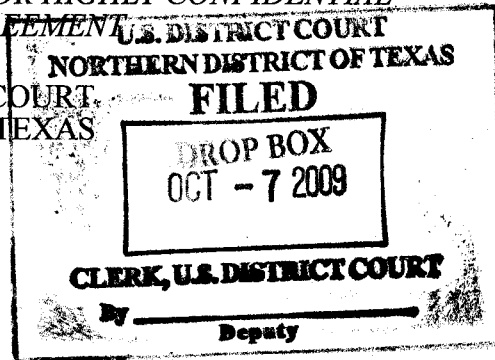


CONTAINS INFORMATION DESIGNATED CONFIDENTIAL OR HIGHLY CONFIDENTIAL
PURSUANT TO CONFIDENTIALITY AGREEMENT

ORIGINAL

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION



AMERICAN AIRLINES, INC.,

Plaintiff,

-v.-

YAHOO! INC. and OVERTURE SERVICES,
INC. d/b/a YAHOO! SEARCH
MARKETING,

Defendants.

Case No. 4:08-CV-626-A

DEFENDANTS' BRIEF IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT

REDACTED VERSION

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I. INTRODUCTION AND SUMMARY OF ARGUMENT

Under United States trademark law, a person can truthfully advertise the genuine trademarked products and services of another that he legitimately sells. Thus, Best Buy can advertise that it sells Sony® and Samsung® televisions; a mechanic can advertise that he repairs Buicks and Pontiacs; and we all can place a classified ad that says “Kenmore freezer” or “La-Z-Boy recliner” for sale. Trademark law, under the doctrine of “nominative fair use,” allows advertising outlets such as newspapers or Internet sites to display those advertisements without incurring liability. Plaintiff American Airlines asks this Court to reverse this longstanding doctrine and impose liability on Yahoo! for displaying advertisements that legitimately used American’s trademarks.

American’s claims rest on advertising that travel-related Internet companies placed on Yahoo!’s search engine. Many of these companies are online travel agents, called “OTAs.” American Airlines long ago made a business decision to authorize OTAs, such as those that operate the well-known websites Travelocity, Orbitz, Expedia, Priceline, and Hotwire, to book American Airlines tickets. American even provides incentives to the largest OTAs to encourage them to book more American tickets. Some of the other travel-related Internet sites are known as “meta-search engines” (“MSEs”). MSEs display information about airline fares and schedules; some provide a connection that takes a user directly to an airline’s website (such as American’s website, AA.com) with a click. Kayak.com is an example. American relies on MSEs like Kayak to drive traffic to AA.com.

American does not consider OTAs or MSEs to be competitors; at most, OTAs are “in friendly competition” with AA.com as authorized distribution channels. If American wanted to, it could decline to allow OTAs to book its tickets or to allow MSEs to display its fare and

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schedule information, and instead make AA.com the sole source of American tickets and information about American flights. American has never done so, and has no plans to do so.

Despite choosing to authorize OTAs to book its tickets and choosing to enter into relationships with major MSEs, American now complains that OTAs and MSEs advertised on Yahoo!'s search engine that they offered American tickets or information and thereby infringed American's trademarks. When, for example, an Internet user conducted a Yahoo! search on the term "American Airlines," the search results would be accompanied by advertisements (known as "Sponsor Results") for websites on which an Internet user could, with American's authorization, book American tickets (the OTA sites), or on which an Internet user could learn about American's available fares and schedules (the MSE or other travel information sites). American has not sued the companies who have/operate websites that American authorized to sell tickets for placing infringing advertisements promoting those tickets. Instead American has sued Yahoo! for accepting those companies' advertisements.

American alleges that Yahoo! violated the Lanham Act and state law when Yahoo! allowed third parties to use "American Airlines" and other trademarked terms as "keywords," even though the third parties were advertising the availability of authorized tickets on American flights and access to accurate information about American. As demonstrated below, summary judgment for Yahoo! against American should be granted because each of American's claims suffers from the same defect: Each ignores that the accused advertisements legitimately used "American Airlines" and similar terms to refer to genuine offerings of American Airlines goods and services. More specifically, American's eleven causes of action fail for the following reasons.

