

## Does The Grokster Decision Make Life Even More Difficult for Search Engine Keyword Advertisers?

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With billions of documents online and more and more American households with high-speed Internet access, the internet has become our society's primary stronghold of information. The gatekeepers of that information, for most internet users, are internet search engines. Search engines garner significant profits through the sale of keyword advertising. However, in recent years lawsuits by concerned trademark owners have threatened this lucrative practice.

The Supreme Court may have weakened the positions of search engine owners even further with its decision this term in *Metro-Goldwyn-Mayer Studios v. Grokster*, 125 S.Ct. 2764 (2005). A key component of the *Grokster* decision was the Court's analysis of the non-infringing use defense. Ultimately, the Court in *Grokster* did not give weight to Grokster's non-infringing use defense and found that a party can be liable for the acts of infringement by third parties.

The Court's treatment of the non-infringing use defense, and ultimate finding of infringement against a party for the acts of a third party, may be another chink in the armor of search engines in their fight with trademark owners.

### **Keyword Advertising: How it Works**

Search engines such as Google have implemented keyword-based advertising wherein advertisers pay for ads containing links to their sites to appear near context-related keyword search results. For example, a user who searches for "watches" will get a list of search results with relevant web sites, but also on the screen will appear "sponsored" links to businesses selling various brands of wrist watches. These paid advertisements may be helpful to users searching for general information, but users searching for particular branded products under registered trademarks may encounter initially confusing ads from competitors.

Often advertisers write their own ad text, select the keywords that will trigger their ads, and pay only when users actually click on their ads. Google has established parameters for advertisers such as requiring that keywords and ad text be relevant to the advertiser's web site, products, or services, and forbidding the use of universal call-to-

action phrases such as “click here” or “visit this link.”<sup>i</sup> In addition, Google has implemented a Trademark Complaint Procedure whereby trademark owners can submit complaints about the alleged misuse of their trademarks.<sup>ii</sup>

Even with safeguards such as those used by Google in place, some assert that these “sponsored” links lead to the misappropriation of the trademark goodwill by both the competitor and the search engine.

### **Trademark Concerns**

Trademark owners remain concerned that third-party keyword advertising featuring their trademarks will confuse consumers about the source of their goods and services, and weaken their trademarks. At the heart of the controversy is the main purpose of trademarks – to identify the source of goods and services for consumers. Trademark infringement occurs when the use of a trademark in connection with a particular product is such that consumers are likely to be confused as to the source, affiliation, or sponsorship of that product, like the use of a competitor’s trademark in a misleading search engine keyword ad. 15 U.S.C. § 1114. Although consumers who click on a competitor’s keyword ad may quickly realize that the site is not the trademark owner’s site they were seeking, the use of the trademark that lured them there may be actionable under the Lanham Act as “initial interest confusion.” That is, the consumer was initially interested in the site due at least in part to the goodwill of the trademark owner’s mark. Once on the unintended competitor’s web site, the consumer will likely realize the mistake, but may be content to stay and purchase the competitor’s product instead of the one originally sought.

### **The Banner Ad Decision: *Playboy v. Netscape and Excite***

This issue was first addressed in a decision by the Ninth Circuit that concerns initial interest confusion in the closely analogous context of keyword-triggered banner ads. In *Playboy Enters., Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), Playboy Enterprises, Inc. sued Netscape and Excite for trademark infringement and dilution, claiming the sale of certain banner-ad keywords by the defendant search engines, including “playboy” and “playmate,” infringed and diluted Playboy’s registered trademarks. When users searched for “playboy,” “playmate,” or other related terms on the defendants’ sites, banner ads for some of Playboy’s competitors appeared. The

banner ads typically contained graphics and the words “click here,” but did not identify the source of the ads. When users clicked on the banner ads, they were taken to the advertiser’s web site, which was not associated with Playboy. Further, Netscape and Excite used “click rates” – the number of times users clicked on banner ads compared to the number of times the ads are shown – to sell and promote online advertising. Thus, Playboy alleged that the defendants profited by the infringement and dilution of Playboy’s trademarks.

