

Litigation Alert

Ninth Circuit Clarifies Standards For Keyword Advertising Trademark Cases

March 10, 2011

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On March 8, 2011, the Ninth Circuit in *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, No. 10-55840, provided much needed clarification of how courts should approach cases of alleged trademark infringement involving Internet keyword advertising.

- The court ruled that the eight factor test announced in *AMF Inc. v. Sleekcraft Boats*, 599 F.3d 341 (9th Cir. 1979), which is traditionally considered in assessing likelihood of confusion, should be applied flexibly, and its factors are not exhaustive.
- The court also rejected the mechanical application of the so-called “Internet Troika” of factors when considering claims of infringement on the Internet.
- Given the nature of the keyword advertising at issue in this particular case, the Ninth Circuit found that the most relevant factors were (1) the strength of the mark, (2) evidence of actual confusion, (3) the type of goods and degree of care likely to be exercised, and (4) the labeling and appearance of the advertisements and surrounding context on the screen displaying the results page.

The Ninth Circuit concluded that the district court abused its discretion by failing to weigh the various likelihood of confusion factors flexibly to match the facts of the case, and vacated the district court’s preliminary injunction.

Background of the Case

Advanced Systems Concepts and Network Automation are direct competitors that sell competing software designed to centralize and manage certain business tasks. Advanced Systems calls its product ActiveBatch and it has held a federal trademark registration on its mark since 2001. Network Automation’s product is called AutoMate. Each product is available from its respective manufacturer’s website, and their prices range from several hundred to over ten thousand dollars.

As part of its online marketing efforts, Network Automation purchased the word “ActiveBatch” as a keyword in Google’s AdWords program, as well as a similar advertising program offered by Microsoft Bing.

A keyword is a search term which, when entered by a user, triggers the appearance of an advertisement from that keyword’s sponsor or sponsors. By purchasing the ActiveBatch keyword, each time it was used as a search term, Network Automation’s sponsored advertisement featuring its own AutoMate program would appear on a section of the screen labeled as displaying sponsored results. The search results generated by Google’s or Microsoft’s search algorithms typically appeared in the main section of the screen. At times, Advanced Systems’ own advertisements would also appear among the sponsored results.

Advanced Systems objected to Network Automation’s use of ActiveBatch as a keyword. After receiving a cease and desist letter from Advanced Systems, Network Automation brought a declaratory relief action in the Central District of California. Advanced Systems then counterclaimed for trademark infringement under the Lanham Act, 15 U.S.C. § 1114(1) and moved for a preliminary injunction against Network Automation’s use of the ActiveBatch mark pending trial.

District Court Decision

Advanced Systems’ motion for preliminary injunction sought to bar Network Automation’s use of the ActiveBatch trademark, including its use as an online search keyword. As the parties did not dispute the validity or ownership of the ActiveBatch mark, the district court focused on whether Advanced Systems was likely to succeed in establishing that Network Automation’s use of the mark was in commerce and likely to lead to consumer confusion as required by the Lanham Act.

The district court applied the eight factors test announced in *Sleekcraft*, 599 F.3d at 348-349, and relied primarily on the three factors made prominent in *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1054 (9th Cir. 1999), the Ninth Circuit’s first case to address trademark infringement involving the Internet. These factors—(1) the similarity of the marks, (2) relatedness of the goods or services, and (3) the simultaneous use of the Internet as a marketing channel—are referred to as the “Internet Trinity” or “Internet Troika,” and have been widely used to assess likelihood of confusion in disputes involving domain names.

These factors strongly favored Advanced Systems in its infringement claim, as they would in virtually any keyword advertising case involving competitors. Whenever a company uses a competitor's brand as a keyword, the marks at issue are identical, the goods or services compete, and of course, both parties use the Internet as a marketing channel. The district court therefore found a likelihood of initial interest confusion, and granted a preliminary injunction.

Flexibility and Limitations on the "Internet Troika"

In reversing the district court, the Ninth Circuit clarified that it did not intend its decision in *Brookfield* "to be read so expansively as to forever enshrine these three factors . . . as the test for trademark infringement on the Internet." The court also reiterated that the eight factor *Sleekcraft* test must be applied flexibly, and is not exhaustive. The Court reasoned that district courts should apply the eight *Sleekcraft* factors, but only by "assigning each factor appropriate weight in accordance with its relevance to the factual circumstances presented." In the context of keyword advertising, the most relevant factors were (1) the strength of the mark; (2) 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.

This last factor is not one of the familiar *Sleekcraft* factors, but instead represents a new factor that takes into consideration the realities of keyword advertising. The Ninth Circuit noted, for example, that Google and Bing partition their search results pages so that advertisements appear in separately labeled sections for "sponsored" links. This labeling and appearance of the advertisements as they appear on the results page includes more than the text of the advertisements, and should be considered as a whole.

Significantly, The Ninth Circuit did not address the ultimate question of Advance Systems' likelihood of success, but concluded that the district court abused its discretion by failing to weigh various factors flexibly to match the specific facts of the case.

Implications

Following the *Network Automation* decision, Plaintiffs within the Ninth Circuit hoping to assert trademark infringement based on keyword advertising will face far greater obstacles. Given that most keyword results are identified as "sponsored results" and displayed separately from search results, the new "labeling, appearance, and context" factor announced by the Ninth Circuit will cut against a finding of infringement.

In addition, Plaintiffs in keyword cases involving sophisticated consumers will face even greater challenges.

More broadly, the *Network Automation* decision emphasizes the importance of remaining flexible when applying old trademark law to constantly evolving technologies. For example, while earlier decisions placed more weight on the simultaneous use of the Internet as a marketing channel, the court in *Network Automation*, noting its decision in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), concluded that this factor now merits little weight: "today it would be the rare commercial retailer that did not advertise online, and the shared use of a ubiquitous marketing channel does not shed much light on the likelihood of consumer confusion." Similarly, while earlier cases found infringement from the use of third party marks in domain names, the Ninth Circuit in *Network Automation* noted that it had recently vacated an injunction that prohibited car brokers from all uses of the "Lexus" mark in their domain names. The court observed that as online commerce has become more commonplace, consumers have become more sophisticated: "They skip from site to site, ready to hit the back button when they're not satisfied with a site's contents . . . consumers don't form any firm expectations about the sponsorship of a website until they've seen the landing page — if then." *Toyota Motor Sales v. Tabari*, 610 F.3d 1171, 1179 (9th Cir. 2010). In keeping with these decisions, *Network Automation* serves as a reminder to avoid the rigid application of trademark law to emerging technologies.

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