

Intellectual Property Today™

February 2009

Does the Power of the Internet Justify Changing Traditional Rules for Trademark Infringement?

By Anthony H. Handal of Thompson Hine LLP

Anthony H. Handal is a partner in the New York office of Thompson Hine and has specialized in intellectual property litigation for the past thirty years. He has appeared as lead counsel in two hundred cases before the district and appellate courts. He has taught the litigation portion of the patent strategy course offered by the Patent Resources Group and lectured on various patent law topics before the New York Intellectual Property Law Association. He may be reached at Anthony.Handal@ThompsonHine.com

A circuit split, coupled with even greater diversity of treatment at the district court level, continues to plague counsel in advising clients on the implications of the use of trademarks of competitors to build website traffic. At stake are the competing interests of encouraging competition and protecting the goodwill of established brands.

The controversy centers on the use of a competitor's trademark both 1) as metadata in a website, where, even though it is not visible to the user, it will be found by search engines, such as Google, and result in the website being listed in the search results, and 2) as a key word, typically sold by the search engine operator to the trademark proprietor's competitor, whose advertisements then appear as a so-called "pop up" or "banner" ad next to the search results, when an individual inputs a query including the competitor's trademark. The root of the controversy is the question whether this constitutes trademark use.

Interestingly, while the courts continue to come to conflicting conclusions on virtually identical fact patterns, whether the complained of use of the trademark is as a result of a contractual relationship between the search engine and the alleged infringer, or the simple use of a competitor's name in metadata has not even been considered as a factor in the case law.

Limited Consideration of Unfair Competition Questions

Perhaps, however, a more germane aspect of the treatment of these cases is the focus of the courts on the trademark infringement aspect of the activities involved. While a number of cases do

mention a cause of action for unfair competition, the analyses implemented by the courts, and presumably argued by counsel, focus on trademark use and likelihood of confusion. Thus, while unfair competition broadly covers more than just trademark infringement, the unfair competition being considered by the courts is still the specific case of trademark infringement, requiring trademark use and a likelihood of confusion. Conflicting decisions have hinged on different rules for finding trademark use.

The courts have not considered potential problems surrounding the need to show likelihood of confusion. This has not been an issue because the cases so far have been decided mostly at the pretrial stage, largely under FRCP 12(b)(6). At such an early stage of the proceedings, even a minimal showing of likelihood of confusion is enough for a cause of action to survive. However, under the current approach, this may develop into a second troublesome issue, as one can easily imagine a situation where diversion of Internet traffic can have a significant economic impact on a plaintiff, even without a likelihood of confusion.

Part of the problem is the fact that the more well-established a trademark is, the more powerful a tool it becomes in the hands of a competitor. The trademark law evolved, in part, based on a public policy of protecting the public by encouraging brand owners to maintain the quality of goods and services associated with their brands. Thus, the failure of the brand owner to police the trademark is a defense to infringement, but not on a theory of laches or estoppel. Rather, the basis of the defense is that the brand owner has allowed others to infringe and make goods of a quality potentially inconsistent with that sold under the trademark. The courts have decided that because of the lack of control of the brand owner over the product of the trademark infringer, the trademark no longer functions as an indicator of quality to the consumer and is thus no longer worthy of protection.

The underpinnings of the trademark law, with public policies in favor of protecting the public from counterfeit merchandise of potentially lower quality as well as protecting competitors from unfair tactics by those who would capitalize on brand-name goodwill, have evolved with a rationale which may be unsuited to the governing of competition in a more general sense. Accordingly, it could be argued that the trademark law may not have a theoretical schema adequate to enjoin activities merely involving the use of trademarks as a tool for the exchange of information, notwithstanding the desire for such protection evidenced by the numerous lawsuits in this area.

In many ways, if the current trends continue, the law may be faced with a situation much like that created by decisions finding that copyright law covers software, despite the fact that copyright law expressly excludes functional content, and the dividing line between protectable "expression" in a computer program and unprotectable functional content is a conundrum which has never been satisfactorily addressed by the courts.

However, unlike the case of software protection, perfectly adequate alternative legal causes of action could be argued to exist for addressing the use of competitor's trademarks over the Internet in connection with the diversion of website traffic.

