ORIGINAL

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

U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS

FILED

OCT - 7 2009

Q 48 (CLERK, U.S. DISTRICT COURT

By

Deputy

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

AMERICAN AIRLINES, INC.,

Plaintiff,

-V.-

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

Defendants.

**DEFENDANTS' BRIEF IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT** 

### TABLE OF CONTENTS

				Page		
TAB	LE OF	AUTHO	ORITIES	iii		
I.	INTF	RODUC	TION AND SUMMARY OF ARGUMENT	1		
II.	STATEMENT OF FACTS					
	A.	American Airlines' Decisions to Authorize, and Encourage, OTAs to Book American Tickets				
	В.	B. American Airlines' Decisions to Authorize, and Encourage, MSEs to Display American Fare and Schedule Information				
	C.	Yahoo!'s Sponsored Search Advertising Program				
	D.	Yaho	oo!'s Trademark Policy For Sponsored Search	12		
	E.	The Accused Sponsor Results				
III.	SUM	IMARY	JUDGMENT STANDARD	20		
IV.	ARG	UMEN	T	20		
	A.	Yahoo!'s Sponsored Search Advertising Program Does Not Directly Infringe American's Marks or Falsely Represent the Advertised Airline Travel				
		1.	Nominative Fair Use Is Not Infringement or False Representation.	21		
		2.	Using a Trademarked Term to Trigger the Display of Advertisements for a Website That Sells or Facilitates the Sale of a Trademarked Product is Nominative Fair Use As a Matter of Law.	ı 22		
		3.	Using a Trademarked Term in the Text of an Advertisement for a Website That Sells or Facilitates the Sale of a Trademarked Product Is, Without More, Nominative Fair Use As a Matter of Law	26		
	В.	Yahoo! Is Not Liable as a Contributory or Vicarious Infringer For The Advertisements Of Its Customers				
		1.	American's Claims Must Fail Because the Sponsored Results It Complains Of Are Non-Infringing	28		
		2.	Sponsor Results American Features in Its Complaint Do Not Infringe, as a Matter of Law	30		
		3.	All Sponsor Results Placed By Authorized Agents Of American Do Not Infringe, As A Matter Of Law	33		
		4.	American Has No Cognizable Evidence of Actual Confusion as to Source, Affiliation, Sponsorship, or Endorsement	34		
		5.	American Cannot Establish the Other Elements of Contributory or Vicarious Infringement	36		
	C.	C. Yahoo! Has Not Diluted American's Marks				
	D.	Plaintiff's State Law Claims Also Fail				
		1.	Trademark Infringement and Unfair Competition	40		
		2.	Trademark Dilution	40		

		3.	Misappropriation	41
		4.	Tortious Interference with Contract	41
		5.	Money Had and Received	44
	E.	In The Neithe	Alternative, This Court Should Grant Summary Adjudication That r Damages Nor Other Monetary Relief Is Available In This Action	45
		1.	The Lanham Act's Safe Harbor Protects Yahoo! from Any Award of Damages for Infringement or False Representation	45
		2.	The Trademark Dilution Reform Act Protects Yahoo! From Any Award of Damages for Dilution	47
		3.	American's Acquiescence in the Marketing Practices of Yahoo!'s Advertisers Prevents Recovery In This Action	44 t 1 45 d 45 47
		4.	American Is Entitled to No Award of Damages Because Its Lost Profits Theory Rests On Bald Speculation Masquerading as Fact	49
V	CONC	OIZLLE		

### **TABLE OF AUTHORITIES**

CASES	Page(s)
ACS Investors v. McLaughlin, 943 S.W.2d 426 (Tex. 1997)	41
Am. Rice, Inc. v. Producers Rice Mill, Inc., 518 F.3d 321 (5th Cir. 2008)	22
Amigo Broad., LP v. Spanish Broad. Sys., 521 F.3d 472 (5th Cir. 2008)	43
Anderson v. Liberty Lobby, Inc., 477 U.S. 242 (1986)	
Arista Records LLC v. Greubel, 453 F. Supp. 2d 961 (N.D. Tex. 2006)	38 n.11
Artcraft Novelties Corp. v. Baxter Lane Co., 685 F.2d 988 (5th Cir. 1982)	48
Bank of Tex., v. Commerce Sw., Inc., 741 F.2d 785 (5th Cir. 1984)	35
Bd. of Regents, v. KST Electric, Ltd., 550 F. Supp. 2d 657 (W.D. Tex. 2008)	48
BMG Direct Mktg., Inc. v. Peake, 178 S.W.3d 763 (Tex. 2005)	44
Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc., 659 F.2d 695 (5th Cir. 1981)	40
Coach House Restaurant, Inc. v. Coach & Six Restaurants, Inc., 934 F.2d 1551 (11th Cir. 1991)	48
Conan Props., Inc. v. Conan Pizza, Inc., 752 F.2d 145 (5th Cir. 1985)	41
Designer Skin, LLC v. S & L Vitamins, Inc., 560 F. Supp. 2d 811 (D. Ariz. 2008)	passim
Dial One of the Mid-South, Inc. v. BellSouth Telcomms., Inc., 269 F.3d 523 (5th Cir. 2001)	46