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American alleges direct trademark infringement and false representation under the Lanham Act (Counts I and IV) based on two general theories: (1) that Yahoo! causes consumer confusion merely by displaying third-party advertisements on the results page when an Internet user searches on an American trademarked term; and (2) that Yahoo! causes confusion by allowing its advertisers to include American's trademarks in the displayed advertisements. Both theories fail as a matter of law. The first theory has been recently examined and rejected by several courts, all reaching the conclusion that triggering the display of an advertisement in response to a search term creates no confusion and cannot amount to trademark infringement. The second theory squarely conflicts with Fifth Circuit law, which holds that those who sell a branded product or service may use the trademark to advertise that fact. *Scott Fetzer Co. v. House of Vacuums, Inc.*, 381 F.3d 477, 484 (5th Cir. 2004) (affirming summary judgment of non-infringement). American alleges analogous causes of action under Texas common law (Counts VI, VIII, and IX), which fail for the same reasons.

American has also alleged that Yahoo! is contributorily and vicariously liable for the infringing advertisements of others. (Counts II and III). American has framed its complaint as a global challenge to Yahoo!'s Sponsor Results program. But an analysis of the advertisements featured in American's own complaint in this action shows that these advertisements are protected as a matter of law by the nominative fair use doctrine. Indeed, most of the advertisements make nominative fair use of American's marks for the additional reason that they are placed by OTAs or MSEs who are themselves American's agents. Because these advertisements selected by American in framing its case do not infringe American's marks, American's challenge to Yahoo!'s Sponsored Search program must fail. Yahoo! is not liable as

a contributory or vicarious infringer because American does not prove infringement, and because American cannot prove other elements of these causes of action.

Plaintiff alleges trademark dilution under the Lanham Act and Texas law (Counts V and VII). These allegations fail for the same reason the infringement allegations fail, because Yahoo!'s advertisers make nominative fair use of American's marks. Nominative use of a brand name strengthens a trademark rather than diluting it.

Plaintiff brings two other pendant claims under Texas state law, for tortious interference with contract (Count X) and for money had and received (Count XI). The tortious interference claim fails because Plaintiff has no evidence that Yahoo! knowingly induced anyone to breach its contract with American Airlines. The claim for money had and received fails for many reasons, including that American and its advertisers voluntarily paid Yahoo! for lawful advertisements on its search engine results page.

Finally, even if infringement could be proven (and it cannot), Yahoo! is not liable for damages for several independent reasons. First, the Lanham Act specifically protects an Internet intermediary that is an innocent infringer from liability for damages or other monetary relief. Yahoo! qualifies for this safe harbor because its policy and practice were designed to prevent violations of the Lanham Act. Second, American Airlines has until recently acquiesced in the keyword bidding practices of its marketing partners—the OTAs and MSEs whose advertisements it now claims infringe the Lanham Act. The affirmative defense of acquiescence prevents Plaintiff from collecting from Yahoo! now that it has changed its mind about how best to market American Airlines travel. Third, American's damages claim is legally barred. American's claim turns on a theory of causation that blames Yahoo! for the alleged fact that OTA advertisements diverted Internet users away from AA.com. If this is true, American has

only itself to blame: American empowered OTAs to serve as its ticket booking agents but did not stop them from bidding on American trademarks until late 2006. American could have stopped them earlier—American contends it always had the contractual right to do so. But it did not.

Moreover, American's damages calculations rely on assumptions that are factually unsupported. In calculating its "lost profits," American assumes that consumers seeking information about "American Airlines" (or related search terms) must only be looking for the website AA.com. American has no probative evidence for this assumption, and its calculation must therefore fail.

In this lawsuit, American seeks to monopolize the attention of the web-surfing public, misusing the Lanham Act to prevent Yahoo! "from doing what [search engines] are designed to do: present users with the information they seek as well as related information the user may also find helpful or interesting." *Mary Kay, Inc. v. Weber*, 601 F. Supp. 2d 839, 856 (N.D. Tex. 2009). Yahoo! respectfully requests that this Court prevent this danger by granting summary judgment against American, or in the alternative summary adjudication that no damages or other monetary relief is available from Yahoo!.

II. STATEMENT OF FACTS

A. American Airlines' Decisions to Authorize, and Encourage, OTAs to Book American Tickets

By December 2002, American had long since developed relationships with OTAs such as Travelocity, Expedia, and Orbitz as an outlet for booking American's tickets, knowing full well that OTAs also book tickets for airlines that compete with American.

