

No. 00-56648

No. 00-56662

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PLAYBOY ENTERPRISES, INC.,
Appellant,

vs.

NETSCAPE COMMUNICATIONS CORP.,
Appellee,

PLAYBOY ENTERPRISES, INC.,
Appellant,

vs.

EXCITE, INC.,
Appellee

United States District Court Case No. CV 99-320 AHS (EEx)
United States District Court Case No. CV 99-321 AHS (EEx)

BRIEF OF AMICUS CURIAE
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I. INTRODUCTION

The International Trademark Association (“INTA”) submits this brief as *amicus curiae* in support of the appeal taken by Playboy Enterprises Inc. (“PEI”) from the entry of summary judgment against it by the District Court. Although the cursory nature of the summary judgment opinion makes it difficult to discern the District Court’s reasoning, it appears to incorporate the rationale of the Court’s more complete opinion denying preliminary injunctive relief.

In both opinions, however, the court misapprehended and misapplied fundamental trademark law.¹ As a direct result of the District Court’s misunderstanding of the governing principle of “secondary meaning,” the Court did not properly analyze whether appellees Excite and Netscape, along with their advertisers, use the words “playboy” and “playmate” in their trademark senses, as an indicator of adult source, rather than in their dictionary senses, as “a man who lives a life chiefly devoted to the pursuit of pleasure” and “a companion in play.”² Although the District Court’s opinions are unclear on this point, both suggest that there was evidence in

¹ INTA makes reference to the District Court’s opinion denying a preliminary injunction in order to present a more complete picture of the District Court’s analysis. *See Playboy Enters., Inc. v. Netscape Communic. Corp.*, 55 F. Supp. 2d 1070 (C.D. Cal. 1999) (*PEI I*), *aff’d*, Nos. 99-56230 & 99-56231, 1999 U.S. App. LEXIS 30215 (9th Cir. Nov. 18, 1999).

the record that (i) advertisers on Excite and Netscape and (ii) consumers searching on Excite and Netscape used “playboy” and “playmate” in communicating about the sexual content of certain web sites. *See PEI I*, 55 F. Supp. 2d at 1078 (words were packaged with other sexually suggestive words and offered to operators of sexually explicit websites); *Playboy Entertainment, Inc. v. Netscape Communic. Corp.*, Nos. SA CV 99-320 ANH (EEEx) & SA CV 99-321 ANH (EEEx), 2000 U.S. Dist. LEXIS 13418, at *4 (C.D. Cal. Sept. 12, 2000) (*PEI II*) (admitting PEI’s expert evidence relating to consumer confusion). If that is so, such uses, by definition, rely on the words’ secondary, or trademark, meaning. It was clear error not to analyze those uses in that context.

The District Court also reached the erroneous legal conclusion that Excite and Netscape had made a “non-trademark use” as to “which the infringement laws simply do not apply.” *PEI II*, 2000 U.S. Dist. LEXIS 13418, at *2. Whether the District Court relied on the erroneous understanding of fair use set forth in *PEI I* or the fact that the defendants used PEI’s marks in connection with their advertisers’ products and services rather than their own products or services, this was error.³

² Webster’s Ninth New Collegiate Dictionary 902 (1988).

³ The District Court also stated that there was “no evidence” of any consumer confusion. *Id.* at *3. That statement seems contradicted by the District Court’s denial of appellees’ motions to exclude expert

It is important for this Court to correct these errors. The District Court's opinion is the first published decision to address the relatively novel practice of "keyword buys" under U.S. trademark law.⁴ As a result, it has created enormous uncertainty concerning the use of trademarks in Internet advertising. This appeal will have significant precedential value in shaping Internet advertising practices. INTA urges this Court to make clear that traditional principles of trademark law, including those regarding secondary meaning and the types of uses that can trigger infringement claims, apply to cases involving the Internet just as they do in more conventional contexts.

II. STATEMENT OF INTEREST OF THE *AMICUS CURIAE*

INTA is a not-for-profit organization with more than 3,900 members, including trademark owners, law firms, advertising agencies, package design firms and professional associations from the United States and 119 other

testimony and an accompanying consumer perception survey, *see id.* at *4. It is possible that the District Court's reference was intended only to refer to confusion between PEI and appellees' search engines, as opposed to confusion between PEI and advertisers that purchased keywords as search terms. As explained below, however, the latter kind of confusion also is actionable under the Lanham Act. *See pp. 12-17, infra.*

⁴ A German court, applying German law, reached the opposite conclusion in the only other keyword buy decision of which INTA is aware, in a case involving the Estee Lauder mark. *See Excite, iBeauty Lose Key Name Use Lawsuit*

countries. All INTA's members share the goals of emphasizing the importance of trademark protection, and of promoting an understanding of the essential role trademarks play in fostering informed decisions by consumers, effective commerce, and fair competition. INTA members frequently are participants in trademark litigation, and therefore are interested in the development of clear and consistent principles of trademark and unfair competition law. INTA has substantial expertise in trademark law and has selectively participated as an *amicus curiae* in cases involving vital trademark issues.⁵

<<http://www.newsbytes.com/pubNews/00/145545.html>> (visited Dec. 14, 2000).

