GIBSON DUNN

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NINTH CIRCUIT ADDRESSES USE IN COMMERCE, LIKELIHOOD OF CONFUSION ISSUES IN SEARCH ENGINE ADVERTISING TRADEMARK CLAIMS

To Our Clients and Friends:

On March 8, 2011, the U.S. Court of Appeals for the Ninth Circuit issued its decision in *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, No. 10-55840. The Ninth Circuit's decision in *Network Automation* is significant for two reasons. *First*, the Ninth Circuit expressly held that the use of a trademark as a search engine keyword for the purpose of triggering advertisements is a "use in commerce" of that trademark under the Lanham Act, thus adding to the growing body of case law foreclosing a defense that had been raised in the past. *Second*, the court vacated a preliminary injunction against the use of a trademark to trigger search advertising, finding that the district court relied too heavily on previous Ninth Circuit decisions implying that three specific factors (the similarity of the marks, the relatedness of the goods or services, and the simultaneous use of the Web as a marketing channel) are particularly determinative in the Internet context of whether the defendant's use of its competitor's mark is likely to cause consumer confusion.

Background

Most search engines offer advertisers the ability to purchase "keywords"--that is, to pay the search engine to display a company's advertisement on the search results page when a user types in one of those "keywords." The most prominent example of this is Google AdWords, in which Google uses keywords to trigger the display of "sponsored links" above or alongside the search results generated by Google's own search algorithms. Google allows multiple advertisers to bid on the same keyword, and then ranks their placement on the page, in part, based on how much each advertiser is willing to pay Google if an Internet user clicks on its sponsored link and then is taken to the advertiser's own website. This is commonly referred to as the "pay-per-click" model.

Allegations that the use of a third-party's trademark in this context constitute trademark infringement have been litigated in a growing number of cases. Some district courts have found that the use of third-party trademarks is likely to cause consumer confusion, while other district courts have rejected such claims. *Compare Binder v. Disability Group, Inc.*, __F.Supp.2d __, 2011 WL 284469 (C.D. Cal. Jan. 25, 2011) (finding "a strong likelihood of confusion" after bench trial) *and Mary Kay, Inc. v. Weber*, 661 F.Supp.2d 632 (N.D. Tex. 2009) (entering judgment after jury verdict of infringement) *with Rosetta Stone Ltd. v. Google Inc.*, 730 F.Supp.2d 531 (E.D. Va. 2010) (finding no likelihood of confusion on summary judgment), *appeal pending*, Case No. 10-2007 (4th Cir.) *and College Network, Inc. v. Moore Educ. Publishers, Inc.*, 2007 cv 615 (W.D. Tex.), *aff'd* __ F.3d __, 2010 WL 1923763 (5th Cir. May 12, 2010) (affirming jury verdict that use of plaintiff's mark did not infringe).

District Court Case

Network Automation ("Network") sells job scheduling and management software under the mark "AutoMate." Advanced Systems Concepts ("Systems") sells a competing product under the registered mark "ActiveBatch." Network purchased certain keywords, including "ActiveBatch," from various search engines. As a result, when a consumer searched for "ActiveBatch," the results page would feature a "sponsored link" to www.NetworkAutomation.com, Network's website. Systems objected to Network's use of its "ActiveBatch" mark as a keyword, and ultimately moved for a preliminary injunction in the U.S. District Court for the Central District of California, arguing that Network's use of "Active Batch" as a keyword was likely to cause "initial interest confusion" by capitalizing on temporary confusion to divert consumers looking for System's "ActiveBatch" software to Network's own website.

The district court first considered the question of whether Network's use of "Active Batch" as a keyword was a "use in commerce" under the Lanham Act. Noting the past debate over whether the sale of marks as keywords could even give rise to a trademark infringement claim, the district court found that System was "likely to succeed on its claim that Plaintiff uses the Active Batch mark in commerce." *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, No. CV 10-0484 CBM (CWx) (C.D. Cal., April 30, 2010) (Marshall, J.) ("Slip op.") at 6-7.

