The pop-up ads did not include the plaintiffs' trademarks.

In contrast, plaintiff in *1-800 Contacts, Inc. v. WhenU.com, et al.*, 2003 U.S. Dist. LEXIS 22932 (S.D.N.Y. Dec. 22, 2003) successfully obtained a preliminary injunction on near identical facts. The court expressly rejected the holdings in *U-Haul* and *Wells Fargo* and found that 1-800 Contacts demonstrated defendants' use in commerce of plaintiff's mark in two ways:

1) Defendants "displayed" plaintiff's mark in advertising of defendant's services by causing a competitor's pop-up ad to appear when users were specifically attempting to access plaintiff's Web site on which plaintiff's trademark appears; and
2) Defendants used the 1-800 CONTACTS trademark to advertise a competitor by including plaintiff's URL in WhenU's proprietary database to trigger pop-up advertisements.

Besides adware companies, trademark owners also have sued SEMs claiming infringement from markmatching when search engine users enter a trademark into a search engine. In these cases, the advertiser selects the terms to be included as keywords. Thus, the SEMs have claimed that they are not directly or vicariously liable for advertisers' markmatching behavior, although the SEMs profit from the sale of keywords for markmatching and sometimes suggest keywords that include trademarks.

In *Government Employees Insurance Company v. Google et al.*, 330 F. Supp. 2d 700 (E.D. Va. 2004), the court denied defendants' motion to dismiss the Lanham Act claims, including contributory and vicarious infringement, based upon Google's marketing of trademarks as keywords for the purpose of markmatching. Permitting advertisers to bid on trademarks and to pay search engine operators to be associated with those trademarks, ruled the court, constituted "use in commerce" of the third party trademark. Judge Brinkema distinguished her decision from Judge Lee's opinion in the *U-Haul* case (same district) upon the purposeful marketing of the specific trademark terms for markmatching by the SEMs, which differed from the WhenU activity of selling a category of fixed keywords that included trademarks.

To date, the Ninth Circuit case of *Playboy Enterprises v. Netscape Communications, et. al.*, 354 F.3d 1020 (9th Cir. 2004) is the only circuit court case addressing use of trademarks as keywords. Playboy successfully appealed the district court's grant of summary judgment in favor of defendants based upon their use of Playboy's "PLAYBOY" and "PLAYMATE" marks as part of defendants' proprietary databases of keywords for contextual advertising purposes. The Ninth Circuit found the marks were used "in commerce," that a likelihood of initial interest confusion existed and that defendants' fair use defenses were meritless. The Ninth Circuit remanded the case for further consideration, but the parties settled shortly thereafter on confidential terms.

Currently, there are several pending federal district court cases involving markmatching practices including *Novak v. Overture*, 02 Civ. No. 5164 (E.D.N.Y.); *Google v. American Blind & Wallpaper*, 03 Civ. No. 5340 (N.D. Calif.); *Rescuecom v. Google*, 04 Civ. No. 1055 (N.D.N.Y.); *American Blind & Wallpaper v. Google, AOL, Netscape, Compuserve, Ask Jeeves & Earthlink*, 04 Civ. No. 00642 (S.D.N.Y.); and *JR Cigar v. Goto.com*, 00 Civ. No. 3179 (D.N.J.).

European courts also are addressing markmatching with conflicting rulings. In *Reed Executive plc & Ors v. Reed Business Information Ltd. & Ors.*, [2004] EWCA Civ 159 (03 March 2004), a British appellate court held that the use of the term "Reed" as a keyword by defendant for matching its TotalJobs online jobs database was not an infringement of plaintiff's "REED" trademark for an employment agency where the banner ad referred specifically to defendant's TOTALJOBS web site and the linked Web page also was not misleading. Similarly, in *Metaspinner v. Google*, a German court dismissed a trademark infringement suit against Google based upon the sale of plaintiff's "preispiraten" (price pirate) mark as a keyword to a competitor.

France, however, ruled against the SEMs. In particular, a French court fined Google 70,000 Euros for the sale to competitors of the trademarks "bourse des vols" (airflight market) and "bourse des voyages" (travel market) owned by Viaticum and Luteciel travel agencies. Two additional cases involving the sale of trademarks as keywords are now pending in French courts, namely, *AXA v. Google*, filed in April of 2004 and *Louis Vuitton v. Google*, filed in October 2003.

Markmatching With Reduced Risk

The conflicting U.S. and international court decisions on markmatching provide few practical guidelines on pursuing this advertising method. The Ninth Circuit in *Playboy*, for example, limited much of its holding to the facts at hand and specifically noted what was not at issue in the case, namely, use of a banner ad that clearly identified its source with its sponsor's name or in which a search engine clearly identified the source of the banner ad. Additionally, the Virginia cases appear to distinguish the conflicting decisions based upon invisible inclusion of trademarks as keywords versus active marketing of specific trademarks as keywords.

So, if your company wants to engage in markmatching, what practices will help minimize the risk of litigation by a trademark owner?

First, determine the country targeted by your Web site(s) and consider creating different Web sites for countries with different markmatching laws, for example, Germany and the United Kingdom so far appear to permit markmatching while France does not. If your company already has country-specific Web sites, investigate which of those countries permit markmatching to determine when markmatching may be an appropriate advertising strategy and when it may result in high risk.

Second, determine the type of markmatching favored by your company. Courts are more likely to permit certain markmatching activities than others. Comparative advertising, for example, is a permitted "use" of a third-party trademark and courts likely would permit markmatching for this purpose, provided the competitor does not engage in unfair trade practices. Courts also likely would permit markmatching if your company sells the product for which you markmatched, for example, an automobile repair shop that specializes in Ford automobiles purchases the Ford trademark to trigger a banner advertisement about the repair shop, provided the automobile shop clearly designates the source of its banner ad. Likewise, markmatching for complimentary goods and services may be permissible under certain circumstances. The riskiest approach, however, is simply markmatching your competitors' trademarks for the purpose of diverting business.

Third, determine how your company or trademark is displayed as a result of the markmatching. The markmatched trademark should not be the focal point of the ad or sponsored result. Avoid initial interest confusion and likelihood of confusion by clearly designating the source of the ad or sponsored result. If the markmatched trademark appears in the ad or sponsored result, it is imperative that consumers do not perceive the source of the ad as sponsored by, associated with, or somehow affiliated with the trademark that you markmatched.

Fourth, request that the adware company or SEM notify you of any objections to your company's ad or sponsorship caused by markmatching so that your company may address the trademark owner's concerns before they escalate into litigation.

Finally, audit your company's markmatching practices periodically to ensure that your practices are compliant with the evolving laws in the relevant countries. Given the tumultuous state of the law in this area, we recommend conducting such an audit at least twice a year and keeping apprised of recent developments in the relevant case law.

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