⁵ Cases in which INTA has filed *amicus* briefs include: *TraFFix Devices, Inc. v. Marketing Displays, Inc.*, cert. granted, 120 S. Ct. 2715 (2000); *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 120 S. Ct. 1339 (2000); *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank.*, 527 U.S. 627 (1999); *Dickinson v. Zurko*, 527 U.S. 150 (1999); *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992); *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *WarnerVision Entertainment Inc. v. Empire of Carolina, Inc.*, 101 F.3d 259 (2d Cir. 1996); *Preferred Risk Mut. Ins. Co. v. United States*, 86 F.3d 789 (8th Cir. 1996); *Conopco, Inc. v. May Dep't Stores Co.*, 46 F.3d 1556 (Fed. Cir. 1994); *Ralston Purina Co. v. On-Cor Frozen Foods, Inc.*, 746 F.2d 801 (Fed. Cir. 1984); *Anti-Monopoly, Inc. v. General Mills Fun Group, Inc.*, 684 F.2d 1316 (9th Cir. 1982); *In re Borden, Inc.*, 92 F.T.C. 669 (1978), *aff'd sub nom Borden, Inc. v. Fed. Trade Comm'n*, 674 F.2d 498 (6th Cir. 1982), *vacated and remanded*, 461 U.S. 940 (1983); *Redd v. Shell Oil Co.*, 524 F.2d 1054 (10th Cir. 1975); *Century 21 Real Estate Corp. v. Nevada Real Estate Advisory Comm'n*, 448 F. Supp. 1237 (D. Nev. 1978), *aff'd*, 440 U.S. 941 (1979).

INTA was founded in 1878 as the United States Trademark Association, in part to encourage the enactment of federal trademark legislation after this country's first trademark act was declared unconstitutional. Since that time, INTA has been instrumental in making recommendations and providing assistance to legislators in connection with each subsequent trademark act, or amendment thereof, including the Trademark Law Revision Act of 1988, *see, e.g.*, 134 Cong. Rec. S16974 (daily ed. Oct. 20, 1988) (statement of Sen. DeConcini), the Federal Trademark Antidilution Act of 1995, *see, e.g.*, H. Rep. No. 104-879, 104th Cong., 2d Sess. (1997) (noting use of testimony from INTA's executive vice president), and the recent Anticybersquatting Consumer Protection Act of 1999, *see, e.g.*, S. Rep. No. 106-140, 106th Cong., 1st Sess. (1999) (relying on statements by INTA's president, made before the Senate Committee on the Judiciary). INTA also has worked closely with the U.S. Patent and Trademark Office.

III. SUMMARY OF ARGUMENT

It is literally black letter law that any word that distinguishes goods or services in the marketplace by identifying the source of these goods or services can function as a trademark. Restatement (Third) of Unfair Competition § 9 (1993) ("Restatement"). Word marks may serve this distinguishing function either because (a) they are inherently distinctive as

applied to a product or service or (b) use and promotion of the mark, over time, has caused consumers to attribute a “secondary meaning” to the mark as an indication of source.⁶ This secondary meaning can attach with respect to countless words found in the dictionary. Restatement § 13.

The District Court appears to have ignored these fundamental principles and, as a result, made two main errors of trademark law. First, the District Court mistook the significance of the unremarkable fact that a trademark, even a famous mark, may consist of a word that has both a standard dictionary definition and a source-identifying “secondary meaning.” The opinion below effectively excluded words with both functions from protection against infringement without regard to whether the words were being used in their secondary trademark sense and without regard to consumer confusion. Second, the District Court improperly circumscribed the concept of an infringing use. It appeared to rule that there was no trademark use of Playboy® or Playmate® because the defendants had not used the marks directly to brand their own services, and because the banner advertisements to which PEI objected did not contain those words, “PEI’s ‘bunny logo’ or any stylized lettering.” *PEI I*, 55 F. Supp. 2d at

⁶ Words used to communicate information with respect to goods and services fall broadly into five categories: (i) generic (and incapable of trademark protection); (ii) descriptive; (iii) suggestive; (iv) arbitrary; and (v) fanciful. *See Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).

