

MORGAN LEWIS ON INTELLECTUAL PROPERTY AND TECHNOLOGY

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DOOR STILL OPEN ON TRADEMARK KEYWORDS

The practice of selling a third party's trademark to generate an advertisement for another company continues to be controversial and in the news. Although the practice of buying another company's trademark to trigger internet advertising has been around since the mid-1990s, courts have provided only sporadic and inconsistent guidance about the practice.

One of the earliest court decisions to address keyword advertising, *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 55 F. Supp. 2d 1070 (C.D. Cal. 1999), suggested to advertisers and search engine companies that they had a green light to use trademarks as keywords without any limitations. In denying Playboy's motion for preliminary injunction, the U.S. District Court for the Central District of California said that Playboy had not shown that use of a trademark as a keyword was "use" sufficient to establish an infringement or dilution claim, and also had not shown that even "initial interest confusion" was likely. Rather, the court analogized ads triggered by keywords to billboards intentionally placed next to a competitor's place of business, which may lawfully divert business without causing confusion. The Court of Appeals for the Ninth Circuit affirmed the district court's ruling in a short unpublished decision, holding that the district court had not abused its discretion or relied on erroneous legal grounds. See *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 1999 WL 1049614 (9th Cir. November 15, 1999).

Nearly five years later, the Ninth Circuit issued a lengthy decision in that same case, now holding that use of trademarks as keywords to trigger certain types of banner ads could constitute trademark infringement or dilution. In its latest decision, *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), the Ninth Circuit said that a banner ad that did not disclose its source or clearly compare the trademark owner's goods or services to those of the advertiser could constitute trademark infringement if the ad was triggered by a competitor's trademark. In reaching this conclusion, the court said that Internet users would likely be confused at least initially when faced with a competitor's unlabelled ad after running a search of a trademarked term, relying in part on a survey submitted by Playboy's expert that showed substantial consumer confusion.

The court also cited the fact that the defendant search engine companies Netscape Communications and Excite failed to take steps to prevent consumers from being confused; profited when consumers were confused because confused consumers would increase the click-through rates

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CALIFORNIA SHINES LIGHT ON INTERNET PRIVACY

Although the federal government and many states have been quite active with respect to Internet privacy issues, California continues to be aggressive and at the forefront of many consumer privacy protection efforts. Two new California laws are slated to go into effect in the next six months that are likely to impact companies nationwide that conduct business with California residents for their personal, household or family purposes.

1. CALIFORNIA ONLINE PRIVACY PROTECTION ACT

The California Online Privacy Protection Act makes mandatory the posting of online privacy policies for consumers by companies that conduct business over the Internet. See Cal. Bus. & Prof. Code §§ 22575-22579 (Deering 2004). The law, which goes into effect on July 1, 2004, requires that commercial web sites or online services that collect information from consumers residing in California must "conspicuously" post privacy policies on their sites that incorporate guidelines similar to those supported by the FTC. The Act does not set out specific penalties for noncompliance or any remedies to be afforded to plaintiffs, nor does it specify the enforcement mechanisms. Section 17200, California's unfair business practices statute, may provide a vehicle to enforce the new law. The statute provides for injunctive relief and restitution, but not damages. The California Online Privacy Protection Act provides that a business will be in violation if it fails to post a valid policy within 30 days of notification of noncompliance.

What makes this law particularly noteworthy is that it does not make any distinction between web sites of companies that operate or reside in California and web sites of those outside of the state's borders. It applies to any web site that collects personal information from California citizens who are accessing the site for personal,

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DOOR STILL OPEN ON TRADEMARK KEYWORDS

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of the challenged ad; and failed to stop using Playboy's marks as keywords when asked.

On the other hand, the court emphasized that banner ads may not cause even initial interest confusion or raise infringement concerns where the ads clearly identify their source with their sponsor's name; are comparative; or are clearly identified by the search engine.

The case was remanded back to the district court for trial, and the parties promptly settled. In the wake of the decision, Google announced in April that it would no longer grant requests from trademark owners to stop keyword ad buys in the United States and Canada. Google's position is that its sponsored links are clearly labeled both as advertisements and as to source.

There have been myriad disputes over trademarks as keywords during the five years between these two Ninth Circuit decisions in *Playboy*, including several that remain pending in the courts. These include a declaratory judgment action brought by Google last year against American Blind & Wallpaper Factory Inc. regarding sales of the terms "American blind" and "American wallpaper," in the U.S. District Court for the Northern District of California, as well as a trademark infringement suit against Google brought by insurance company Geico on May 4, 2004, in federal court in Virginia, which also challenges the company's keyword advertising practices. These actions remain pending.

Courts in Europe also have considered the legality of keyword advertising, with most concluding that it constitutes infringement. For example, in 2000 a German court issued an order under the German Unfair Competition Law prohibiting Excite and its advertising customer (a discount fragrance retailer) from using Estée Lauder's trademarks to trigger banner ads for the discount retailer. The court also found that Excite and the discount retailer were liable for damages, and required the discount retailer to disclose its turnover and profits from products sold in Germany. The court issued the ruling despite the fact that the "excite.com" search engine was in English and was not available on the company's German language site at "excite.de."

Excite and Estée Lauder ultimately settled their dispute, including similar cases filed in the United States and in France, with Excite agreeing to stop allowing the sale of Estée Lauder's marks for keyword advertising. Morgan Lewis' Joshua Paul of the firm's New York office worked with Estée Lauder on that case.

These decisions do not necessarily mean that every use of third-party trademarks for Internet marketing in Europe constitutes trademark infringement. At least one German court of appeal has determined that use of another party's trademark in web site metatags does not violate trademark or unfair competition laws. See *Oberlandesgericht Düsseldorf*, I 20 U 104/03, February 17, 2004. In that case, the court found that use of trademarks in metatags does not

indicate origin of the goods or services being offered and is not actionable. Earlier decisions from other German courts, however, found that use of another's trademark as a metatag constitutes trademark infringement and it remains to be seen how the Federal Supreme Court in Germany will resolve the issue. Currently, trademark cases against Google are pending in Germany and France.

Consistent with these earlier German decisions, several courts in the United States have found that use of competitors' trademarks in metatags constitutes infringement, at least where there is no legitimate reason for including the marks in the metatags. See, e.g., *Brookfield Communications, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1053 (9th Cir 1999); *Promatek Industries Ltd. v. Equitrac Corporation*, 300 F.3d 808 (7th Cir 2002). Similar issues are pending in federal and state court actions in the United States in which plaintiffs have challenged "paid placement" services offered by search engines, which are services that allow companies to pay to have their web sites listed near the top of Internet search results when certain terms – including trademarks – are used for a search.

Internet trademark issues are complex and the law is still evolving, both in the U.S. and in other countries. The specific facts and the relevant geographic location will always affect the analysis. For more information on these issues, please contact Carla B. Oakley (San Francisco) at 415.442.1301 (or at coakley@morganlewis.com), Joshua Paul (New York) at 212.309.6087 (or at jpaul@morganlewis.com), or Ron N. Dreben (Washington, D.C.) at 202.739.5213 (or at rdreben@morganlewis.com). ■

CALIFORNIA SHINES LIGHT ON INTERNET PRIVACY

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family or household purposes. As a result, most, if not all companies, will likely have to comply with the Act, because they cannot, or will not want to, prevent California consumers from purchasing products for their personal, family or household purposes on their sites. Therefore, although this law was enacted in California, its effect, as a practical matter, will be felt nationwide by all companies that conduct significant business online with California consumers.

2. CALIFORNIA SENATE BILL 27 ("SB 27")

SB 27, which goes into effect on January 1, 2005, requires that companies with more than 20 employees that collect personal information from California users (online or offline) and then disclose that information to third parties for their direct marketing purposes must once a year provide, within 30 days of a customer's request, a list of all of the names of the third-party direct marketers to which the personal information was disclosed in the previous year, as well as other details related to the collection

and use of the disclosed information. See Cal. Civ. Code §§ 1798.83–1798.84 (Deering 2004). Customers can bring causes of action against companies that fail to provide such information in accordance with SB 27, potentially resulting in recoveries of up to \$3,000 (and attorneys' fees) per violation.

One important exemption from SB 27 applies to companies that have joint marketing or promotional agreements with third parties. The disclosure of personal information from a company to a third party is exempted from the reporting requirement of SB 27 when a company and the third party are jointly offering a product or service pursuant to a written agreement under certain circumstances.

This exemption may be helpful for those companies that wish to exchange information with partners in occasional joint promotions, such as sweepstakes or other special marketing methods, but that are not regularly in the business of selling personal information to third-party marketers. Alternatively, if a business obtains consumers' consent or allows them to opt out from disclosure of their information, and readily discloses this policy and provides a cost-free means to exercise these rights, then it may be excused from responding to disclosure requests.

As with the California Online Privacy Protection Act, this law will likely exert its influence beyond the borders of California.

Without a federal statute that preempts state law, there remains the possibility of separate state laws imposing conflicting burdens and responsibilities on companies. California is not the only state that has acted in the area of online privacy. Similar laws are pending in New York and New Jersey, and until a federal statute is enacted, more states are likely to follow. California's law may spur more federal privacy legislation, as happened when California adopted a harsh anti-SPAM law. Congress quickly followed with the CAN-SPAM Act, which preempts the provisions of inconsistent state laws. ■

BRIEF UPDATES

PATENT LITIGATORS SCORE \$440 MILLION SETTLEMENT AGAINST MICROSOFT

Morgan Lewis represented InterTrust in a patent litigation against Microsoft that settled on April 12 with Microsoft paying InterTrust \$440 million. As a result of the settlement, all outstanding litigation between the two companies has been resolved. Microsoft took a comprehensive license to InterTrust's patent portfolio, including software and hardware technology that can be implemented in a broad range of products that use digital rights management (DRM) and trusted computing technologies. InterTrust received rights under Microsoft patents to design and publish InterTrust reference technology specifications related to DRM and security.

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