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B. American Airlines' Decisions to Authorize, and Encourage, MSEs to Display American Fare and Schedule Information

C. Yahoo!'s Sponsored Search Advertising Program

Yahoo! is a global Internet portal that provides a wide variety of services to Internet users, including a free Internet search engine. (Defs' MSJ App. 0288 (Pann Decl. ¶ 3).)² Users

1

² The signature pages for the declarations of David Pann, Theodore Hasse, Catherine Cameron, and Daniel Slottje contain a scanned version of the original signature. Yahoo! intends to replace the scanned signature pages with the original signature pages on October 8th
(Footnote continues on next page.)

of Yahoo!'s search engine can search for relevant websites on the Internet by typing search terms into the search box. (*Id.*) In response, a search results page is generated listing relevant websites as determined by Yahoo!'s search algorithms. (*Id.*) These listings are referred to as "algorithmic," "organic," or "natural" search results. (*Id.*) The screenshot below shows the top five results of a recent search on Yahoo.com using the search terms "American Airlines." (*Id.*) The listings on this page (including the first four listings for www.AA.com, American's own website and pages within that site) are exclusively algorithmic results. The fifth is an affiliated site for American. (*Id.*)

The screenshot shows a search interface with a search bar containing 'american airlines' and a 'Search' button. Below the search bar, there are navigation links for 'Web', 'Images', 'Video', 'Local', 'Shopping', and 'More'. The search results are displayed in a list format. The first result is 'American Airlines' (NYSE: AMR), described as the official site with reservations, flight schedules, and company news. The second result is 'American Airlines Reservations', for booking flights and checking seats. The third result is 'American Airlines Flight Schedules', for searching worldwide flight schedules. The fourth result is 'American Airlines AAdvantage', the frequent flyer program. The fifth result is 'American Airlines Vacations', for online travel packages and tour booking. Each result includes a brief description and the URL.

Web Images Video Local Shopping More

american airlines Search Options

Also try: [american airlines center](#), [More...](#)

American Airlines (NYSE: AMR)
Official site of American Airlines, with reservations, flight schedules, ticket specials, travel planning, membership, and company news. Also operates the American ...
www.aa.com - 143k - [Cached](#)

Book Flights	Fare Sales
Flight Check-in	Schedules
Flight Status Notification	AAdvantage
Gates & Times	City/Airport Lookup

[more results from aa.com »](#)

American Airlines Reservations
Book flights, check available seats, and purchase upgrades at American Airlines Reservations. Also features vacation package and fare sale information.
www.aa.com/reservation/reservationsHomeAccess.do - 110k - [Cached](#)

American Airlines Flight Schedules
Search for American Airlines flight schedules worldwide. Allows searchers to check only flights with available seats or look at all flights, regardless of seat ...
www.aa.com/apps/reservations/ViewOneWayFlightSchedules.jhtml - 76k - [Cached](#)

American Airlines AAdvantage
Frequent flyer program provided by American Airlines. Site allows you to view accrued miles, upgrade options, and bonus offers.
www.aa.com/apps/AAdvantage/AAdvantageHome.jhtml - 84k - [Cached](#)

American Airlines Vacations
Online travel vacation packages and tour booking. Site features deals, destination information, and travel details.
www.aavacations.com - 113k - [Cached](#)