Edwards v. Mid-Continent Office Distribs., L.P., 252 S.W.3d 833 (Tex. App. 2008)	44
Elvis Presley Enters. v. Capece, 141 F.3d 188 (5th Cir. 1998)	40
Everett v. TK-Taito, L.L.C., 178 S.W.3d 844 (Tex. App. 2005)	44
Getty Petroleum Corp. v. Shore Line Oil Co., 642 F. Supp. 203 (E.D.N.Y. 1986)	49
Gucci Am., Inc. v. Hall & Assocs., 135 F. Supp.2d 409 (S.D.N.Y. 2001)	46
Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc., 955 F.2d 1143 (7th Cir. 1992)	38 n. 11
Hendrickson v. eBay, Inc., 165 F. Supp.2d 1082 (C.D. Cal. 2001)	46
John Paul Mitchell v. Randalls Food Mkts., 17 S.W.3d 721 (Tex. App. 2000)	40, 41, 42
Mary Kay, Inc. v. Weber, 601 F. Supp. 2d 839 (N.D. Tex. 2009)	passim
MasterCard Int'l Inc. v. First Nat'l Bank of Omaha, No. 02 Civ. 3691 (DLC) 2004 U.S. Dist. LEXIS 2485 (S.D.N.Y. Feb. 23, 2004).	35
Matrix Essentials, Inc. v. Emporium Drug Mart, Inc., 988 F.2d 587 (5th Cir. 1993)	21
MetroPCS Wireless, Inc. v. Virgin Mobile USA, L.P., 2009 U.S. Dist. LEXIS 88527 (N.D. Tex. Sept. 25, 2009)	36, 37
MGM Studios Inc. v. Grokster, Ltd., 545 U.S. 913 (2005)	38 n. 11
Oiness v. Walgreen Co., 88 F.3d 1025 (Fed. Cir. 1996)	49
Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526 (5th Cir. 1998)	passim
Perfect 10, Inc. v. Visa Int'l Serv. Ass'n, 494 F.3d 788 (9th Cir. 2007)	38

Playboy Enterprises, Inc. v. Welles, 279 F.3d 796 (9th Cir. 2002)39
Roehrs v. Conesys, Inc., No. 3:05-CV-829-M, 2007 U.S. Dist. LEXIS 53712 (N.D. Tex. July 25, 2007), aff'd in unpublished decision, 2009 U.S. App. LEXIS 12093 (5th Cir. June 4, 2009)50
Rolex Watch USA, Inc. v. Meece, 158 F.3d 816 (5th Cir. 1998)36
Scott Fetzer Co. v. House of Vacuums, Inc., 381 F.3d 477 (5th Cir. 2004)passim
Sears, Roebuck and Co. v. Menard, Inc., No. 01 C 9843, 2003 U.S. Dist. LEXIS 951 (N.D. III. Jan. 22, 2003)35
Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984)38 n. 11
Tiffany Inc. v. eBay, Inc., 576 F. Supp. 2d 463 (S.D.N.Y. 2008)
Topalian v. Ehrman, 954 F.2d 1125 (5th Cir. 1992)20
Two Pesos v. Taco Cabana, 505 U.S. 763 (1992)22
Univ. of Kan. v. Sinks, 2008 U.S. Dist. LEXIS 97787 (D. Kan. Dec. 1, 2008)
Universal City Studios, Inc. v. Kamar Indus., Inc., No. H-82-2377, 1982 U.S. Dist. LEXIS 15942 (S.D. Tex. Sept. 20, 1982)41
Westinghouse Elec. Corp. v. Gen. Circuit Breaker & Elec. Supply Inc., 106 F.3d 894 (9th Cir. 1997)48
Zapata Corp. v. Zapata Trading Intl, Inc., 841 S.W.2d 45 (Tex. App. 1992)40

sf-2745162

### STATUTES AND RULES

15 U.S.C.	
§ 1114(1)	21
§ 1114(2)(B)	44, 45 & n. 12
§ 1114(2)(B) § 1125(a)	21
§ 1125 (c)(2)(C)	39
8 1125(c)(3)(A)	
§ 1125(c)(5)	47
18 U.S.C.	
§ 2510(12)	45
§ 16.29 of the Texas Business and Commerce Code	40
Fed. R. Civ. Proc. 56(c)	20
Fed. R. Evid. 702	35

#### 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

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.