1078-79. An infringing use, however, is any use that causes likelihood of confusion, whether it is directly on, or otherwise in connection with, the goods and services in dispute. The District Court should have considered relevant principles of direct and contributory liability. Third, building on those initial errors, the District Court confused the concepts of “descriptive fair use,” or use of a word in its primary, dictionary sense, and “nominative fair use,” which is use of a trademark in its trademark sense for comment, analysis, or criticism, including comparative advertising. The District Court’s holding is unclear, and summary judgment was inappropriate.

The proper trademark analysis in a “keyword” case, just as in any infringement case, should begin with an examination of whether the defendant’s use is a use of the plaintiff’s mark in its secondary or trademark sense. If not, then the word is being used in its dictionary sense and is a descriptive fair use. Restatement § 28. If, however, the word is used in its secondary, trademark sense, then the inquiry turns to: (1) whether the direct or indirect use is likely to cause confusion, and (2) where appropriate, defenses such as nominative fair use or nonconfusing comparative advertising. *See New Kids on the Block v. News America Pub’g, Inc.*, 971 F.2d 302, 305-06 (9th Cir. 1992).

IV. ARGUMENT

A. The Process of Targeting Ads Using Keywords

As INTA understands the advertising practice at issue in this case, Excite and Netscape sell certain terms for use in connection with the advertising on their Internet search engines. In the ordinary case, a user searches the Internet by typing a term, known as a “keyword,” into a search engine. The search engine uses a mathematical formula to generate a list of web pages containing (or relevant to) that term. When an advertiser has paid for keyword targeting, the search engine will display an advertisement, either above or alongside the search results, or will organize the list of responses in ways that push the advertiser to the top of the list.⁷ It appears that the practice of selling keywords is common among major search engines. *See, e.g., Google’s Self-Service Advertising System* <<https://adwords.google.com/AdWords/Welcome.html>> (visited Nov. 24, 2000); *Northern Light Advertising Information: Media Kit*, <<http://www.northernlight.com/mediakit.html>> (visited Nov. 24, 2000). Advertisers usually are charged based on how many times their ads are

⁷ Because search engines present themselves as basic information-finding tools, INTA believes that the latter practice (not alleged to be involved in this case) would be inherently confusing to consumers absent a clear, affirmative disclosure, and therefore at least as likely to constitute infringement.

displayed as the result of searches using keywords. *See PEI I*, 55 F. Supp. 2d at 1077-78 (discussing defendants’ practices).

When the keyword is a term that is used in a generic fashion, such as “automobile” used to trigger advertisements for cars, the practice has no trademark implications. Even those terms, however, whose standard meaning is generic, can trigger trademark issues depending upon the specific facts. If, for example, a fruit seller purchased “apple,” there would be no trademark issue because that would be a descriptive use of the term “apple” in its dictionary sense.⁸ If, however, the advertiser sold personal computers that compete with the Apple® brand, then the keyword “apple” is very likely used in its secondary, trademark sense, and a further inquiry along the lines explained below is required.

More generally, when the keyword is capable of being recognized and used by the public as a trademark, even if that word mark also happens to be a dictionary term, consumer confusion – and thus trademark infringement – is possible. According to PEI, that infringement occurred when consumers searching online for adult content that originated from, or otherwise was associated with, PEI: (1) entered the word marks Playboy and/or Playmate

⁸ In other words, “apple” is a generic term for apples. While marks whose uses are not policed may become generic terms for the products they identify, it is undisputed that PEI’s marks retain their fame and source-identifying functions. *PEI I*, 55 F. Supp. 2d at 1077.

into defendants' search engines, (2) saw, in response, a banner advertisement that promoted adult content, and (3) were confused into thinking the banner advertisement signified PEI-related content.

B. Legal Principles Governing All Infringement Actions

1. The Rationale for Protecting Words with Secondary Meanings as Trademarks

The law of trademarks prevents consumer confusion and fosters increased product quality, effective commerce, and fair competition. In 1946, in connection with the passage of the Lanham Act, Congress explained that trademarks

are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. [They] encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect [such symbols], therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.

S. Rep. No. 333, 79th Cong., 2d Sess. (1946), *reprinted in* 1946

U.S.C.C.A.N. 1274, 1275. More than forty years later, when Congress

passed the Trademark Law Revision Act of 1988, Congress again

acknowledged the consumer benefits of strong trademark laws. S. Rep. No.

100-515, 100th Cong., 2d Sess. (1988), *reprinted in* 1988 U.S.C.C.A.N.

5577, 5580 (“Trademark protection is important to both consumers and producers.”).

One rationale for trademark protection is to reduce the cost of information to consumers by making it easy for consumers to correctly “identify the products or producers with which they have had either good experiences, so that they want to keep buying the product . . . , or bad experiences, so that they want to avoid the product or the producer in the future.” *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 338 (7th Cir. 1985). “By identifying the source of the goods, [trademarks] convey valuable information to consumers at lower costs. Easily identified trademarks reduce the costs consumers incur in searching for what they desire, and the lower the costs of search the more competitive the market.” *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1429-30 (7th Cir. 1985), *cert. denied*, 475 U.S. 1147 (1986).

