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TRADEMARKS

'FragranceNet' Bolsters Case Law on Keyword Ads



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A recent decision in the Eastern District of New York, *FragranceNet.com Inc. v. Les Parfums Inc.*, 2009 WL 4609268 (Dec. 8, 2009), indicates that plaintiffs will be able to get past the motion to dismiss stage in a case alleging trademark infringement through the use of a competitor's name as a keyword, even when the trademark at issue is potentially a generic mark.

This falls in line with the Second Circuit's decision in *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123 (2d Cir. 2009), which arguably turned the tides of keyword advertising law in the circuit, holding that Google's practice of selling Rescuecom's trademark as a search term to Rescuecom's competitors through Google's AdWords program constituted "use in commerce" under the Lanham Act, and allowing Rescuecom's action to proceed rather than be dismissed under Rule 12(b)(6).

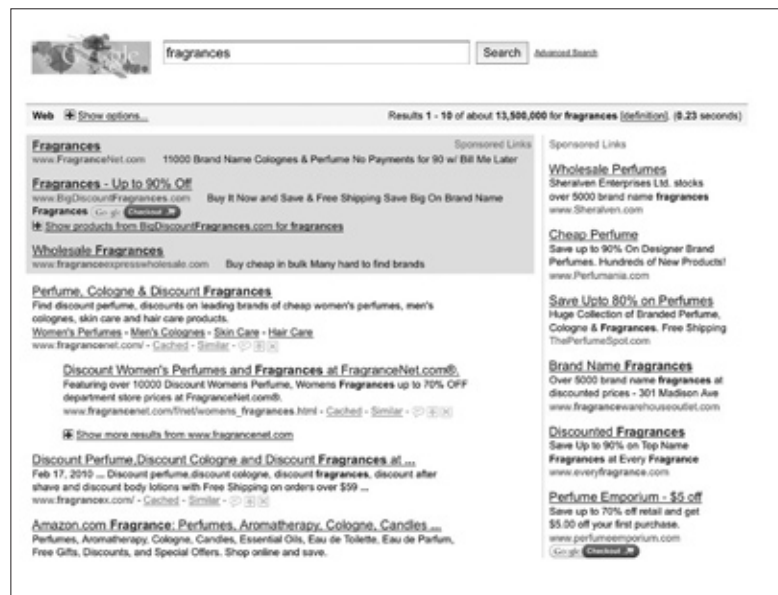
This article addresses the outlook of trademark infringement claims based on keyword advertising in the Second Circuit.

Google's AdWords Program

When performing a search on Google, there are usually two types of results: organic search results and AdWords advertisements, or "Sponsored Links."

Google's organic results appear in the main body of the page. AdWords ads are either displayed in a light yellow box appearing horizontally above the organic search results, or in a vertical side bar along the right side of the page, under the heading Sponsored Links.

Google allows businesses to purchase advertising in the Sponsored Links section triggered by a consumer's search requests that include particular keywords. When a user conducts a search including the keywords purchased by a particular business, that business' Sponsored Links will be displayed along with organic search results. Consumers who click on the Sponsored Links will be directed to the advertiser's page.



In recent years, companies have been making controversial keyword purchases through Google's AdWords program. Instead of purchasing keywords that correlate to their own businesses, lesser-known companies will purchase keywords correlating to their well-known competitors. When the lesser-known companies' Sponsored Links are generated through a search for the larger competitor, the keyword purchasers can take business away from their competitors.

The Second Circuit's *Rescuecom* decision addressed whether purchasing a competitor's trademarks as a keyword through Google's AdWords program was actionable in the context of a motion to dismiss.

Rescuecom sued Google for allowing its competitors to purchase Rescuecom's registered trademarks through the AdWords program.

The circuit reversed the District Court's grant of Google's motion to dismiss, holding that Google's practice of recommending, selling to advertisers, and displaying Rescuecom's trademark through its AdWords program constituted "use in commerce" and was therefore actionable under the Lanham Act.

Rescuecom brought the Second Circuit into accord with the Third, Fourth, Eighth and Ninth circuits, and raised questions as to the holding

of the leading case on keyword advertising at the time, *1-800 Contacts Inc. v. WhenU.com Inc.*, 414 F.3d 400 (2d Cir. 2005).