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. In general, OTAs are established as authorized agents for booking American (and other airline) tickets through the ARC Agency Reporting Agreement ("ARC Agreement"). (Defs' MSJ App. 0010-0011 & 0026-0027 (Cush Depo. at 11:12-12:7, 73:21-74:20).) American controls which agents it allows to

book American tickets through this ARC Agreement. (Defs' MSJ App. 0034 (Cush Depo. at 123:3-9).) American has no plans to terminate the OTA channel, and has never even considered such a step. (Defs' MSJ App. 0064-0066 (6/4 Curry Depo. at 35:23-37:1).)

OTAs have American's authorization to book as many American tickets as they possibly can. (Defs' MSJ App. 0089 (6/4 Curry Depo. at 73:1-16).) American does not place, indeed, cannot place, limits on how many American tickets an OTA can book. (Defs' MSJ App. 0089-0091 (6/4 Curry Depo. at 73:25-74:5; 75:16-23).)

American executives do not view OTAs as competitors of American Airlines; at most, OTAs are in "friendly competition" with AA.com as an American Airlines-approved distribution channel. (Defs' MSJ App. 0133 (DeGroot Depo. at 70:1-16); 0211 (DeCross Depo. at 17:5-18).) American's "distribution strategy group" has employees whose job it is to manage American's relationships with the largest OTAs. (Defs' MSJ App. 0159 (DeGroot Depo. at 128:9-19).)

American, through its distribution strategy group, provides incentives to major OTAs to increase their bookings of American tickets. American's incentives to OTAs include the waiver of fees, payment of bonuses upon the OTAs reaching certain performance targets, advertising by American on the OTA site, and credit to apply towards travel on American flights (perhaps even to use when the OTA's employees make sales calls on other airlines). (Defs' MSJ App. 0138-0141 (DeGroot Depo. at 81:1-5; 82:1-84:5).)

American actually pays incentives that are conditioned upon the OTAs outperforming American's own direct-sales percentage of the market for particular routes. American also provides wholesale fares to OTAs as an incentive. The OTAs can mark up these fares as they wish, provided they bundled those fares with packages, such as flight-hotel-car packages, notwithstanding the fact that American Airlines Vacations sells flight-hotel-car packages. The

former director of the distribution strategy group had no concerns about any effect on American Airlines Vacations of American Airlines' providing wholesale fares to OTAs. (Defs' MSJ App. 0141-0144 (DeGroot Depo. at 83:22-87:2).)

American published an addendum to the ARC Agreement ("ARC Addendum") on December 19, 2006, that prohibited its travel agents, including OTAs, from placing keyword bids on American trademarks. (Defs' MSJ App. 0226-0231 (Def. Depo. Ex. 4), 0107 (6/4 Curry Depo. at 142:12-18).) This was the first time that American expressly limited its OTAs' keyword advertising. (Defs' MSJ App. 0113 (6/4 Curry Depo. at 198:16-24).) By adding this limitation, American was "breaking new ground." (Defs' MSJ App. 0232 (Def. Depo Ex. 94), 0164-0170 (DeGroot Depo. at 177:10-183:9).) But American contends that it always had the authority to limit the OTAS' keyword searching. (*See* Defs' MSJ App. 0234 (Plaintiff American Airlines, Inc.'s Objections and Responses to Yahoo!'s First Set of Requests for Admissions ("RFA"), Request and Response No. 13), 0015 (Cush Depo. at 16:1-12).)

American proceeded in the following months of 2007 to contact individual OTAs to assert that the OTAs were contractually prohibited from bidding on American marks as keywords. (*See*, *e.g.*, Defs' MSJ App. 0257 (Def. Depo. Ex. 95); 0172-0173 (DeGroot Depo. at 185:21-186:4); 0258 (Def. Depo. Ex. 99); 0183-0184 (DeGroot Depo. at 196:21-197:11); 0259-0260 (Def. Ex. 103); and 0189-0190 (DeGroot Depo. at 202:22-203:7).) American also continued to negotiate with the major OTAs to obtain their agreement to refrain from bidding on American marks. (*See*, *e.g.*, Defs' MSJ App. 0261 (Def. Depo Ex. 162); 0032 (Cush Depo. at 121:5-18); 0262 (Def. Depo. Ex. 172); and 0039-0042 (Cush Depo. at 152:23-155:7).) In response to American's communications, the largest OTAs (including at least Orbitz,