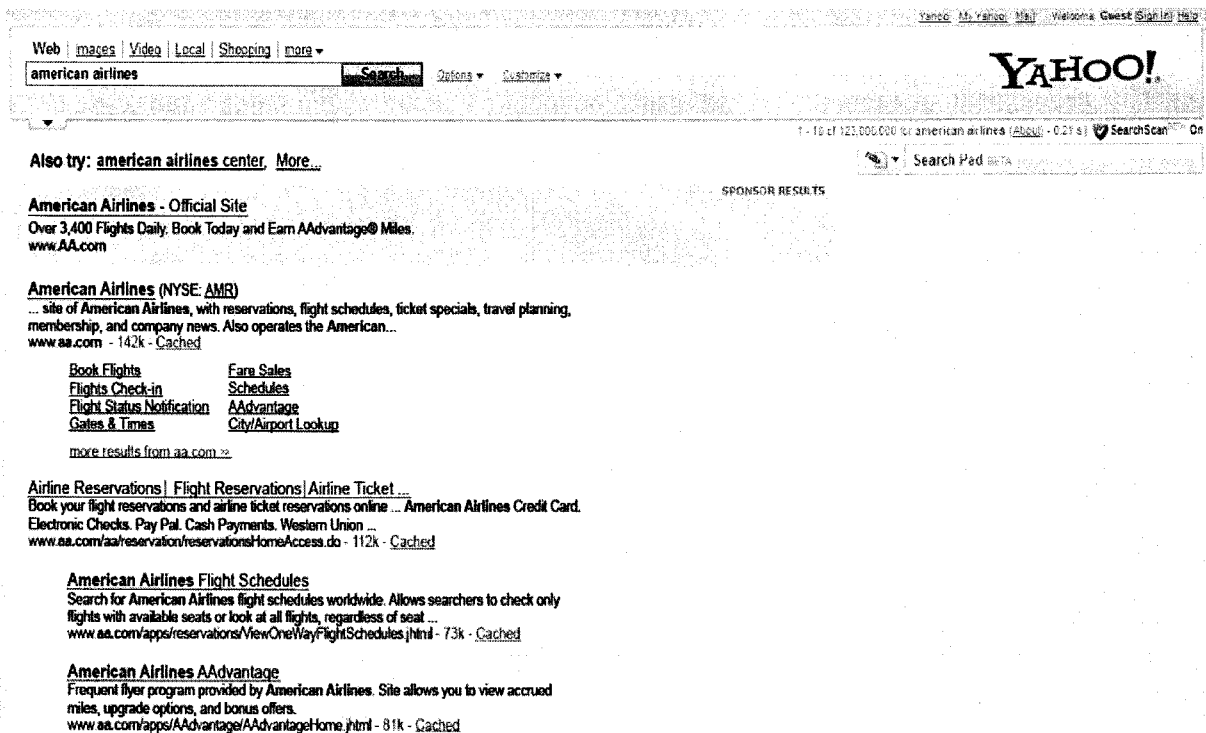
Screenshot 1

(Footnote continued from previous page.)

(tomorrow) when the original signature pages are expected to be received by Yahoo!'s counsel in Fort Worth, barring any unexpected delays in the overnight delivery service.

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In addition to the algorithmic results, a Yahoo! search results page may also display one or more advertisements, referred to as "Sponsor Results." (Defs' MSJ App. 0289 (Pann Decl. ¶ 4).) Under Yahoo!'s Sponsored Search advertising program, Yahoo! provides advertisers with the opportunity to place their Sponsor Results on the search results page when users conduct searches on particular terms that serve as "keywords." (*Id.*) For example, the screenshot below shows the top five results of another search conducted on "American Airlines" on a different day. (*Id.*) The first listing is a Sponsor Result for American Airlines (www.AA.com), shown in a blue-shaded box and labeled "Sponsor Results" on the right side. (*Id.*) The remaining entries are algorithmic results. (*Id.*)



Screenshot 2

Advertisers that participate in Yahoo!'s Sponsored Search advertising program will choose particular keywords to trigger display of their advertisements. (Defs' MSJ App. 0290 (Pann Decl. ¶ 5).) A keyword can consist of single words (such as "airlines") or longer phrases

(“flights to Texas”). (*Id.*) The advertiser places a bid on the keyword (typically between 10 cents and a few dollars) indicating the maximum price the advertiser is willing to pay if their Sponsor Result is displayed and clicked (a so-called “click-through”) by a user. (*Id.*) Sponsor Results may be displayed at the top of the search results page (as shown in the screenshot above), on the right side of the page, at the bottom of the page (under the algorithmic results), or in multiple locations. (*Id.*) In nearly all instances, the Sponsor Results are distinguished from the algorithmic results by a colored background and the label “Sponsor Results.” (*Id.*) The title and text shown in the Sponsor Results are drafted by the advertisers themselves, subject to Yahoo!’s editorial guidelines (which require that the keyword appear in the text of the advertisements in order to explain the relevance of the advertisement to the user’s search). (*Id.*) The website address, or URL, shown at the bottom of the Sponsor Result (colored green) indicates that the website can be accessed by clicking on the Sponsor Result. (*Id.*)³

³ Sponsored Search results thus may be analogized to conventional Yellow Pages, where alphabetical listings of types of businesses (a kind of natural or organic result) are accompanied by relevant advertisements. To carry the analogy further, bidding on keywords would be analogous to bidding for placement of the advertisement on a particular Yellow Pages page, such as a page in the Airline Tickets section, so that a user looking for airlines tickets encounters the advertisement.