The district court then turned to the likelihood of confusion, applying the eight-factor test articulated by the Ninth Circuit in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979). Slip op. at 7-12. In particular, the district court focused on the so-called "Internet troika"--the three factors singled out by the Ninth Circuit in *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999) as particularly relevant to the issue of domain name confusion: the similarity of the marks, relatedness of goods, and simultaneous use of the Internet as a marketing channel. *Id.* The district court found that all three of these factors favored Systems, and that the remaining factors either favored Systems or were not relevant. *Id.*

The district court also considered whether the advertisements were "clearly labeled" to avoid consumer confusion about whose website they were being directed to, by looking at the content of Network's ads. *Id.* at 12-14. The district court found that the ads were not "clearly labeled" because Networks did not "identify itself in the heading or the substance of the advertisement." *Id.* at 13-14. Even though the fourth line of the advertisement contained Network's URL ("www.NetworkAutomation.com"), the district court found that this was both insufficiently prominent (appearing at the bottom of the ad) and insufficiently distinct (the web address "generally describes the purpose of the product") to dispel any potential confusion. *Id.* at 14.

Accordingly, the district court granted the preliminary injunction requested by Systems and Network appealed to the Ninth Circuit.

Ninth Circuit Opinion

The Ninth Circuit first affirmed the district court's conclusion regarding "use in commerce," holding that "the use of a trademark as a search engine keyword that triggers the display of a competitor's advertisement is a 'use in commerce' under the Lanham Act." Op. at 3233. The opinion cites approvingly to the Second Circuit's similar conclusion in *Rescuecom Corp. v. Google Inc.*, 562 F.3d 127 (2d Cir. 2009), and joins a number of other courts that had previously reached the same conclusion. *See, e.g., Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1239 (10th Cir. 2006); *American Airlines, Inc. v. Google Inc.*, No. 07-CV-487-A (N.D. Tex. Oct. 24, 2007) (slip op.).

Accordingly, the Ninth Circuit then turned to the ultimate issue in any trademark infringement case, whether the defendant's use of the plaintiff's mark is likely to cause actionable trademark confusion. The Ninth Circuit, like virtually all circuit courts of appeal, has adopted a multi-factor test to assist courts in evaluating whether such confusion is likely (known in the Ninth Circuit as the "*Sleekcraft* factors"). Since the Ninth Circuit issued its decision in the *Brookfield Communications* case, though, many courts had interpreted that decision as elevating three of the eight *Sleekcraft* factors "as the test for trademark infringement on the Internet" Op. at 3239. The Ninth Circuit thus used the *Network Automation* case as a vehicle to repeat its warning in *Brookfield* that "[w]e must be acutely aware of excessive rigidity when applying the law in the Internet context; emerging technologies require a flexible approach." *Id*. at 3235 (quoting 174 F.3d at 1054). It then admonished the district court for relying on the *Brookfield Communications* "troika," noting that "it makes no sense to prioritize the same three factors for every type of potential online commercial activity." *Id.* at 3240.

The Ninth Circuit addressed each *Sleekcraft* factor in turn:

> (1) **Strength of mark** -- The Ninth Circuit observed that "a consumer searching for a generic term is more likely to be searching for a product category," and thus "more likely to expect to encounter links and advertisements from a variety of sources." *Id.* at 3242-43. Accordingly, a consumer searching for a distinctive term "could be more susceptible to confusion when sponsored links appear that advertise a similar product from a different source." The Ninth Circuit agreed with the district court that Active Batch is a suggestive mark, but noted that "that may not be the end of the inquiry about this factor, as the sophistication of the consumers of the product may also play a role." *Id.* at 3243.
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> (2) **Proximity of goods** -- Although the Ninth Circuit agreed that parties' products were "virtually interchangeable," it found that the district court had erred by "weighing this factor in isolation and failing to consider whether the parties' status as direct competitors would actually lead to a likelihood of confusion." *Id.*
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> (3) **Similarity of the marks** -- The Ninth Circuit found that there is no practical difference between a trademark as it appears on a product and as it is entered into a search engine but noted that--"depending on the labeling and appearance of the advertisement, including whether it identifies Network's own mark"--the relative similarity of the marks "could be helpful in determining initial interest confusion" in the keyword context. *Id.* at 3244.

(4) **Evidence of actual confusion** -- Because the appeal arose out of a preliminary injunction order, neither side had provided evidence of actual confusion, and the Ninth Circuit acknowledged that, "while this is a relevant factor for determining the likelihood of confusion in keyword advertising cases, its importance is diminished at the preliminary injunction stage of the proceedings." *Id.* at 3245.