Travelocity, and Expedia) confirmed that they had ceased bidding on American's trademarked terms <sup>1</sup>

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

At least as early as 2004, American also began making agreements with websites that aggregate fare information for airlines. These websites are called "meta-search engines" ("MSEs"). (Defs' MSJ App. 0058 (6/4 Curry Depo. at 26:11-16); 0265-0275 (Def. Depo. Ex. 85); 0154 (DeGroot Depo. at 123:1-3).) American saw this as a beneficial way of distributing its fare information in order to book more tickets. (Defs' MSJ App. 0020-0021 (Cush Depo. at 54:21-55:11).) American controls access to its fare information through access and use agreements with individual MSEs. (*See*, *e.g.*, Defs' MSJ App. 0276-0286 (Def. Depo. Ex. 84), 0149 (DeGroot Depo. at 117:12-14).) American has benefited by developing its relationships with MSEs as a means of increasing American ticket sales and access to potential customers. (Defs' MSJ App. 0128 (DeGroot Depo. at 21:1-19).)

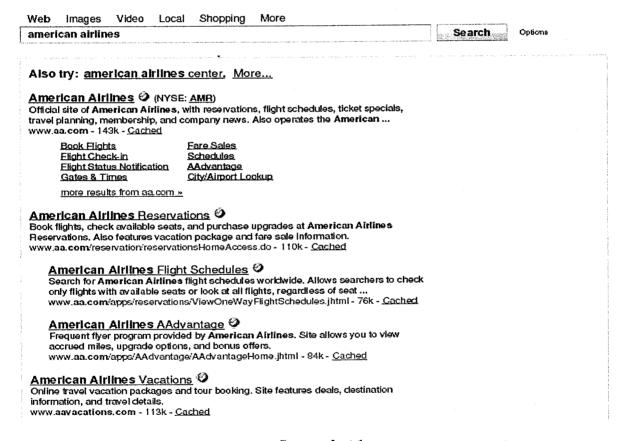
### C. Yahoo!'s Sponsored Search Advertising Program

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).)<sup>2</sup> Users

<sup>&</sup>lt;sup>1</sup> Defs' MSJ App. 0263 (Def. Depo. Ex. 96), 0175-0176 (DeGroot Depo. 188:15-189:14 (American received confirmation that Orbitz would not bid on terms listed in the ARC Addendum on May 2, 2007)); 0264 (AAG-00029046 (Expedia letter to American on May 28, 2007 stating that "Expedia is not bidding or purchasing American Airlines' trademarks as keywords search terms")); 0195-0196 (DeGroot Depo. at 210:4 - 211:6 (Travelocity had responded acceptably to communications regarding Travelocity bidding to use American marks as keywords); *see also* Defs' MSJ App. 0258 (Def. Depo. Ex. 99) and 0183-0184 (DeGroot Depo. 196:21 - 197:11 (Letter from DeGroot to Travelocity representative)); *see also* 0118-0119 (6/4 Curry Depo. at 226:10-227:11).

<sup>&</sup>lt;sup>2</sup> 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 <a href="www.AA.com">www.AA.com</a>, American's own website and pages within that site) are exclusively algorithmic results. The fifth is an affiliated site for American. (*Id.*)



#### 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.

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.*)

dest (21g) its p
<b>U</b> :
SearchScan C
and the second section and the second section is

#### **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.*)<sup>3</sup>

In order to determine which Sponsor Results to display in response to a given user search, Yahoo! uses two matching techniques: First, Exact Match matches the user's search term to the same term in a "bidded keyword." This means the user's search term is exactly the same as the keyword that an advertiser has selected and bid upon. Second, Yahoo! offers an Advanced Match service, which matches the user's search term to a somewhat larger group of bidded keywords. (Defs' MSJ App. 0291 (Pann Decl. ¶ 6); 0318-0319 (Cameron Depo. at 157:16-158:5).) For example, a user searching on "Hawaii vacation" may see advertisements with

<sup>&</sup>lt;sup>3</sup> 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.