1-800 Contacts, which held that the use of a competitor's trademarks to trigger pop-up ads did not constitute "use in commerce," had previously been used by courts in the Second Circuit to dismiss cases involving keyword advertising on grounds that keyword bidding did not constitute "use in commerce." See, e.g. *Merck & Co. Inc. v. Mediplan Health Consulting Inc.*, 425 F. Supp. 2d 402, 415 (S.D.N.Y. 2006) (use of plaintiff's trademark ZOCOR as a keyword in Google and Yahoo!'s sponsored links did not constitute "use in commerce" when purchased by defendants, Canadian online pharmacies); *FragranceNet.com Inc. v. FragranceX.com Inc.*, 493 F. Supp. 2d 545, 550 (E.D.N.Y. 2007) (granting motion to dismiss because "use of plaintiff's trademark [through keyword bidding and metatags was] strictly internal and...not communicated to the public" and therefore did not constitute "use" under the Lanham Act).

The Eastern District was one of the first courts to cite *Rescuecom* for the proposition that "the alleged use of a competitor's mark as a keyword in connection with the advertising program of an Internet search engine constitute[s] 'use' under the Lanham Act."

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In *FragranceNet*, FragranceNet.com Inc. brought an action against defendants on the grounds that defendants bid on, purchased and used FragranceNet's trademarks, FRAGRANCENET and FRAGRANCENET.COM through Google's AdWords program.

Defendants moved to dismiss the case, arguing that FragranceNet's trademarks were generic and therefore not entitled to protection. The Eastern District court denied defendants' motion to dismiss, holding that the issue of whether a trademark is generic involves issues of fact that are not appropriately decided on a motion to dismiss.

While these decisions are arguably favorable to trademark holders, they will only bring plaintiffs through the motion to dismiss stage, at least in New York. The key question now is whether Google's AdWords advertisements are likely to cause confusion among consumers.

Controversial Application

In the Second Circuit, the likelihood of confusion analysis generally involves consideration of the following factors: (1) strength of the plaintiff's mark, (2) similarity of competing marks, (3) competitive proximity of the products, (4) likelihood that the plaintiff will "bridge the gap" and offer a product like defendant's product, (5) actual confusion, (6) defendant's good faith, (7) quality of defendant's product, and (8) sophistication of the buyers ("the Polaroid factors"). *Polaroid Corp. v. Polaroid Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961).

In the keyword advertising context, however, many courts have evaluated consumer confusion in terms of "initial interest confusion."

Initial interest confusion was first recognized in 1973 by the U.S. District Court for the Southern District of New York in *Grottrian, Helfferich, Schultz, Th. Steinweg Nacht. v. Steinway & Sons*, 365 F. Supp. 707, 717. In *Steinway*, Grottrian-Steinweg sought a declaratory judgment that it did not infringe upon well established piano seller Steinway & Sons' trademarks, STEINWAY and STEINWAY & SONS. The district court found a likelihood of consumer confusion:

Misled into an initial interest, a potential Steinway buyer may satisfy himself that the less expensive Grottrian-Steinweg is at least as good, if not better, than a Steinway. Deception and confusion thus work to appropriate defendant's good will. This confusion, or mistaken beliefs as to the companies' interrelationships, can destroy the value of the trademark which is intended to point to only one company.

The Second Circuit affirmed the decision, and later applied the initial interest doctrine in *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 260 (2d Cir. 1987): "[I]nitial confusion works a sufficient trademark injury." Both the *Steinway* and *Mobil Oil* courts engaged in a thorough analysis of the *Polaroid* factors in arriving at their decisions.

The Second Circuit has yet to consider "likelihood of confusion" and apply initial interest analysis in connection with keyword advertising. Other circuits, however, have engaged in somewhat controversial applications of the doctrine, even basing their analysis on different factors than

those traditionally used. Compare *Government Employees Insurance Company v. Google Inc.*, 2005 WL 1903128 (E.D. Va. Aug. 8, 2005) (Where GEICO sued Google for allowing GEICO's competitors to purchase its trademark as a keyword, court based initial interest analysis on consumer survey evidence alone, holding that traditional factors in confusion analysis were "not really applicable in this case"); with *Playboy Enterprises Inc. v. Netscape Communications Corporation*, 354 F.3d 1020 (9th Cir. 2004) (Ninth Circuit engaged in thorough analysis of traditional confusion factors to evaluate initial interest confusion in case involving unlabeled "click here" banner ads which appeared when consumers entered plaintiff's trademarks into defendant's search engine).