The Sponsor Results displayed on the search results page have the same appearance regardless of whether Exact Match or Advanced Match is used to trigger their display. (Defs' MSJ App. 0291 (Pann Decl. ¶ 6).)

In limited circumstances, Yahoo! permits advertisers to bid on a keyword that is a trademark of another company. (*Id.* (Pann Decl. ¶ 7).) This advertising is governed by Yahoo!'s trademark policy.

D. Yahoo!'s Trademark Policy For Sponsored Search

The Sponsored Search advertising program offered by Yahoo! (and previously by Overture, which Yahoo! acquired in 2004) has been in place since at least December 2002.

Yahoo!'s trademark policy was designed to allow only for "nominative fair use" of a third party's trademark in a Sponsor Result advertisement, as permitted by U.S. trademark law.

Under its current Trademark Policy, in place since March 2006,⁴ Yahoo! permits advertisers to bid on keywords comprised of a third-party's trademark only if one of the following conditions is met:

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(Footnote continues on next page.)

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- (1) Reseller: The advertiser's site sells or facilitates the sale of the product or service bearing the trademark.
- (2) Information Site, Not Competitive: The primary purpose of the advertiser's site is to provide substantial information about the trademark owner or products or services bearing the trademark, and does not sell or promote competing products or services.

(Defs' MSJ App. 0293-0295 (Pann Decl. Ex. 1).)

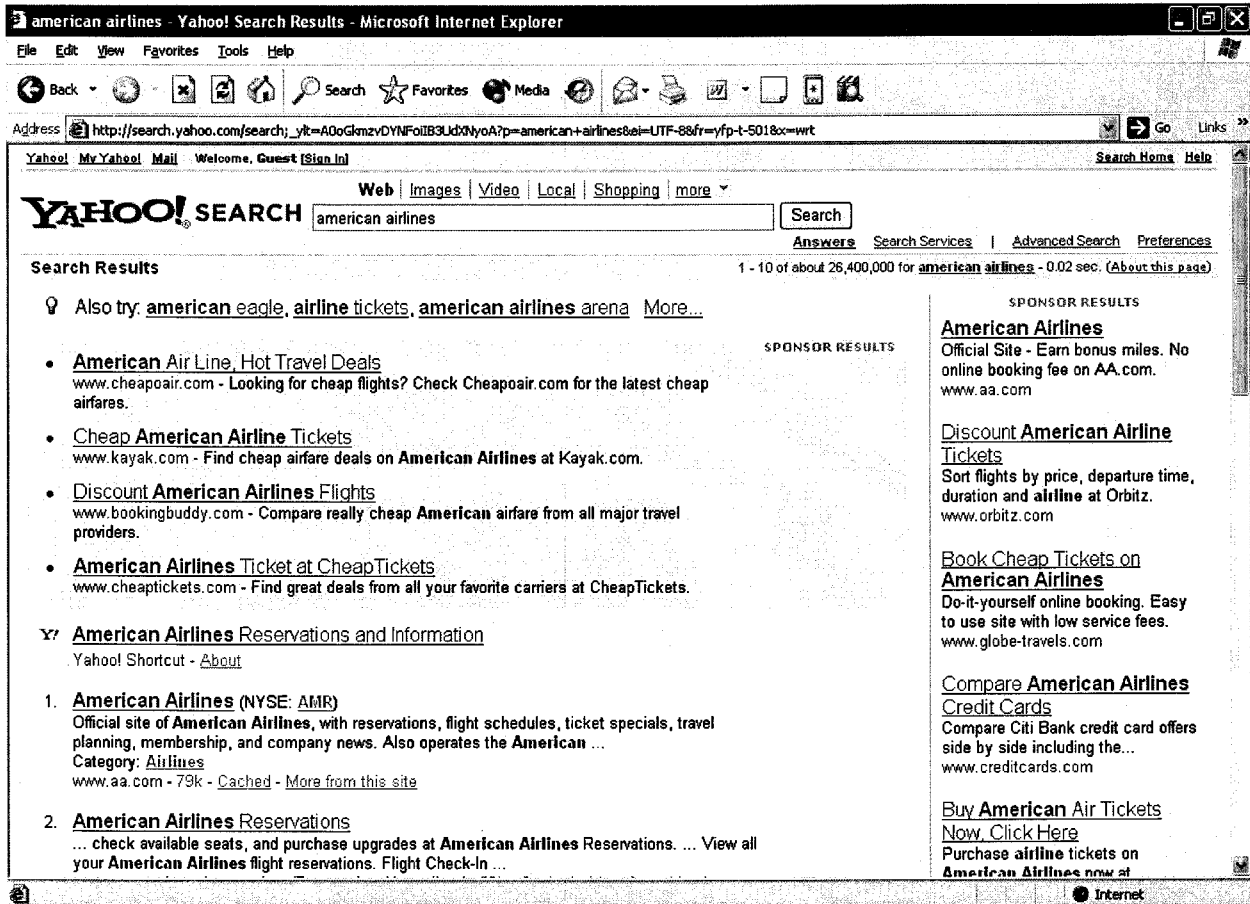
(Footnote continued from previous page.)

