

Complex Litigation & *E-Discovery*

In Internet Advertising, Context Is King

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Earlier this year, the Ninth Circuit Court of Appeals issued a decision in *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 2011 WL 815806, which serves as a reminder that assessing the likelihood of consumer confusion in trademark infringement cases is a highly contextual endeavor that can evolve with consumers' sophistication levels. The Ninth Circuit's decision accords with developing case law in the district courts of the Third Circuit.

The context in the *Network Automation* case was keyword-triggered Internet advertising. Network Automation and Advanced Systems compete in the job scheduling and management software business. As

part of its advertising efforts, Network Automation purchased the "Google AdWords" service from Google and a similar service on the Microsoft "Bing" search engine, both of which let advertisers pay to have their advertisements appear when Internet users search specific words or phrases, referred to as "keywords." Network Automation used the services to have its advertisements appear as "Sponsored Links" or "Sponsored Sites" in response to searches for Advanced Systems' trademark, "ActiveBatch." The list of "Sponsored Links" or "Sponsored Sites" appeared alongside the search results. Advanced Systems alleged this use of its "ActiveBatch" trademark constituted trademark infringement.

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Case Development

After receiving several cease and desist letters, Network Automation filed a lawsuit seeking a declaration that its use of "ActiveBatch" did not infringe Advanced Systems' trademark rights. Advanced Systems counterclaimed and moved for a preliminary injunction to stop Network Automation from using the "ActiveBatch" mark.

The District Court for the Central District of California granted the preliminary injunction. The District Court relied on Ninth Circuit precedent for the proposition that consumers exercise a low degree of care on the Internet, increasing the likelihood of confusion. The District Court also noted that Network Automation's advertisements did not identify Network Automation as their source. The District Court therefore held that Network Automation's use of Advanced System's mark as a keyword was likely to cause a type of trademark infringement known as "initial interest confusion," in which an advertiser infringes a competitor's mark by using that mark to draw attention to its own advertising, product or service, even though the confusion is dispelled before the consumer makes a purchase.

Network Automation appealed, arguing that its use of Advanced Systems' mark was permissible "comparative, contextual advertis-

ing.” Advanced Systems countered that Network Automation’s actions misled consumers by hijacking their attention with unclear ads.

The Ninth Circuit reversed the preliminary injunction order. The court applied its traditional multi-factor test for assessing likelihood of confusion, a test very similar to that used in the Third Circuit, but emphasized that the factors are nonexhaustive and must be applied flexibly. The court stressed the importance of both context and evolving consumer sophistication.

Context is Key

While the District Court had correctly considered the nature of Network Automation’s advertisements, the Ninth Circuit found that the District Court improperly failed to consider the context for those advertisements.

Seemingly most important, the Ninth Circuit found that even though Network Automation did not clearly identify itself in its listing advertisements, search engines like Google and Bing partition their search results pages so that actual search engine results are separated from sponsored listings in clearly delineated areas of the webpage. In other words, the context surrounding the alleged infringer’s advertisement, which the alleged infringer did not control, was as important as the content of the advertisement itself, which the alleged infringer did control.

The Ninth Circuit distinguished its prior decisions dealing with similar issues, such as *Playboy v. Netscape*, 354 F.3d 1020 (2004), and *Brookfield v. West Coast Entertainment*, 174 F.3d 1036 (1999), noting that in those cases the “misleading and deceptive” context of the advertising was a critical factor in determining that initial interest confusion was likely to occur. For instance, the court explained how in *Playboy*, banner advertisements displayed as a result of a search on “playboy” or “playmate” were unlabeled and more likely to mislead consumers.

In contrast, the Ninth Circuit

found the context in which Network Automation’s advertisements were displayed important enough to outweigh some traditional assessment factors, such as the relatedness of the goods and the accused infringer’s intent. For example, although related goods are viewed as more likely than unrelated goods to confuse the public, the court explained that this factor can become less significant — that is, less likely to indicate that confusion will occur — where the advertisements or labeling is clear. The Ninth Circuit found the District Court’s failure to consider the context of Network Automation’s advertisements resulted in its placing too much weight on the relatedness of the products.

Similarly, the Ninth Circuit found the lower court erred in weighing Network Automation’s intent in favor of a finding of likelihood of confusion. A defendant’s intent in knowingly adopting a similar mark generally will cause courts to presume that the defendant will accomplish his intended purpose of confusing or deceiving the public. On the other hand, competitors are free to use another’s mark for purposes of “truthful comparative advertising.” The Ninth Circuit held the District Court improperly overlooked that Network Automation’s advertising may well have constituted “truthful comparative advertising” by “truthfully inform[ing]” consumers of choices, rather than attempting to mislead them.

At the end of the day, as the Ninth Circuit explained, “[i]n the keyword advertising context the likelihood of confusion will ultimately turn on what the consumer saw on the screen and reasonably believed, given the context.”

Evolving Consumer Sophistication as to the Advertising Forum

Another important aspect of *Network Automation* was the court’s conclusions about the nature of consumer care and how it can change over time. The Ninth Circuit stressed that evolving consumer sophistication on the Internet required a reassessment of its own statements

about how to assess the likelihood of confusion in Internet-based advertising.

The Ninth Circuit used two of its traditional assessment factors as springboards for this reassessment: 1) the “type of goods and degree of care,” which considers that low consumer care is likely to increase the likelihood of consumer confusion, and 2) the “marketing channels” used, which can be a factor leading to a likelihood of confusion if the channels are the same. The Ninth Circuit found that the District Court erred in relying on a “conclusion reached by our court more than a decade ago” and in assuming that “there is generally a low degree of care exercised by Internet consumers.”

Rather, the Ninth Circuit found that consumer care on the Internet has increased as consumers have become more familiar with its use. The court explained that consumers are now familiar with the variety of different domain name issues that come up on the Web, banner advertisements and the like. Consumers now expect that they may encounter websites other than those they initially were searching for, and in such case will simply move on to locate the site they wanted.

Thus, the Ninth Circuit’s determination of whether confusion was likely to occur took into account how the consumer’s sophistication level with respect to the particular marketing channel at issue, the Internet, has changed as the Internet has become a more prolific, common experience.

Treatment of Keyword Campaigns in the Third Circuit

The Third Circuit applies a multi-factor test for likelihood of confusion very similar to the Ninth Circuit’s test. See, e.g., *Century 21 Real Estate v. Lendingtree*, 425 F.3d 211 (2005). Like the Ninth Circuit, the Third Circuit has also held that initial interest confusion may support a trademark infringement claim. *Checkpoint Systems v. Check Point Software*, 269 F.3d 270 (2001).

In addition, courts in the Third Circuit have analyzed trademark infringement in view of issues raised by changing technologies, including in the context of keyword advertising. See, e.g., *Buying for the Home v. Humble Abode*, 459 F.Supp.2d 310 (D.N.J. 2006).

J.G. Wentworth v. Settlement Funding, 2007 WL 30115, from the Eastern District of Pennsylvania, cited approvingly by a District of New Jersey decision (*Syncsort v. Innovative Routines*, 2008 WL 1925304), actually

addressed the issue of the use of services like Google AdWords. Consistent with *Network Automation, J.G. Wentworth* held that no confusion was likely because “the separate and distinct nature of the links created on any of the search results pages” eliminated the potential for consumers “to confuse defendant’s services” with those of the plaintiff.

Takeaways

The context of advertisements, and

not just the advertisements themselves, must be considered in assessing whether there may be infringement.

Courts may consider changing characteristics of consumers and their interaction with specific marketing channels in deciding whether a particular use is an infringement.

Making the determination of whether confusion is likely is an assessment that must evolve over time and new, previously unidentified factors can become the most important. ■