The Majority Rule

Turning to the applicable decisions in this area, *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999) set the terms of the debate clearly in the realm of trademark infringement, with its requirements for use and likelihood of confusion. In *Brookfield*, the plaintiff brought action against a defendant planning to use "moviebuff.com" as its website address and on using a similar term in the metatags for the site. Defendant West Coast also claimed competing rights in the trademark MOVIEBUFF. In its analysis, the Ninth Circuit considered the likely generally applicable requirement of 15 USC 1127, entitled "Construction and Definitions; Intent of Chapter", that use on goods is limited to placing the mark on goods, containers, displays, tags, labels or documents associated therewith, and that use on services extends not only to use in connection with the sale but also advertising of the services. However, the court looked at this aspect of the case only to determine priority between competing uses of the plaintiff and defendant.

Accordingly, the *Brookfield* court did not extensively treat the requirements of 15 USC 1114 that action will lie only in the event that the infringer makes use of the trademark. In contrast, the Second Circuit in *1-800 Contacts v. Whenu.com, Inc.* 414 F.3d 400 (2nd Cir. 2005) held infringing use specifically to be subject to the same definition of use as governs the acquisition of trademark rights under 15 USC 1127. In *Brookfield*, the Ninth Circuit resorted to a somewhat more liberal formula, that is use "in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark."

Later cases focus on the use of the alleged infringer, as opposed to the use of the alleged claimant. However, except for the Second Circuit, the standard is not as strict as that in *1-800 Contacts*, and results are consistent with *Brookfield*.

In *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), the plaintiff brought an action for trademark infringement and dilution under the Lanham Act on account of the defendant's use of keywords to bring up banner advertising. The Ninth Circuit explicitly considered whether there was an infringing use and reversed a grant of summary judgment in favor of the defendants noting, consistently with *Brookfield*, that Playboy "clearly holds the marks in question and defendants used the marks in commerce" but did not discuss its reasoning for the conclusion of use in any real detail.

In a concurring opinion Judge Berzon noted that as applied in *Playboy*, "*Brookfield* might suggest that there could be a Lanham Act violation *even if* the banner advertisements were clearly labeled," and that this would result in liability even in "situations in which a party is never confused". The court then proposed a hypothetical situation in which a consumer on the way to the Calvin Klein section at Macy's is distracted by a display of Macy's own Charter Club brand merchandise. The reasoning was that this sort of distraction is accepted in the marketplace, and should not be actionable.

It is an interesting question whether what is arguably a parallel situation in the environment of Internet shopping should be treated any differently. Other courts have noted that competitors routinely seek and obtain preferential placement of their products at retail bricks and mortar facilities. What a court will choose to do in the context of Internet competition where confusion,

even initial interest confusion cannot be shown, presents an interesting question, likely to be decided in a largely fact driven inquiry balancing competing public policies.

Circuit Split

The uniformity of the treatment of these questions in the district courts was broken by *1-800 Contacts*. In this case, a seller of contact lenses brought suit against an Internet marketing company whose software caused pop-up ads to appear on computer user's screens in response to a search for the plaintiff's trademark.

The court was troubled by the plaintiff alleging, in the context of a trademark claim, that the defendant was free riding and trading upon the goodwill and substantial customer recognition associated with the 1-800 Contacts mark in a manner that created a likelihood of confusion. The court then denied relief noting that the pop-up ads do not display the 1-800 trademark and that 1-800 Contacts failed to establish use.

In *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir. 2006), the Tenth Circuit widened the circuit split by affirming a jury award of \$5,000,000 based in part on trademark infringement involving initial interest confusion, where the defendants used plaintiff's trademarks as metatags and for premium placement in response to search queries. See also *Buying for the Home, LLC v. Humble Abode, LLC*, 459 Fed Supp. 2d 310 finding the use requirement of the Lanham Act satisfied by use to trigger a sponsored link. The court noted the broad language of 15 USC §1125(a)(1). In *JG Wentworth v. Settlement Funding LLC*, 85 USPQ 2d 1780 (DC E.Pa 2007), trademark use was found to be satisfied by use in metatags and Google sponsored link advertising. The conflicting cases were also considered in *Boston Duck Tours v. Super Duck Tours*, 527 Fed Supp. 2d 205 (DC Mass 2007) with the court finding trademark use in connection with sponsored linking for Lanham Act purposes.