(5) **Marketing channels** -- Without much discussion, the Ninth Circuit departed from a long line of cases that have found that when the plaintiff and the defendant advertise their respective products simultaneously on the World Wide Web, this factor weighs in favor of a likelihood of confusion. Instead, the Ninth Circuit found that, given the ubiquity of the Internet as a marketing channel, the common use of the Internet as an overall category is "less important" and held that the district court erred in finding that this common use of the Internet weighed in Systems' favor. *Id.* The Ninth Circuit did not address, however, how the district court should have weighed the parties' common use of search engine advertising--let alone the use of common terms to trigger such advertising.

(6) **Type of goods and degree of care** -- The Ninth Circuit was particularly concerned with this factor, finding it "highly relevant" in the keyword advertising context. *Id.* at 3246. Dismissing the district court's assertion that "there is generally a low degree of care exercised by Internet consumers" as incomplete and outdated, the Ninth Circuit observed that a "sophisticated consumer of business software exercising a high degree of care is more likely to understand the mechanics of Internet search engines and the nature of sponsored links, whereas an un-savvy consumer exercising less care is more likely to be confused." *Id.* The court further observed that "the default degree of consumer care is becoming more heightened as the novelty of the Internet evaporates and online commerce becomes commonplace." *Id.* at 3247.

(7) **Defendant's intent** -- The Ninth Circuit criticized the district court for considering this factor "in isolation," without considering whether the Defendant's intent was to deceive consumers or merely to compare its products to ActiveBatch. *Id.* at 3248.

(8) **Likelihood of expansion of product line** -- The court noted that this factor, which considers the possibility of direct competition, is "unimportant" where the two companies already are direct competitors. *Id.* at 3249.

The Ninth Circuit also disagreed with the district court's conclusion that the advertisements themselves were not "clearly labeled" and thus likely to cause initial confusion, admonishing the district court for limiting its analysis to the text of the advertisement itself. Although the Ninth Circuit agreed that the ads themselves did not clearly identify their source, it noted that, in the keyword advertising context, "the appearance of the advertisements and their surrounding context on the user's screen" is particularly important. *Id.* at 3250. Considering the broader context of the search results pages, the Ninth Circuit found that the search engines had "partitioned their search results pages so that the advertisements appear in separately labeled sections for 'sponsored' links," suggesting that the district court should have evaluated more closely whether the placement of sponsored links could contribute to or dispel confusion.

Conclusion

The Ninth Circuit vacated the preliminary injunction and remanded to the district court with instructions to weigh the *Sleekcraft* factors "flexibly to match the specific facts of the case." Specifically, the court held that, "[g]iven the nature of the alleged infringement here, the most relevant factors to the analysis of the likelihood of confusion are: (1) the strength of the mark; (2) the evidence of actual confusion; (3) the type of goods and degree of care likely to be exercised by the purchaser; and (4) the labeling and appearance of the advertisements and the surrounding context on the screen displaying the results page." Op. at 3250.

It remains to be seen how the district court will perform its *Sleekcraft* analysis on remand, but the Ninth Circuit's opinion makes clear that it will expect any district court to carefully consider all the *Sleekcraft* factors in any Internet trademark suit, and not just rely on the *Brookfield Communications* "troika." The issue of the sale of trademarks as keywords, moreover, will continue to be hotly contested, with the Fourth Circuit expected to weigh in this year in the case of *Rosetta Stone v. Google*. Several district court cases in other circuits remaining pending.

Gibson, Dunn & Crutcher's lawyers are available to assist with any questions you may have regarding these issues. For further information, please contact the Gibson Dunn lawyer with whom you work, the authors of this alert, Howard S. Hogan (202-887-3640, hhogan@gibsondunn.com) or Michael B. Smith (650-849-5338, msmith@gibsondunn.com), or any of the following practice group co-chairs:

Intellectual Property Group:
Denis R. Salmon - Palo Alto (650-849-5301, dsalmon@gibsondunn.com)
Wayne Barsky - Los Angeles (310-557-8183, wbarsky@gibsondunn.com)
Mark Reiter - Dallas (214-698-3360, mreiter@gibsondunn.com)
Josh Krevitt - New York (212-351-2490, jkrevitt@gibsondunn.com)

Information Technology and Data Privacy Group:
M. Sean Royall - Dallas (214-698-3256, sroyall@gibsondunn.com)
Debra Wong Yang - Los Angeles (213-229-7472, dwongyang@gibsondunn.com)
S. Ashlie Beringer - Palo Alto (650-849-5219, aberinger@gibsondunn.com)
Alexander H. Southwell - New York (212-351-3981, asouthwell@gibsondunn.com)