This economic rationale is particularly relevant in a case like this where the trademark owner’s claim is that its marks are being used commercially by both search engine providers and advertisers in ways that confuse and interfere with that identification and decision-making process. If “keyword buys” generate search results accompanied by advertisements that confuse consumers, or otherwise result in manipulated search results that make it more difficult for consumers to correctly identify what they have found when they look for PEI’s products and services, the function of the trademark system is undermined.

A proper trademark analysis, therefore, asks whether the words “playboy” and “playmate” perform functions justifying protection because they are being used in their “secondary,” trademark sense, as opposed to their dictionary English sense. Although “playboy” initially had only dictionary meanings, after 1953 it began to distinguish PEI’s magazine from other magazines. As its fame grew, consumers increasingly associated the terms “Playboy®” and “Playmate®” with a particular magazine featuring, *inter alia*, photographs of women in various states of undress, and later with nightclubs and other products and services licensed by PEI. Because of the distinctiveness of these marks -- their “secondary meaning” -- consumers could more readily identify the particular kind and quality of adult entertainment they desired. That the PEI marks began as words in the dictionary has no bearing on their present ability to distinguish particular goods and services, to lessen consumers’ search costs, and to encourage quality control.

The District Court, however, was obviously and erroneously confused by the existence of the words “playboy” and “playmate” as part of the English lexicon, with meanings separate from their trademark senses. *PEI I*, 55 F. Supp. 2d at 1073-74, 1086-87. Dictionary status, without more, is not particularly helpful to a trademark analysis. In fact, except for fanciful marks, all word marks are found in the dictionary. The first question in an

infringement case thus must be whether consumers associate the allegedly infringing use with the plaintiff, as opposed to the dictionary meaning.⁹

PEI contended that at least some Internet users enter “playboy” or “playmate” as a search term because they are interested in the *particular brand* of adult content for which PEI is known. Evidence on that point properly would lead to the conclusion that those terms were being used in their secondary, trademark senses, not in their primary, dictionary senses.¹⁰

⁹ The District Court’s cursory statements in *PEI I* that the defendants only use the words “playboy” and “playmate” as “word[s] in the English language,” 55 F. Supp. 2d at 1074, do significant harm to the concept of secondary meaning because they ignore the undisputed fact that those words were bundled by the defendants with other sexually suggestive search terms and sold only to businesses advertising adult content. The court’s erroneous reliance on the lack of duplication of PEI’s stylized typeface, *see id.* at 1079, could be read to deny protection to any word used in a different font, whether “Playboy” or “Xerox,” no matter how confusing to consumers.

¹⁰ Adopting this position in no way gives PEI a monopoly on the keywords “playboy” and “playmate,” *see PEI I*, 55 F. Supp. 2d at 1085. Under a proper infringement analysis, PEI still must prove that the purchase of those terms by other adult website operators causes consumer confusion. For example, a banner ad for a club of wealthy playboys (in the generic sense) might not confuse consumers, and might thus be a permissible use of keywords. Other permissible uses are discussed *infra* pp. 17-22.

As part of its dictionary-based analysis, the District Court distinguished *Brookfield Communic., Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999), because the trademark in that case -- MovieBuff -- was not an English word. *PEI I*, 55 F. Supp. 2d at 1074. The Ninth Circuit’s statement that the defendant could, without infringement, use the related English phrase “movie buff” was a proper commentary on the strength of the MovieBuff mark and, relatedly, the

2. Allegedly Infringing Uses, Whether Direct or Indirect, Should Be Analyzed Under the *Sleekcraft* Factors

The District Court also reasoned that the search engines were not infringing because they were not making a “trademark use” of PEI’s marks in that those marks were not being used to sell the defendants’ own goods or services. *See PEI II*, 2000 U.S. Dist. LEXIS 13418, at *2 (“Defendants do not use PEI’s trademarks *qua* trademarks. Although PEI uses its trademarks to identify its goods and services, defendants do not.”). Halting the analysis at that point was another clear error.

Trademark infringement includes a broad range of potentially confusing activities. For example, courts repeatedly have found infringement where a defendant, responding to a consumer’s request for a particular brand, delivers a competitor’s product without explicitly informing the consumer of the substitution. This is so even if the defendant neither affixes the plaintiff’s trademark to the product nor otherwise expressly states that plaintiff’s brand is involved in the transaction. *See, e.g., Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250 (9th Cir. 1982); *Coca-Cola Co. v. Howard Johnson Co.*, 386 F. Supp. 330 (N.D. Ga. 1974); *Estee Lauder, Inc. v. Watsky*, 323 F. Supp. 1064 (S.D.N.Y. 1970); Restatement

scope of descriptive fair use. It was not a new rule treating English words differently than arbitrary marks.

§ 20 cmt. b (“A seller who responds to a request for trademarked goods by substituting different goods without the knowledge of the purchaser makes an implicit representation that the offered goods are those identified by the trademark and is thus subject to liability for infringement.”). Thus, a restaurant that responds to requests for Coke® with Pepsi® products, without identifying the substitution, commits acts of infringement even if the Coca-Cola® mark never is displayed or mentioned (“Here’s your Coke®”) to customers and even though the mark plainly is not being used to identify the restaurant’s services. The connection between the mark and the product served to customers, albeit implied, deceives them as to the source of the product and therefore is actionable. Thus, the District Court’s limitation of its confusion analysis to confusion between PEI and the defendants’ business was error. *See PEI II*, 2000 U.S. Dist. LEXIS 13418, at *3; *PEI I*, 55 F. Supp. 2d at 1078 (“Excite and Netscape do not use the words “playboy” or “playmate” to identify any goods or services.”).

Courts in this circuit analyze whether commercial use of a mark creates a likelihood of confusion by looking at the eight-factor test set forth in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979), which is similar to the infringement tests in other circuits. The *Sleekcraft* factors are: (1) the strength of the mark; (2) the proximity of the goods; (3) the similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) the type of goods and degree of care likely to be exercised

by purchasers; (7) the defendant's intent in selecting the mark; and (8) the likelihood of expansion of the product lines. These factors can be used to evaluate the relationship between PEI's marks and the banner ads, in the context in which consumers receive them.

If the *Sleekcraft* analysis shows that a substantial number of consumers are likely to be confused as to the source or sponsorship of the disputed banner advertisements for other adult web sites, the *Coca-Cola* principle applies: consumers "asked" for Playboy® and got an advertisement that linked directly to something else without being expressly advised as to the substitution.¹¹ In this case, PEI contends that Internet users who entered the terms Playboy® and Playmate® into defendants' search engines received advertising that depicted women in suggestive poses and that

¹¹ Additionally, the doctrine of "initial interest" confusion has developed to protect trademark owners against situations in which imitation of an owner's mark causes a consumer to pay additional attention to a competing product or service. Even if the consumer ultimately divines that the products or services are different, the use of the mark to get the competitor's "foot in the door" constitutes a confusing commercial use. *See, e.g., Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1405 (9th Cir. 1997) (use of trademark "to capture initial consumer attention, even though no actual sale is finally completed as a result of the confusion," may still be an infringement); *Mobil Oil Corp. v. Pegasus Petrol. Corp.*, 818 F.2d 254, 257-58 (2d Cir. 1987). The opinion does not reveal whether the record below showed banner ads keyed to "playboy" and "playmate" caused consumers to be initially confused as to the source of the advertising, even if their confusion would disappear before they ultimately purchased the competitors' products or services.

contained insufficient source identifiers. If PEI's contentions are true, then PEI may be able to show a likelihood of confusion. Users were directed to something other than what they asked for without clarification – they got Pepsi® instead of Coke® beverages. Of course, had the source of the banner ads been made clear within the four corners of the ad, then a likelihood of confusion may well have been avoided. Similarly, had the evidence revealed that consumers did not perceive an association with PEI, perhaps because they understood a distinction between banner ads and goods or services offered in direct response to a request, confusion might also be averted. The District Court's opinion, however, appears to have resolved these factual issues as a matter of law, and did so in error.

3. Defendants May Be Either Directly or Contributorily Liable for Consumer Confusion

It is, of course, correct to state that Excite and Netscape did not expressly label either their search services or their advertisers' banners with the Playboy® or Playmate® marks. *See PEI II*, 2000 U.S. Dist. LEXIS 13418, at *2; *PEI I*, 55 F. Supp. 2d at 1078. That, however, only raises the question of whether, if the advertisements are proven to be confusing to consumers, the search engines are liable under theories of direct or contributory infringement. Once again, it is black-letter law that liability for trademark infringement “extends beyond those persons who actually use

another's mark" and covers all in the chain of distribution who accept the "benefits of infringement by failing to take reasonable precautions against its occurrence." Restatement § 27 cmt. (a).

Here, Excite and Netscape allegedly selected "playboy" and "playmate" as words to be included in a package of multiple keywords sold to adult entertainment website operators. Excite and Netscape, in conjunction with those advertisers, programmed their search engines to display banner ads in response to searches using any one of those keywords. *See PEI I*, 55 F. Supp. 2d at 1072. The search engines' respective involvement in the design and content of the banner ads themselves is unclear from the District Court's opinions. Each of these activities represents some level of participation in creating the allegedly confusing advertising. *Cf.* Restatement § 26 illus. 2&3 (discussing various levels of involvement in infringement). Even if not enough to create direct liability for trademark infringement, this involvement in the process may be sufficient to justify imposition of contributory liability. *See Inwood Laboratories v. Ives Laboratories*, 456 U.S. 844, 854-55 (1982) (contributory trademark infringement is (1) intentionally inducing another to infringe or (2) continuing to supply a product knowing that recipient is using it to infringe); *Lockheed Martin Co. v. Network Solutions, Inc.*, 194 F.3d 980, 983-85 (9th Cir. 1999) (discussing liability for providing "products"

versus “services” and requiring direct control and monitoring of infringer’s activity in order to find contributory liability).

The Supreme Court’s discussion in *Inwood* suggested that contributory liability for a manufacturer would be appropriate if it “suggested, even by implication” that its retailers sell its goods under another’s trademark, 456 U.S. at 851, but the manufacturer’s “reasonabl[e] anticipat[ion]” of retailer infringement would not be itself sufficient to establish intentional inducement to infringe, *id.* at 854 n.13. Although Excite and Netscape are not manufacturers, these principles can be applied to the situation at hand, in which defendants select various terms to make a package, including terms with trademark functions in the context of the package, *PEI I*, 55 F. Supp. 2d at 1078, and offer them to advertisers who are PEI’s competitors to create targeted ads. See *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (adapting contributory liability principles to new situation and holding that landlord is not contributorily liable for those it permits on its premises unless it knows of or is willfully blind to infringement); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996) (adopting *Hard Rock* test); *Power Test Petrol. Distrib., Inc. v. Manhattan & Queens Fuel Corp.*, 556 F. Supp. 392 (E.D.N.Y. 1982) (defendant that delivered non-branded gasoline to gas stations that dispensed it from branded pumps could be liable for contributory infringement if it was aware of stations’ infringement, even

though defendant did not use mark on any goods). If Excite and Netscape were aware that the selling of keywords resulted in targeted ads that were likely to confuse consumers looking for Playboy® branded content, they should be liable for resulting confusion.¹²

Unfortunately, contributory liability was not explicitly addressed by the parties in their briefs or by the District Court, *cf. PEI I*, 55 F. Supp. 2d at 1075 (discussing whether landowner would be liable for selling space on billboard to restaurant when competing restaurant is on same land), and it is, therefore, unclear what record was made on this issue. One possibility, therefore, is to reverse the award of summary judgment and remand for consideration of whether the search engines are contributorily liable for confusion created by the adult website advertisers, if PEI can show a likelihood of confusion with respect to those advertisers.

4. Fair Use and Nonmisleading Comparative Advertising

It is only in connection with the foregoing analysis, never undertaken by the District Court, that issues of fair use can properly be assessed. In the

¹² In addition, vicarious liability for trademark infringement can exist where the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in third-party transactions, or exercise joint ownership or control over the infringing product. *See Hard Rock Café*, 955 F.2d at 1149. Here, defendants' programming to target keywords and their control, if any, over ad content could also be analyzed under this standard if confusion between PEI and the advertisers were shown to be likely.

case of an infringement claim based on keyword buys, two distinct fair use possibilities exist.

a. Descriptive Fair Use as Contrasted to Nominative Fair Use

The Lanham Act provides that fair use is use “otherwise than as a mark” of a term or device which is “descriptive of and used fairly and in good faith only to describe the goods or services of [a] party.” 15 U.S.C. § 1115(b)(4); *see* Restatement § 28. Even if “Naturally” is a trademarked name for frozen food, a competitor may use the phrase “naturally grown” to describe its own goods as long as it is using the phrase descriptively, not as a mark. *See* Restatement § 28 illus. 1. If other terms are available to achieve the same purpose, the scope of descriptive fair use will be narrower. *See, e.g., EMI Catalogue Partnership v. Hill, Holliday, Connors, Cosmopolos Inc.*, 228 F.3d 56, 65 (2d. Cir. 2000); Restatement § 28.¹³

This statutorily codified fair use often is referred to as “non-trademark use.” It permits a defendant to use a word in its primary, dictionary sense, even if the word also has a secondary trademark function, as long as the defendant does so fairly and in good faith to describe its goods or services.

¹³ The physical nature of the use is also relevant in comparison with the alleged infringer’s use of other descriptive matter or marks. *See* Restatement § 28 cmt. c. Thus, if the competing product is clearly marked with the alleged infringer’s own marks, it may be more evident that the trademark at issue is only being used for its descriptive purpose.