The California district court ruled in favor of the defendants on cross-motions for summary judgment, stating that the defendants were using the terms “playboy” and “playmate” in their generic, plain-meaning sense, rather than to refer to Playboy’s trademarks. The Ninth Circuit reversed the district court, concluding that a genuine issue of material fact exists regarding whether defendants’ use of Playboy’s trademarks constitutes trademark infringement.

In examining Playboy’s trademark infringement claim, the appellate court did not resolve the question of whether search engines are directly or only contributorily liable for trademark infringement, concluding that Playboy’s case could proceed on either theory of liability. Though this case’s procedural posture did not require a decision on this point, the question of direct versus contributory liability could prove to be a key consideration in future cases, particularly in the area of keyword advertising. Although it is true that search engines sell trademarks as keywords to businesses that compete with the trademarks’ owners, those competitors are often the advertisers that are responsible for choosing the keywords that trigger the ads in the first place. Thus, one possibility would be to hold the competitors directly liable for trademark infringement, and the search engines merely contributorily liable.

In the *Playboy* case, the Ninth Circuit next analyzed Playboy’s trademark infringement claim, focusing on likelihood of confusion. The court found that Playboy was able to withstand summary judgment only by relying on an initial interest confusion theory. Playboy asserted that initial interest confusion resulted when the banner ads keyed to Playboy’s trademarks (but without information as to sponsorship) appeared immediately after users searched for the marks. Users would be confused into thinking that the banner ads that appeared would connect them to a Playboy web site, or a

Playboy-sponsored site. Even if users realized immediately that the banner ad site was not a Playboy sponsored site, Playboy's competitor may still have gained a customer by appropriating the goodwill in Playboy's marks. After agreeing with Playboy's argument on summary judgment, the court noted that if the banner ads clearly indicated their source or compared the competitor's products to Playboy's products, there would be no initial interest confusion.

### **Keyword Advertising Litigation**

While there are subtle distinctions between banner advertisements keyed to search words and the keyword advertisements sold by Google and Yahoo!, the two techniques are analogous, and at present the *Playboy* case offers the most relevant insight into how courts may view the sale of trademarked terms in keyword advertisements. In fact, the courts have already shown that they are going to look to the reasoning in the *Playboy* case in two recent lawsuits concerning Google.

In *Google, Inc. v. Am. Blind & Wallpaper*, No. 5:2003cv05340. (N.D. Cal. filed Nov. 26, 2003), Google filed a declaratory judgment suit against American Blind & Wallpaper Factory asking the court to declare that its policy for the sale of keyword advertising does not constitute trademark infringement. American Blind & Wallpaper Factory responded with its own lawsuit in late January 2004, alleging that Google and other search engines infringed its trademarks by allowing its competitors to purchase keywords similar to its trademarks.<sup>iii</sup>

The dueling lawsuits are the result of many months of dispute between the parties over various keywords sold by Google. The dispute began with a letter from American Blind to Google in July 2002, requesting that Google refrain from selling keywords that corresponded to American Blind's trademarks and confusingly similar terms.<sup>iv</sup> Google agreed to disable keywords that corresponded directly to registered trademarks, such as "American Blind Factory" and "DecorateToday," but it refused to disable keywords that could be considered descriptive, such as "American blind" and "American wallpaper."<sup>v</sup>

In March of this year, American Blind won the first battle when its claims survived the pleading stage in *Google Inc. v. American Blind and Wallpaper Factory, Inc.*, 2005 WL 832398, at \*5 (N.D. Cal 2005). In ruling on a motion to dismiss the court stated that "in light of the uncertain state of the law, the Court does not find [Google's]

arguments sufficient to warrant dismissal of American Blind’s counterclaims and third-party claims.” The court went on to point to the *Playboy* case, noting that “given the most relevant Ninth Circuit decision – [*Playboy v. Netscape*] – it does not appear beyond doubt that American Blind can prove no set of facts in support of its claims that would entitle it to relief.”

If the court continues to look to the *Playboy* decision for guidance, as it likely will, it will consider the theory of initial interest confusion in the context of keyword advertising. This theory may be viable in this context, as consumers may be confused into thinking that the keyword ads that appear on the top and side of their search results are somehow connected with the trademark owner. Still, the fact that keyword ads appearing on Google and other search engines include an identification of the advertisers (at least through the listing of the advertiser’s domain name), may help the search engines avoid liability. The current keyword ads certainly identify the advertisers, unlike the banner ads at issue in the *Playboy* case, and that case’s holding seems staunchly based on the absence of information as to the source of the ads.

### **The Grokster Decision’s Place in the Litigation**

In the *American Blind* case Google argued, unsuccessfully, in its motion to dismiss that it was not engaged in the requisite use of a trademark or other mark because it was not using the mark to identify the source of its own goods or services. If Google and other search engines continue to find no success in dismissing these claims at the pleading stage, they might consider defending their position under the non-infringing use defense. Prior to the Supreme Court’s decision in *Grokster*, most analysts probably would have given such a defense a reasonable chance of success. However, *Grokster*’s treatment of the non-infringing use defense casts real doubt on whether that is a valid means of escape for the search engines any longer.

In looking at Grokster’s possible copyright infringement, the Supreme Court noted that “[w]hen a widely shared service or product is used to commit infringement” it might be difficult to enforce rights against all direct infringers, and the only “practical alternative” might be to go after the distributor of the widely used service or product. The Court then went on to examine its decision in *Sony Corp. v. Universal City Studios*, 464 U.S.417 (1984), where it held that because the VCR was “capable of commercially

significant noninfringing uses” it held that the manufacturer could not be faulted solely on the basis of its distribution.

Many thought that if the claims against the search engines survived dismissal, those search engines would be able to point to *Sony* and any protections they had in place for protection of companies’ trademarks and make a strong argument that when advertisers followed the correct guidelines and wrote their ads properly there was a commercially significant noninfringing use in the keyword advertising technology. However, in *Grokster* the Court found nothing in *Sony* requiring courts to ignore evidence of intent. The Court noted that “where evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*’s staple-article rule will not preclude liability.”

Of course, in the *Grokster* case the Court ultimately held that distribution of a product coupled with promoting its use to infringe “as shown by clear expression or other affirmative steps” would result in liability. No one would argue that the search engines are currently far from meeting this standard with their keyword advertising technology. In fact, as noted above, Google, for example, purports to go out of its way to address trademark concerns. But the *Grokster* case likely does signify the unwillingness of courts to allow owners of technology to ignore their technologies’ possible infringing uses. With the *Playboy* case apparently giving teeth to claims against the search engines, the *Grokster* case may be yet another sign that search engines are going to have evaluate their keyword advertising policies even more closely.

Although owners of search engines should not be primarily responsible for policing trademarks in keyword advertising, their commercial gain through the sale of keywords makes a balance of responsibility between search engines and trademark owners the most reasonable solution to this growing problem. For the many famous and inherently distinctive trademarks, Google’s current Trademark Complaint Procedure, and other programs like it, may suffice to protect the marks. It is those marks on the suggestive/descriptive line, or descriptive marks that have acquired distinctiveness, that will likely have to be addressed on a case-by-case basis. Though this type of *ad hoc* examination may prove difficult and time-consuming for search engines, it may be the

price of doing business in a world where intellectual property rights are respected.

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<sup>i</sup> *Google AdWords Editorial Guidelines*, <https://adwords.google.com/select/guidelines.html> (last visited Oct. 10, 2005).

<sup>ii</sup> *Trademark Complaint Procedure*, [http://www.google.com/tm\\_complaint.html](http://www.google.com/tm_complaint.html) (last visited Oct. 10, 2005).

<sup>iii</sup> Matt Hicks, *Google Sued Over Search Advertising Practices*, at <http://www.eweek.com/article2/0,4149,1473225,00.asp>, (last modified January 28, 2004). *See also* Am. Blind & Wallpaper v. Google, Inc. et al., No. 1:2004cv00642. (S.D.N.Y. filed Jan. 27, 2004).

<sup>iv</sup> Alex Salkever, *Searching for Trouble?* at [http://www.businessweek.com/technology/content/jan2004/tc20010122\\_0347\\_tc047.htm](http://www.businessweek.com/technology/content/jan2004/tc20010122_0347_tc047.htm), (last modified January 22, 2004).

<sup>v</sup> *Id.*