E. The Accused Sponsor Results

American accuses Yahoo! of infringing American's trademarks by allowing Sponsored Search advertisers to bid on the keywords "American Airlines," "AmericanAirlines," "American Eagle," "AA," "A A," "AA.com," "American Airlines Center" (the name American attached to the sports and entertainment venue in Dallas), "AAAdvantage" (the name for American's mileage

accumulation program), “American Connection,” and other terms purportedly similar to those trademarks. (First Amended Complaint [Document No. 98] (“FAC”) ¶¶ 22, 93.) American argues that the third-party Sponsor Results triggered by those keywords and displayed on the Yahoo! search results page have caused user confusion and diverted users away from American’s own website. (*Id.* ¶¶ 93-96.)

The accused Sponsor Results submitted by the OTAs and other advertisers have generally been simple in content and form. The screenshot below (which was featured in American’s First Amended Complaint) shows Sponsor Results displayed in response to another search on the keyword “American Airlines.” (*Id.* ¶ 66.) Included on the page are Sponsor Results for American Airlines (“www.AA.com”), Cheapoair (“www.cheapoair.com”), CheapTickets (“www.cheaptickets.com”), and Orbitz (“www.orbitz.com”), among others:



Screenshot 3

Each of the Sponsor Results for the OTAs and MSEs in this screenshot⁵ plainly identifies the advertiser's website in the green URL, and indicates—accurately—that the website sells or facilitates the sale of American Airlines tickets. American's entire case against Yahoo! is premised on the notion that advertisements such as these, from advertisers American authorizes to sell American tickets or provide American information, are confusing to users.

⁵ See, e.g., Defs' MSJ App. 0235-0236, 0241 (RFA Nos. 24 (CheapTickets), 23 (Orbitz), and 34 (Cheapoair)). The screen shot also includes a Sponsor Result for a credit card company that partners with airlines. (Defs' MSJ App. 0438-0439 (Hasse Decl. ¶ 9).)

Advertiser	Clicks		
	Grand Total	Before 2007	2007 to 2009
American Airlines (www.aa.com)			
American Eagle Outfitters (www.ae.com)			
Orbitz (www.orbitz.com)			
AT Travel Discounts (www.cheap-airline-tickets.us)			
Expedia (www.expedia.com)			
Travelocity (www.travelocity.com)			

⁶ Pursuant to the Court's Order of September 11, 2009, Yahoo! is currently restoring data from back-up tapes for the months of February 2007 to September 2007. (Defs' MSJ App. 0660-0661 (Cameron Decl. ¶ 4).)

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Like the four largest advertisers, almost all of the other advertisers sell or facilitate the sale of American Airlines travel, or offer other services pertaining to the American keywords. (*Id.*) The other advertisers are just smaller. The next largest had less than half as many clicks as Travelocity, and yielded only a fraction of the revenue for Yahoo!. Only one airline competitor had a substantial number of Sponsor Results displayed in response to the challenged searches, and even American must agree that those advertisements do not infringe. America West Airlines bids on its own trademark and on terms much like it, such as “*American West Airlines*,” (added italic for emphasis) to help Internet users find the America West website. (Defs’ MSJ App. 0657 (Slottje Decl. ¶ 6).) Aside from America West, however, less than 1 percent of the allegedly infringing Sponsor Results came from American’s competitors in the airline business. (*Id.*) As explained above, Yahoo!’s trademark policy does not permit advertisers to bid on a competitor’s trademarks. At Yahoo! (unlike its competitors), United Airlines, for example, may not bid on the keyword “American Airlines” or on other American trademarks. (Defs’ MSJ App. 0293-0295 (Pann Decl. Ex. A).)