Such a defendant is not liable for infringement “even if some residual confusion is likely.” Restatement § 28, cmt. b. *See Cosmetically Sealed Indus., Inc. v. Chesebrough-Pond’s USA Co.*, 125 F.3d 28, 30 (2d Cir. 1997) (“Sealed With a Kiss” used descriptively, not for trademark meaning); *Charles of the Ritz Group, Ltd. v. Marcon, Ltd.*, 635 F. Supp. 158 (S.D.N.Y. 1986) (“silk” is part of cosmetics industry vocabulary and may be used descriptively despite competitor’s SILK mark).

A second type of fair use, “nominative fair use,” identified and explained in *New Kids*, 971 F.2d 302, occurs when a word is used in its secondary, trademark sense to identify a particular brand for purposes of comparison, criticism or reference. Because such a reference is the only reasonably available way to describe the trademarked good or service itself, the necessity of using the mark dispels any inference of sponsorship or association between the owner and the user. *See id.* at 306, 308. Courts permit such nominative fair use in order to preserve the ability of people to communicate with one another freely. *See New Kids* (allowing use of band’s name to identify band in entertainment survey); *WCVB-TV v. Boston Athletic Ass’n*, 926 F.2d 42 (1st Cir. 1991) (use of BOSTON MARATHON mark to identify source of images used in television program was fair).

Under the concept of descriptive fair use, a manufacturer could promote a toy robot as “a child’s best playmate,” and a clothing manufacturer could claim “You’ll be as dapper as a playboy” in its line of

suits. Under the concept of nominative fair use, former Playboy® models may, under certain circumstances, advertise their services by touting their past associations with PEI. *Cf. Bihari v. Gross*, No. 00 CIV. 1664 (SAS), 2000 U.S. Dist. LEXIS 14180, at *40 (S.D.N.Y. Sept. 25, 2000) (mark used fairly to criticize plaintiff's services); *Gucci v. Gucci Shops, Inc.*, 688 F. Supp. 916 (S.D.N.Y. 1988) (enjoining trademark use of personal name but permitting use to show individual's connection with goods sold under other trademarks); Restatement § 28, cmt. a ("A subsequent user is not subject to liability if the name is used solely to indicate truthfully the named person's connection with the goods, services, or business.").

It is crucial to recognize, however, that descriptive fair use and nominative fair use are mutually exclusive, not mutually reinforcing. Descriptive fair use means *not* using a term at all in its trademark sense, but solely its dictionary sense: "a child's best playmate." Nominative fair use means using a trademark *as a trademark* to refer to the trademarked good or its owner, but in a fair way for comment, analysis, criticism or comparison. The District Court merged these two distinct concepts, to the detriment of its analysis. *Compare PEI I*, 55 F. Supp. 2d at 1073-74 (discussing defendants' use as if it were traditional descriptive fair use) *with id.* at 1081-82 (holding that present case falls under principles announced in nominative fair use

cases). By selling the keywords to PEI's adult web site competitors,¹⁴ Excite and Netscape do not appear to be using the terms in their dictionary sense, but depend on their trademark functions. If this is true, the descriptive fair use defense cannot apply. Nominative fair use, however, may be available as a defense if the appropriate criteria are met.

b. Comparative Advertising as the Relevant Form of Nominative Fair Use

In this case, given the sales of the words “playboy” and “playmate” to other adult web site operations, the potential nominative fair use defense overlaps substantially with comparative advertising, which is permitted.¹⁵ Although nominative fair use as a category was developed to protect uses of marks in their secondary-meaning sense by noncompetitors, the underlying principle of fair and nonconfusing identification is the same for standard comparative advertising as it is for other nominative fair uses. Legitimate comparative advertising uses a mark as a trademark to communicate that the

¹⁴ It does not appear from either District Court opinion that any advertiser other than adult web site operators deemed the words “playboy” or “playmate” to have value as search terms worth paying for, or even that defendants offered other advertisers the option of choosing those terms separately from the entire sexually-oriented package. *See PEI I*, 55 F. Supp. 2d at 1078.

¹⁵ It is also possible that the defendants could sell the keywords to advertisers with collections of genuine PEI merchandise. It would not be infringing to use the keywords to display banner ads that accurately identify the source of such goods. *See Prestonettes, Inc. v. Coty*, 264

competitor's product is a different brand but one that is also worthy of the consumer's attention. *See, e.g., Calvin Klein Cosmetics Corp. v. Parfums de Coeur, Ltd.*, 824 F.2d 665, 668 (8th Cir. 1987) ("A manufacturer does not commit unfair competition merely because it refers to another's product by name in order to win over customers interested in a lower cost copy of that product if the reference is truthful and does not likely confuse consumers into believing that the copy is from the same source as the original.") (citations omitted); *Saxony Prods., Inc. v. Guerlain*, 513 F.2d 716 (9th Cir. 1975); *Diversified Marketing, Inc. v. Estee Lauder, Inc.*, 705 F. Supp. 128 (S.D.N.Y. 1988); Restatement § 20 comment b.

Consistent with these principles, an advertiser who knows a consumer might be interested in a competing product lawfully may target that consumer to encourage brand-switching. To use an earlier example, a consumer who asks for Coke® at a restaurant that only offers Pepsi® may legitimately be asked if she or he desires the substitution. This is not actionable confusion (or initial interest confusion) because the difference between the asked-for and offered products is clear, even if the Pepsi® offer was only triggered by the Coke® request. Similarly, some supermarkets offer coupons, targeted to a shopper based on the groceries he or she has

U.S. 359, 368 (1924); Restatement § 24. Therefore, it would not be infringing to sell the keywords to such advertisers.

purchased, for brands that compete with the brands that the shopper bought. This too is a commercial use of the first brand's mark, but, in context, is likely to be understood by consumers as a sophisticated, computerized type of comparative advertising. At some point, however, targeted advertising may cross the line to likelihood of confusion or initial interest confusion. Whether an ad crosses the line will depend on how clearly the ad identifies its actual source. If its source is unclear, confusion is more likely. Because actual advertising content is so important to a comparative advertising or other nominative fair use defense, a full analysis of the ads themselves under *Sleekcraft* and consideration of properly-conducted survey evidence is essential.

Under the circumstances of this case, an ad that explicitly promised “more girls than Playboy” or “if you like Playboy, you’ll love our service” and that did not use the Playboy® logo would be a nonconfusing, comparative fair use of the Playboy® trademark under the settled law of this circuit.¹⁶ As a result, a purchase of the keyword “playboy” in order to target that advertising claim to potentially interested consumers could not itself be infringing, because the only use of PEI’s marks would be to alert consumers to a *competing* product or service, accurately marked as such.

¹⁶ *Saxony Prods.*, 513 F.2d at 722.

In some ways, the use of a keyword buy to target nonconfusing ads to particular consumers is analogous to an “intermediate use” in copyright: commercially motivated copying that nonetheless results in a final product that does not use infringing material. This Court has been willing to allow such intermediate-use situations. *See Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000); *Sega Enters., Ltd. v. Accolade*, 977 F.2d 1510, 1522-23 (9th Cir. 1992). Focusing on keyword buys as a form of intermediate use serves another helpful function because it properly emphasizes attention to the end product: if it is not confusing, there can be no infringement. The District Court, however, never measured the end product -- the banner ads -- against the *Sleekcraft* factors, leaving its comparative advertising/fair use analysis woefully incomplete.¹⁷

¹⁷ PEI has also alleged a dilution claim under 15 U.S.C. § 1125(c)(1) and § 1127: that the use of the “playboy” and “playmate” marks dilutes the distinctive nature of PEI’s marks as applied to adult products. Dilution allows “the owner of a strong, unique marketing symbol” to “prevent impairment of the symbol’s communicative clarity by its substantial association with another’s similar symbol, particularly when there is an element of misappropriation.” Jerre B. Swann, Sr., *Dilution Redefined for the Year 2000*, 37 Houston L. Rev. 729, 731 (2000). INTA believes that a dilution claim may be viable based on a keyword buy, and that the District Court’s analysis of the dilution issue was incomplete because it did not distinguish the use of the mark in the keyword buy from the final ad banner product. The “intermediate” nature of the use may bear on the dilution analysis.

V. CONCLUSION

The District Court's analysis failed to take into account important elements of trademark law. In particular, the District Court erred by holding that (i) without regard to likely confusion, a mark that also is a standard English word cannot be protected from infringement, even when the mark clearly is being used in its secondary meaning sense, (ii) the only kind of use that could constitute infringement was use on or in connection with defendants' products or services, rather than the products or services offered in the banner ads, regardless of principles of contributory or direct liability, and (iii) both nominative fair use and descriptive fair use defenses were available to defendants, as opposed to only nominative fair use.

The novelty of the Internet advertising practices involved in this case should not preclude the application of the standard, well-established principles of trademark law that refute the District Court's reasoning. Although INTA does not maintain that all unauthorized commercial use of marks is unlawful – indeed, marks may be used commercially without permission from their owners when that use is nominative fair use or involves nonmisleading comparative advertising – basic trademark principles cannot be ignored whatever the conditions of use. This Court should remand this case to the District Court for a proper analysis of the likelihood of confusion as to the source, sponsorship or affiliation of the

goods or services of the advertisers whose banner ads are keyed to the
“playboy” and “playmate” keywords.

Respectfully submitted January 12, 2001.

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