The Eleventh Circuit has also weighed in on the side of a liberalized use requirement in *North American Medical Corporation v. Axiom Worldwide, Inc.*, 522 F.3d 1211 (11th Cir. 2008), finding inclusion of trademarks in the metatags of a website as constituting use as contemplated in the Lanham Act, and explicitly rejecting the position of the Second Circuit in *1-800 Contacts*.

At this point, the Second Circuit has taken the position that trademark use is not involved in the use of a trademark as an informational tool to return search results in the case of metadata or to trigger the display of pop-up ads in connection with the sale of keywords by search engine operators. The position is based on reliance on the definition of use in 15 USC §1127. On the other hand, the Ninth, Tenth and Eleventh Circuits find trademark use under such circumstances, looking at the broad language of Section 43(a) (15 USC §1125) of the Lanham Act. However, as alluded to above, it is believed that the discernment of a clear line between trademark infringement and other causes of action covered by unfair competition law may be key to avoiding the use controversy.

In *1-800 Contacts*, the Second Circuit seemed troubled that the defendant's use of the trademark was internal in a way that does not communicate it to the public and was analogous to an individual's private thoughts about a trademark. However, "private thoughts" are not *per se* off limits in assessments of liability, most notably in assessments of intent and malice. The situation can

be likened to so-called "bait and switch" tactics where an individual's interest in one brand is used as a device to secure an initial consumer interest and then use that interest to sell another's product.

Preferred placement of a competitor's goods proximate to a market leader's goods at a retail facility is, apparently, a reality. Indeed, in a bricks and mortar environment, placement of goods of one company next to those of another is perhaps inevitable. However, in the context of the Internet, it is possible to avoid situations as those which have triggered lawsuits in the metadata and sponsored link areas. In this respect the Internet is unlike store shelf space, as Internet pages can be limited in visual content, as desired. This may support a more stringent set of rules for competition in the electronic marketplace.

Unfair Competition as a Broad Cause of Action

As alluded to above, litigants may be well advised to try to avoid the issues surrounding whether or not sponsored links and/or metatags involve trademark use by considering an unfair competition action, in the broader sense of that doctrine. See, for example, *BLI Apparel Corp. v. Heritage Quilts, Inc.*, 210 U.S.P.Q. 1999 (SDNY 1980), where the court, after rejecting trademark protection in style numbers on account of a lack of secondary meaning, left open the possibility of recovery under a theory of copying and palming off. In a similar vein, see *Filmways Pictures, Inc. v. Marks Polarized Corporation*, 552 F. Supp. 863 (SDNY 1982), where the court noted that no cause of action could lie where a trade secret owner had voluntarily disclosed the trade secret to another, but refused to dismiss a counterclaim for unfair competition alleging that counterclaim defendant Filmways Pictures unfairly induced Marks Polarized to disclose its trade secrets to its competitors, clearing the way for Filmways Pictures to deal directly with those competitors to the exclusion of Marks Polarized.

The court in *Filmways* relied on the Second Circuit's formularization of unfair competition in *Roy Export Co. v. Columbia Broadcasting System, Inc.*, 672 F.2d 1095 (2d Cir. 1982), stating that unfair competition is a capacious doctrine encompassing any form of commercial immorality or simply "endeavoring to reap where one has not sown".

It would appear that such a cause of action for unfairly using a competitor's trademarks in connection with metatags and sponsored links might well lie, although one might conceive of circumstances under which such use might be fair, for example, comparative advertising. Most interestingly, it is likely that the courts may not require a showing of likelihood of confusion, or perhaps only look at likelihood of confusion as a factor in the overall analysis.

Given that there is a public policy in favor of encouraging trademark owners to maintain the quality of products sold under their trademarks, in evaluating a claim for unfair competition the claims of the plaintiff will likely be balanced against competing public policies for encouraging competition. It is also likely that arguments may center on the extent to which an alternative course of action by the accused infringer might have better served those competing public policies as a whole.