

Trademarks

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Back to the Future: Ninth Circuit Directs Courts Back to Likelihood of Confusion Standard to Determine Whether Internet Advertising Keyed to Trademarks is Infringement

Until recently, using company trademarks to trigger advertising, even advertising by competitors, appeared to have the sanction of the courts. Lower court decisions found that this technique, sometimes called “keying,” did not constitute “use in commerce” of the trademarks and, thus, did not fall within the purview of United States trademark law. Last month, in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), the United States Court of Appeals for the Ninth Circuit became the first federal appellate court to rule on whether selling a trademark as a keyword constitutes trademark infringement. The Ninth Circuit held that keying advertising does constitute “use in commerce” of the trademark, meaning it is governed by trademark law. The court also suggested that at least some forms of keyed advertising are trademark infringement.

If keying advertising to trademarks is ultimately found to be trademark infringement, trademark owners will have greater protection for their marks. To the extent that advertisers and businesses that rely on the sale of Internet advertising did not cease keying advertising to trademarks, trademark owners would have recourse to prevent perceived infringement. The cost of doing business on the Internet could significantly increase, however, as advertisers and businesses that rely on the sale of Internet advertising would be forced to develop new techniques to reach interested consumers.

A. BACKGROUND

Money spent on advertising that does not reach interested consumers is money poured down the proverbial drain. This is especially true on the Internet, where users are most apt to disregard advertising as irrelevant, if not a nuisance. As Internet use continues to grow, the ability to deliver advertising relevant to users will become more and more important. For this reason, finding efficient, legal ways to direct Internet advertising toward consumers who might “click through” is one of the most significant tasks facing companies advertising on the Internet.

Companies selling advertising space or services have developed a variety of techniques to help advertisers reach interested consumers. For example, search engines such as Google or Yahoo often sell “keywords” to advertisers. Advertisers interested in reaching consumers who have an interest in a subject – for instance, personal computers – can purchase the right to have their ads appear when users perform a search for that term. In this hypothetical example, manufacturers and sellers of personal computers might be interested in purchasing the “personal computers” keyword. Other advertising services use software downloaded by the Internet user to monitor the user’s browsing habits, so that they can direct pop-up or pop-under advertisements that coincide with the user’s interests as reflected by the user’s browsing habits. These

practices are collectively referred to as “keying” advertisements or “contextual advertising.”

Keying advertising based on generic terms, like “personal computers,” is uncontroversial. However, consumers do not always search for generic terms; often they search for company trademarks. For this reason, advertising services often use trademarks to identify consumer interest in product lines. For example, an Internet user looking for a certain type and quality of adult entertainment might enter the search term “Playboy.”

In the *Playboy v. Netscape* case, the Ninth Circuit ruled that courts should focus on whether there is a likelihood of confusion as a result of the appearance of an advertisement keyed to a trademark in determining whether that trademark has been infringed. While such a conclusion may seem obvious – as the Ninth Circuit noted, the core element of trademark infringement is a likelihood of confusion – the ruling will likely work a substantial shift in the analytical framework utilized by lower courts around the country, which had previously focused on whether keyed advertising constituted a “use in commerce.” In addition, the Ninth Circuit’s decision suggests that contextual advertising may constitute trademark infringement.

B. PRIOR DECISIONS FOCUSED ON “USE IN COMMERCE”

Beginning with the district court’s 1999 decision in *Playboy v. Netscape*, courts have found that contextual advertising keyed to a competitor’s trademark does not constitute trademark infringement because there was no “use in commerce” of the trademark.¹ For a trademark infringement claim to lie, the alleged infringer must make “use in commerce” of a word that is likely to cause confusion with the trademark.² Although the trademark statute (the Lanham Act) defines “commerce” broadly to include all commerce that may be lawfully regulated by Congress, these courts focused on the statute’s definition of “use in commerce,” which requires that the mark be used on or in connection with goods or services.³ Because

contextual advertising does not include the keyword that prompted it to appear, these courts found no “use in commerce” of the trademark and rarely proceeded to the question of whether there was a likelihood of confusion.

A form of this approach was first adopted by the lower court in *Playboy v. Netscape*. In that case, the defendant search engines keyed banner ads offering adult-oriented services to the words “playboy” and “playmate.” Although this practice had the potential to divert consumers searching for Playboy’s distinctive brand of adult entertainment, the district court found no infringement of Playboy’s trademarks in part because the defendant search engines had not made a “use in commerce” of those marks. Consequently, the district court granted summary judgment in favor of the defendant search engines.

Although most subsequent cases have dealt with pop-up or pop-under advertising that use a more complicated set of factors, including trademarks, to key advertising, the courts in these cases have followed the lower court’s decision in *Playboy* and found no “use in commerce” of the trademark, and therefore no infringement.

C. THE NINTH CIRCUIT FOCUSES ON A LIKELIHOOD OF CONFUSION

In *Playboy v. Netscape*, the Ninth Circuit quickly rejected this line of reasoning, noting that the statute’s definition of “use in commerce” is directed at the use required to claim rights in a mark.⁴ Relying on the statute’s definition of “commerce,” the Ninth Circuit found that keying advertising to a competitor’s trademarks was “use in commerce” that consequently could constitute trademark infringement. The Ninth Circuit also found that there was a genuine issue of material fact regarding the existence of a likelihood of confusion. It therefore reversed the grant of summary judgment and remanded the case to the district court for further proceedings.

In analyzing whether there was a genuine issue of material fact regarding the existence of a likelihood of confusion, the court concluded that the majority of the relevant factors favored Playboy. While not binding on the lower court, the Ninth Circuit's decision suggests that using trademarks to key advertising may constitute trademark infringement, at least in some situations. The Ninth Circuit's ruling thus has the potential to work a 180-degree shift in the law governing contextual advertising.

D. THE IMPLICATIONS OF *PLAYBOY* AND HOW TO RESPOND

The Ninth Circuit's *Playboy v. Netscape* decision could fundamentally alter the Internet landscape by moving courts to rewrite the rules of the game regarding the use of trademarks to sell advertising space. If subsequent decisions find that keying advertisements to trademarks constitutes trademark infringement, trademark owners will be able to enforce their rights when necessary, and the value of contextual advertising could diminish significantly.

While the *Playboy v. Netscape* case creates the foundation for such a shift in the Internet landscape, it will not complete that shift itself. Less than two weeks after the *Playboy v. Netscape* decision, Playboy and Netscape settled their case.⁵ As a result, the question of whether and under what circumstances contextual advertising constitutes trademark infringement remains unanswered for the time being. The outcome of these issues could significantly affect the future of the Internet. Google, for example, considers the issue significant enough to merit test litigation ahead of its initial public offering planned for later this year.⁶

Until this issue is resolved, companies selling advertising should take steps to present keyed advertising in a manner that avoids a likelihood of confusion. Likewise, advertisers may want to take steps to avoid the risk that their keyed advertising could be found to create a likelihood of confusion with a competitor's mark. Meanwhile, trademark owners should remain vigilant in policing their trademarks and, in light of *Playboy v. Netscape*, may wish to consider taking action to end perceived infringement through contextual advertising.

ENDNOTES

- 1 See *Playboy Enter., Inc. v. Netscape Communications Corp. and Excite, Inc.*, 55 F. Supp. 2d 1070 (C.D. Ca. 1999); *U-Haul Intl, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723 (E.D. Va. 2003); *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F.Supp.2d 734 (E.D. Mich. 2003).
- 2 See 15 U.S.C. §§ 1114(1), 1125(a)(1).
- 3 See *id.* § 1127.
- 4 See *Playboy v. Netscape*, 354 F.3d at 1024 n.11.
- 5 See Stefanie Olsen, *Netscape, Playboy settle search trademark case* (Jan. 23, 2004) at http://news.com.com/2100-1024_3-5146502.html.
- 6 See *Google Inc. v. American Blind & Wallpaper Factory Inc.*, No. C-03-5340 (N.D. Calif. filed November 26, 2003); see also Stefanie Olsen, *Google wants ruling on search trademark law* (December 4, 2003) at <http://news.com.com/2100-1024-5113673.html?tag=nl>.

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