The likelihood of confusion analysis has become the crucial consideration as to whether companies who purchase keywords of their competitors will ultimately be held liable for trademark infringement.

Even more controversial is *Brookfield Communications Inc. v. West Coast Entertainment Corporation*, 174 F.3d 1036 (1999). There, the Ninth Circuit found a likelihood of success on the merits for trademark infringement and affirmed a grant of preliminary injunctive relief, even though the court concluded that there was no consumer confusion as to source or sponsorship, finding that consumer diversion was sufficient. However, if consumers are not confused as to the source or sponsorship of a product, should the defendant really be held liable for trademark infringement?

Initial Interest Analysis

These cases raise questions as to whether initial interest analysis should be applied to keyword advertising cases at all.

Some have argued that initial interest confusion analysis applied to keyword advertising cases has led to courts imposing liability for the equivalent of purchasing an ad in the Yellow Pages adjacent to a competitor's ad, or placing generic items on a supermarket shelf next to brand name items.

Keyword advertising cases have brought to the surface two competing forces of trademark law: promoting fair competition and free market efficiency versus preventing free riding off the goodwill of well-known trademarks. See 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §25:70:25 (4th ed. 2009) ("The policy question is whether this activity is fair competition presenting web users with useful alternatives or whether it is a form of unfair free riding on the fame of well-known marks.").

On one hand, the purpose of a search engine such as Google is to lead consumers to the information they seek. Perhaps consumers want to be presented with a multitude of choices, including alternative products offered by competitors of the business originally searched. On the other hand, consumer confusion and the purposeful free-riding off of

well-known trademarks should not be tolerated.

When evaluating keyword advertising cases, courts should not simply ask whether consumers will be diverted, but rather, whether consumers will be confused as to the source or sponsorship of a good or service. The court in *Steinway* found that Grottrian-Steinweg's use of "Steinweg" led to "mistaken beliefs as to the companies' interrelationships." In *Mobil Oil*, the court noted that there was a "strong probability that prospective purchasers of [Pegasus'] product [would] equate or translate Mobil's symbol for 'Pegasus' and vice versa."

The key issue in *Steinway* and *Mobil Oil* was consumer confusion, not diversion. Accordingly, when evaluating keyword advertising cases, courts should use the *Polaroid* factors in evaluating whether consumers are confused as to the source or sponsorship of the Sponsored Links. Do consumers believe that FragranceNet sponsors the defendant's links, or are consumers clear that the Sponsored Links belong to a competitor of FragranceNet? Do consumers believe that the Sponsored Links are organic search results, or do they recognize the Sponsored Links as paid advertisements? This will likely depend on whether the Sponsored Links use FragranceNet's trademarks in their text, and whether the Sponsored Links are adequately distinguishable from the organic search results.

The Outlook

Based on the slow progression from the *1-800 Contacts* decision to *Rescuecom*, it is evident the Second Circuit is disinclined to draw bright lines for evaluating keyword advertising cases.

Rescuecom signaled that the Second Circuit was willing to join other circuits in considering the purchase of a competitor's trademarks through keyword bidding as a potentially actionable "use in commerce" under the Lanham Act.

FragranceNet indicates that district courts are willing to follow this change of course, and will not be so quick to dismiss keyword advertising cases, even when the alleged trademark may appear generic.

The likelihood of confusion analysis has now become the crucial consideration as to whether companies who purchase keywords of their competitors will ultimately be held liable for trademark infringement.

With the precedents of *Mobil Oil* and *Steinway*, the Second Circuit will likely apply initial interest analysis to keyword advertising cases, at least to some degree. However, the question remains as to whether the circuit will continue to focus on the traditional *Polaroid* factors in confusion analysis in these cases or follow the lead set by the other circuits and focus on a different confusion analysis.