bidded keywords that include "Hawaii travel" or "Maui vacation." The goal of Advanced Match is to increase the number of relevant advertisements displayed in response to user searches for those advertisers interested in reaching a wider audience. (Defs' MSJ App. 0291 (Pann Decl. ¶ 6); 0327-0328 (Palmer Depo. at 95:8-96:22).) 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. Throughout this period, Yahoo! (or Overture) required submitted advertisements to comply with Yahoo!'s trademark policy. (Defs' MSJ App. 0338 (Cathey-Roberts Depo. at 17:1-6); 0390-0391 (Wehn Depo. at 19:16-20:5).) 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,<sup>4</sup> Yahoo! permits advertisers to bid on keywords comprised of a third-party's trademark only if one of the following conditions is met:

<sup>&</sup>lt;sup>4</sup> Previously, Yahoo!'s trademark policy included a third category not relevant here. Yahoo! allowed keyword searchings on trademarks by "Competitive Comparison Sites," which offer "detailed comparative information about the trademark owner's products or services in comparison to competitive products and services offered or promoted on the advertiser's site." (Defs' MSJ App. 0343 (Cathey-Roberts Depo. at 47:4-19); 0429-0430 (Pltf Depo. Ex. 111).)

(Footnote continues on next page.)

- (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).) This policy distinguishes Yahoo! from other search engines, which continue to allow bidding on competitor trademarks. *See* Defs' MSJ App. 0374-0375 (Cathey-Roberts Depo. at 165:3-166:14).)

In addition, since November 2007, Yahoo! trademark policy has restricted advertisers from bidding on an Internet domain name other than their own. (Defs' MSJ App. 0343-0344 (Cathey-Roberts Depo. at 47:25-48:14).) For example, under this policy, only American Airlines is allowed to bid on the keyword "aa.com," which is the domain name for American's website. (Defs' MSJ App. 0358-0359, 0369 (Cathey-Roberts Depo. at 127:24-128:15; 157:19-25).)

Yahoo!'s staff regularly reviews newly submitted advertisements connected to keywords that have been identified to Yahoo! as trademarks. (Defs' MSJ App. 0385 (Wehn Depo. at 13:1-8); App. 377.3-377.4 (Cathey-Roberts Depo. at 183:17-184:16); 0431-0436; (Pltf Depo. Exs. 119, 121).) To review submitted advertisements, Yahoo! employs a large staff, consisting of approximately 180 editors today. (Defs' MSJ App. 0417 (Wehn Depo. at 97:13-19).) When a trademark owner reports a concern to Yahoo! that its trademarks are being misused by an

The 3-pronged trademark policy was codified in May 2005, but was generally used by the Yahoo! and Overture staff before then as well. *See* Defs' MSJ App. 0336, 0348-0350, and 0353 (Cathey-Roberts Depo. at 15:14-22; 50:3-52:25; 105:15-20).) In March 2006, Yahoo! modified its trademark policy to no longer allow advertisers to bid on keywords containing competitor trademarks. (Defs' MSJ App. 0343, 0364 (Cathey-Roberts Depo. at 47:4-24; 140:7-11).)

<sup>(</sup>Footnote continued from previous page.)

advertiser, Yahoo! examines the advertisements in question for compliance with Yahoo!'s trademark policy and eliminates non-compliant advertisements. (Defs' MSJ App. 0390 (Wehn Depo. at 19:16-24).) Typically, the trademark term is then added to Yahoo!'s "Sensitive Terms List," which triggers an ongoing review by Yahoo!'s staff of subsequent new advertisements connected to that term. (Defs' MSJ App. 0419.3-0419.5 (Wehn Depo. at 148:8-22); App. 1064 (Pltf Depo. Ex. 64).) In some cases, extra reviews (known as a "back-end review" or "periodic scrub") are periodically conducted of all advertisements connected to the trademark term to catch non-compliant advertisements that may have slipped through the initial review. (Defs' MSJ App. 0390-0391, 0396-0397 (Wehn Depo. at 19:16-20:5; 39:23-40:7).)

American first complained to Yahoo! about the alleged misuse of its trademarks in late 2006. (Defs' MSJ App. 0403 (Wehn Depo. at 47:1-16).) Beginning in December 2006, American's trademarks and certain related terms were added to Yahoo!'s Sensitive Terms List, which prompted Yahoo!'s staff to review incoming advertisements connected to American terms as keywords. (Defs' MSJ App. 0409-0412 (Wehn Depo. at 67:10-70:3).) In 2007, Yahoo! also began conducting a regular back-end review of advertisements connected to the American terms. (Defs' MSJ App. 0397-0398, 0404 (Wehn Depo. at 40:8-41:13; 48:1-21).) Indeed, Yahoo! has implemented a number of processes to monitor and review advertisements based on keywords relating to American's marks. (Defs' MSJ App. 0420-0422 (Wehn Depo. at 173:19-175:11).)

#### 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), "AAdvantage" (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: