TRADEMARKS AND THE INTERNET: KEYWORD ADVERTISING AND ONLINE SECONDARY MARKETS

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I. INTRODUCTION

The evolution of the Internet, and e-commerce in particular, has presented unique challenges for practitioners and courts attempting to apply traditional legal rules, and trademark law is no exception. This article focuses on two online trademark areas in which defendants derive revenue by facilitating transactions that leverage the value of trademarks, but often without the markholder's consent: keyword advertising and online auction or resale activities. These areas have been, and in all likelihood will continue to be, the subject of significant litigation among commercial actors.

First, various forms of keyword advertising sold by major search engines, especially Google, have been the subject of numerous commercial disputes. Nevertheless, several key issues common in such cases are the subject of a split in authority, with courts in the Second Circuit generally taking a less markholder-friendly position than courts elsewhere. Because many courts have adopted a broad understanding of when a mark is "used in commerce" for purposes of pleading trademark claims, most cases likely will be resolved at the summary judgment stage or at trial.

Second, the recent case of *Tiffany, Inc. v. eBay, Inc.* (involving Tiffany's claims against eBay for sales of allegedly counterfeit products) addresses numerous issues of direct and contributory trademark infringement in the context of the Internet. There is substantial tension between the ability of websites like eBay to enlarge the secondary market for goods, on the one hand, and the desire of many major suppliers to control the distribution of their goods and services, on the other. This tension almost certainly will be played out in future litigation.

This article reviews relevant caselaw that will be brought to bear in such online trademark disputes.

II. LEGAL FRAMEWORK

A brief overview of the basic statutory framework for federal trademark-related claims[1] will provide background for common issues in Internet-related trademark disputes.

A. Trademark infringement

To prevail on a federal trademark infringement claim under the Lanham Act, a plaintiff must prove that the defendant "used in commerce," without the plaintiff's consent, a "reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services . . . [and] such use is likely to cause confusion . . . ." 15 U.S.C. §1114(1)(a). Courts typically apply a multi-factor test to determine whether the defendant's use is likely to cause confusion.[2] In the Internet context, the Ninth Circuit has found the three most important factors, or "Internet trinity," when analyzing likelihood of confusion to be the similarity of the marks, the relatedness of the goods or services, and the simultaneous use of the Internet as a marketing channel. *Interstellar Starship Servs., Ltd. v. Epix, Inc.*, 304 F.3d 936, 942 (9th Cir. 2002); *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1205 (9th Cir. 2000).

The "use in commerce" requirement frequently is at issue in Internet cases because the allegedly infringing "uses" can be embedded in computer code or invisible to the naked eye. The Lanham Act states that a mark is "used in commerce" with respect to goods when it is "placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto . . . or on the documents associated with the goods or their sale," and with respect to services when it is "used or displayed in the sale or advertising of services and the services are rendered in commerce. . . ." 15 U.S.C. §1127.

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[1] Although this article focuses on cases applying federal trademark law in the Internet context, state law trademark claims should not be overlooked by practitioners. Often thrown into federal trademark cases as an afterthought, state law claims may present important strategic opportunities for litigants.

[2] There is some variation among the federal circuit courts as to what factors will apply. Seven factors considered by both the Second and Ninth Circuits (with minor variations) are: strength of the plaintiff's mark, competitive proximity of the goods, similarity of the marks, evidence of actual confusion in the marketplace, the sophistication and care exercised by purchasers, the defendant's intent or good faith in selecting its mark, and the likelihood that existing product lines will be expanded. *See Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (Friendly, J.); *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979) (also considering the type of marketing channels used by the parties). The Fifth Circuit applies an eight-factor test that considers the strength of the plaintiff's mark, the similarity of the marks, the similarity of the products, the identity of retail outlets and purchasers, the similarity of advertising media used, the defendant's intent, evidence of actual confusion, and the degree of care exercised by potential buyers. *American Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321, 329 (5th Cir. 2008).

B. Federal unfair competition

The Lanham Act also provides a cause of action for unfair competition. Section 1125(a)(1)(A) forbids conduct similar to that prohibited by Section 1114, but is not limited to uses of registered marks. It permits a plaintiff to assert a claim for false designation of origin against "[a]ny person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . is likely to cause confusion . . . as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . ." 15 U.S.C. §1125(a)(1)(A).

C. Trademark dilution

Dilution of famous marks is prohibited by Section 1125(c), which prohibits dilution by either "blurring" or "tarnishment." 15 U.S.C. §1125(c). The owner of a famous, distinctive mark is entitled to an injunction against anyone who, after the mark became famous, begins using in commerce the mark in a way that is likely to blur or tarnish the mark. *Id*. This right to relief does not depend on whether competition exists between the markholder and the user, or whether confusion is likely or actual, or whether the markholder suffers economic injury. *Id*. "Dilution by blurring" occurs when a mark is used that is so similar to the famous mark that it impairs the distinctiveness of the famous mark. 15 U.S.C. §1125(c)(2)(B). "Dilution by tarnishment" occurs when a mark is similar to a famous mark, and its use harms the reputation of the famous mark. 15 U.S.C. §1125(c)(2)(C).

However, dilution cannot arise from the use of a mark in news commentary or reporting, nor from fair or nominative use of the mark, including comparative advertising, or use of the mark to parody, criticize or comment on the famous mark owner or its goods or services. 15 U.S.C. §1125(c)(3)(A)-(B). Nor can dilution arise from "noncommercial" use of the mark. 15 U.S.C. §1125(c)(3)(C).

III. ONLINE TECHNOLOGIES AND CASELAW

Several technologies have been the focus of much Internet-related trademark caselaw, and they serve as the foundation for courts seeking to address disputes involving search engine keyword sales. In particular, cases involving metatags and pop-up advertising sometimes involve keyword advertising and often implicate the same legal issues as the keyword cases. In particular, the metatag and pop-up cases set the groundwork for subsequent courts in analyzing likelihood of confusion in online cases, as well as whether certain activities constitute an actionable "use in commerce" for trademark purposes.

A. Metatags

Metatags are a part of a website that human beings cannot see, but search engine web browsers can. Specifically, they are "pieces of the Hyper Text Markup Language ('HTML') source code which contain keywords used to describe the contents of a webpage." *J.G. Wentworth, S.S.C. Ltd. P'ship v. Settlement Funding, LLC*, 2007 WL 30115, *2 (E.D. Pa. 2007). "Metatags are used to increase the probability that a Web site will be seen by a customer who has typed a particular search query into his or her search engine." *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1233 n.3 (10th Cir. 2006).

One of the key cases involving metatags, and one that has had far-reaching implications for Internet-related trademark litigation, is *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036 (9th Cir. 1999). In *Brookfield*, the court found, for preliminary injunction purposes, that a video store's use of the term "moviebuff" in metatags, buried website code, and in its domain name (www.moviebuff.com) was likely to violate the Lanham Act by infringing the "Movie Buff" mark of entertainment industry information provider Brookfield. *Id*. at 1053-61. The court found that such use would result in "initial interest" confusion, explaining: "Although there is no source confusion in the sense that consumers know they are patronizing West Coast rather than Brookfield, there is nevertheless initial interest confusion in the sense that, by using 'moviebuff.com' or 'MovieBuff' to divert people looking for 'MovieBuff' to its web site, West Coast improperly benefits from the goodwill that Brookfield developed in its mark." *Id*. at 1062. The court elaborated: "Using another's trademark in one's metatags is much like posting a sign with another's trademark in front of one's store." *Id*. at 1064.[3]

The *Brookfield* court also noted that confusion is more likely online than in the physical world. "In the Internet context, in particular, entering a web site takes little effort—usually one click from a linked site or a search engine's list; thus, Web surfers are more likely to be confused as to the ownership of a web site than traditional patrons of a brick-and-mortar store would be of a store's ownership." *Id*. at 1057. Numerous Internet trademark cases have relied on *Brookfield*'s

[3] Nor did the court believe defendant's actions constituted a fair use, because it was not using "Movie Buff" (space included) to describe movie fans (its customers), but the registered mark "MovieBuff"; it could use the former, but not the latter. *Brookfield,* 174 F.3d at 1066.

recognition of initial interest confusion to satisfy the crucial likelihood-of-confusion element for trademark liability.[4]

In 2002, the Seventh Circuit followed the Ninth Circuit's *Brookfield* analysis and affirmed an injunction against a defendant whose website's metatags included its competitor's marks. In *Promatek Indus., Ltd. v. Equitrac Corp.*, the defendant added "Copitrack" as a website metatag because it provided maintenance and service on Copitrak equipment. *Promatek*, 300 F.3d 808, 810 (7th Cir. 2002). However, its competitor Promatek owned the "Copitrak" mark, and sued for unfair competition under the Lanham Act. *Id*. at 810-11. The defendant then removed the mark from its metatags, and contacted all known search engines to ask them to remove any link between its website and the term "Copitrack," and between its site and the plaintiff's site. *Id*. at 811. Nonetheless, the trial court issued injunctive relief and ordered the defendant to include this disclaimer on its website:

> If you were directed to this site through the term "Copitrack," that is in error as there is no affiliation between Equitrac and that term. The mark "Copitrak" is a registered trademark of Promatek Industries, Ltd., which can be found at www.promatek.com or www.copitrack.com.

Id. at 811. The Seventh Circuit affirmed the order, noting evidence in the record that metatag usage was likely to cause consumer confusion. The court found that the most important factor was the degree of care that consumers would exercise, and relying on *Brookfield*, it noted:

> Customers believing they are entering the first store rather than the second are still likely to mill around before they leave. The same theory is true for websites. Consumers who are directed to Equitrac's webpage are likely to learn more about Equitrac and its products before beginning a new search for Promatek and Copitrak.

Id. at 812-13. What is important "is not the duration of the confusion, [but] the misappropriation of Promatek's goodwill." *Id*. at 812.

The fact that the defendant was capable of repairing Promatek's Copitrak equipment was of no consequence, as the court reasoned, "[t]he problem here is not that Equitrac, which repairs Promatek products, used Promatek's trademark in its metatag, but that it used that trademark in a way calculated to deceive consumers into thinking that Equitrac was Promatek." *Id*. at 814.

In *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir. 2006), a case involving both metatags and keyword advertising (discussed *infra*, part 4), the Tenth Circuit easily concluded that an Internet reseller's use of the plaintiff's marks violated the Lanham Act. There, the Hatfield family used deceptive means to obtain tanning lotion products and then re-sold them over the Internet, all without affiliation with or authorization from the manufacturer. The defendants displayed the plaintiffs' marks on their websites and included the marks in the sites' metatags. *Id*. at 1239. The court found that "these actions were attempts to drive traffic to Defendants' Web sites," and reasoned:

> While viewing Defendants' Web sites, consumers had the opportunity to purchase [plaintiffs' products], but also to purchase lotions from Plaintiffs' competitors. Moreover, Defendants continued to use the trademarks to divert Internet traffic to their Web sites even when they were not selling Products. Thus, Defendants used the goodwill associated with Plaintiffs' trademarks in such a way that consumers might be lured to the lotions from Plaintiffs' competitors. This is a violation of the Lanham Act.

Id.[5] Thus, the court affirmed judgment as a matter of law and upheld an injunction barring the defendants from, *inter alia*, using any of the plaintiffs' marks in website metatags. *Id*. at 1242-43.[6]

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[4] In *Interstellar Starship Servs., Ltd. v. Epix, Inc.*, 304 F.3d 936 (9th Cir. 2002), the court imposed limits on the initial interest confusion doctrine. It explained that what the plaintiff "really wants from us, it seems, is a holding that, as a matter of law, *any* use of epix.com by [defendant's company] creates initial interest confusion with the EPIX mark and that Epix is therefore entitled to ownership of www.epix.com." *Id.* at 943. The court rejected the argument and concluded that initial interest confusion on the Internet largely is determined "by the relatedness of the goods offered and the level of care exercised by the consumer." *Id*. at 943-46.

[5] The *Australian Gold* court also found website disclaimers inadequate to defeat initial interest confusion: "[A] defendant's website disclaimer, proclaiming its real source and disavowing any connection with its competitor, cannot prevent the damage of initial interest confusion, which will already have been done by the misdirection of consumers looking for the plaintiff's websites." *Australian Gold*, 436 F.3d at 1240 (quote omitted).

[6] In the domain name case *Bigstar Entm't, Inc. v. Next Big Star, Inc.*, the court noted three ways in which initial interest confusion can damage a markholder:

Similarly, in *North Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211 (11th Cir. 2008), the Eleventh Circuit considered a district court's injunction forbidding the defendant from using the plaintiff's marks in its website metatags. *Id*. at 1217. The defendant argued that the metatags were not a "use in commerce" within the meaning of the Lanham Act. The Eleventh Circuit disagreed, "readily conclud[ing]" that the metatags were a "use in connection with the sale or advertisement of goods." *Id*. at 1218. Finding it "absolutely clear that Axiom used NAM's two trademarks as meta tags as part of its effort to promote and advertise its products on the Internet," the court held that the plain meaning of the Lanham Act caused such actions to be a "use in commerce in connection with the advertising of . . . goods." *Id*. at 1219.

Interestingly, the court based its likelihood of confusion analysis on source confusion and did not address initial interest confusion. *Id*. at 1222. When consumers entered plaintiff's marks into a search engine, the search results displayed not only the defendant's website, but also a brief description of it, "which description included and highlighted [plaintiff's] trademarked terms." *Id*. at 1222. Thus, consumers were likely to be confused as to whether the plaintiff's products had the same source or sponsor as the defendant's, or whether the parties were in some way related or affiliated. *Id*. at 1222 & n.9.

The court found this "very different from the product placement in a department store" because the defendant's use of the plaintiff's marks in metatags "caused the Google search to suggest that [the parties'] products had the same source, or that [the defendant] sold both lines, or that there was some other relationship between [the parties]." *Id*. at 1223.[7]

B. Domain name issues

The misuse of domain names is a frequent subject of trademark disputes, and there is an established system to address many domain name registration issues (including cybersquatting and the like) outside the courts.[8] That system is beyond the scope of this article, but there are several cases that focus on domain names and have bearing on law applicable to keyword search advertising and other technologies. In particular, several domain name cases address just how "commercial" website activities must be in order to constitute a use in commerce or a use in connection with the sale of goods or services under the Lanham Act.

For example, in *People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359 (4th Cir. 2001), the animal advocate group (and trademark registrant) PETA sued an individual who registered the website www.peta.org, and established on it a website antithetical to PETA's principles. The site, assertedly intended to parody PETA's views, purported to be operated by the fictitious "People Eating Tasty Animals" organization, said to be a "resource for those who enjoy eating meat, wearing fur and leather, hunting, and the fruits of scientific research." *Id*. at 362-63. In evaluating the plaintiff's trademark infringement and unfair competition claims, the Fourth Circuit noted that the defendant did not dispute that he used the PETA mark in commerce, but did dispute that his use was "in connection with goods or services." *Id*. at 365. Importantly, the Fourth Circuit held that the requisite use could be established, and that the defendant could be liable *even if it did not actually sell*

> the original diversion of the prospective customers' interest; the potential consequent effect of that diversion on the customer's ultimate decision whether or not to purchase caused by an erroneous impression that two sources of a product may be associated; and the initial credibility which may be accorded by the interested buyer to the junior user's products—customer consideration that otherwise may be unwarranted and that may be built on the strength of the senior user's mark, reputation and goodwill.

105 F.Supp.2d 185, 207 (S.D.N.Y. 2000). The *Bigstar* court declined to apply the initial interest doctrine

> in the context of the Internet in a case involving (1) noncompetitors; (2) web addresses not virtually identical; (3) weak marks without sufficient evidence of secondary meaning; (4) substantially different products; (5) similar names and trademarks used by other third parties; (6) no intentional use of plaintiff's marks by defendants in defendants' metatags; and (7) no evidence of bad faith efforts by defendants to divert patronage by trading on any name, goodwill or reputation plaintiff may have established.

Id. at 211.

[7] The court noted that its holding was narrow, and that the case was unlike *Brookfield* or *Promatek*, where a defendant's use of a plaintiff's mark in metatags caused a search result only to list the defendant's site along with other sites, "without any misleading descriptions." *North Am. Med. Corp.*, 522 F.3d at 1224 n.10.

[8] For example, the Internet Corporation for Assigned Names and Numbers (ICANN) has set forth a Uniform Domain Name Dispute Resolution Policy (UDRP) providing an expedited administrative proceeding to be used in disputes involving alleged cybersquatting. *See* www.icann.org/en/udrp/udrp-rules-24oct99.htm (last visited Jan. 26, 2009).

or advertise goods or services on its site; rather, the defendant "need only have prevented users from obtaining or using PETA's goods or services, or need only have connected the website to other's goods or services." *Id*. at 365-66.

In *Taubman Co. v. Webfeats*, 319 F.3d 770 (6th Cir. 2003), the Sixth Circuit dissolved two preliminary injunctions against a Carrolton, Texas web designer's establishment of www.shopsatwillowbend.com upon learning of a mall of the same name that plaintiff Taubman intended to construct.

The accused website contained two commercial links—one to the defendant's web design firm's site, and one to his girlfriend's clothing company's site. Though describing these links as "extremely minimal . . . advertisements," the Sixth Circuit found that they amounted to use of the plaintiff's registered mark (The Shops at Willow Bend) "in connection with the advertising" of the goods sold by those two companies—"precisely what the Lanham Act prohibits." *Id*. at 775. However, the court noted that the defendant needed only to remove the two links in order to comply with the Act. *Id*. at 775 n.3. Proceeding to the question whether the sites created a likelihood of confusion, the court emphasized that "the only important question is whether there is a likelihood of confusion *between the parties' goods or services*. . . . it is irrelevant whether customers would be confused as to the origin of the websites, unless there is confusion as to the origin of the respective products." *Id*. at 776 (citations omitted). Here, the court valued the defendant's conspicuous disclaimer that not only informed visitors that they had not reached Taubman's official site for the mall, but included a hyperlink for those intent on reaching Taubman's site. *Id*. at 777. Noting that the defendant's site served to re-direct lost customers to Taubman's site, who otherwise might never reach it, the court found no likelihood of confusion as to the source of the parties' respective goods. *Id*.

In *TMI, Inc. v. Maxwell*, 368 F.3d 433 (5th Cir. 2004), a dissatisfied customer of homebuilder TMI registered the website www.trendmakerhome.com, which resembled TMI's TrendMaker Homes mark. *Id*. at 434. The customer (Maxwell) created the website to tell the story of his experience with the company, and he included a disclaimer indicating the site was not TMI's own site. *Id*. at 435. Because Maxwell's site contained no advertising and did not link to other sites, and TMI made no showing that he ever intended to charge money for using the site, the court found no evidence that Maxwell's use of the site had any business purpose or was in any way commercial, as the Lanham Act required. *Id*. at 438.

In *Nissan Motor Co. v Nissan Computer Corp*., 378 F.3d 1002 (9th Cir. 2004), the Ninth Circuit considered a carmaker's suit for trademark infringement and dilution against the registrant of Nissan.com and Nissan.net, whose surname also was Nissan. *Id*. at 1006. The website owner at first used the nissan.com site to advertise his computer-related goods and services, but later sold advertising space and received a payment for each time a user clicked an ad on his site. *Id*. at 1007-08. The court held that links to websites with derogatory comments about Nissan Motor did not violate the Lanham Act because such comments and their use of the Nissan mark were not commercial speech. *Id*. at 1015-18. However, because the site contained some links to other websites offering automobile-related information, it did create initial interest confusion "because use of the mark for automobiles captures the attention of consumers interested in Nissan vehicles." *Id*. at 1007. "To this extent 'nissan.com' trades on Nissan Motor's goodwill in the NISSAN mark and infringes it, but other uses do not because there is no possibility of confusion as to them." *Id*.

In *Bosley Med. Inst., Inc. v. Kremer*, 403 F.3d 672 (9th Cir. 2005), a dissatisfied customer of Bosley Medical's hair transplant services registered the website www.BosleyMedical.com, at which he posted unflattering information about the company. In affirming summary judgment for the defendant, the Ninth Circuit indicated that rather than focusing on the "use in commerce" language in the Lanham Act (which it deemed merely a Commerce Clause jurisdictional predicate for the Act's enactment), the district court should have emphasized the "use in connection with the sale of goods" clause. Analysis of this issue led the court to conclude that the defendant had not used the website in connection with the sale of goods or services because he never offered any products or services for sale from the site, and never included any paid advertising from any commercial entity. At most, his site linked to another site that contained advertising, but the court held this to be too attenuated to deem his site to be commercial. *Id*. at 678. Moreover, it disagreed with the Fourth Circuit's view in *PETA* that the Lanham Act reaches a defendant's use of a plaintiff's mark to deter customers from reaching the plaintiff's site. *Id*. at 679.

Thus, these domain name cases suggest that the threshold for "use in commerce" is rather low.

C. Pop-up advertisements

A trio of cases involving defendant WhenU.com, however, pushed back against markholders seeking relief from use of their marks in connection with Internet technology. WhenU is an Internet marketer who uses proprietary software that monitors a computer user's activity and provides the user with advertising relevant to that activity; the advertising takes the form of advertisements that pop up on the computer screen in

separate windows. *See 1-800-Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400, 402 (2d Cir. 2005).

In *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F.Supp.2d 723 (E.D. Va. 2003), the trial court granted summary judgment in favor of the owner of pop-up advertising software, dismissing U-Haul's claim that the software infringed its trademarks by appearing on computer screens and blocking out U-Haul's website display. The court reasoned that "the computer user consented to this detour when the user downloaded WhenU's computer software from the Internet . . . deliberately or unwittingly. . . ." *Id*. at 725. Moreover, the pop-up ads did not copy or use any of U-Haul's marks, because (i) they opened in separate windows than the window in which U-Haul's website appeared, (ii) being visible to a computer user simultaneously with U-Haul's website cannot establish "use" of a U-Haul mark, but is at most merely comparative advertising, and (iii) the pop-up software did not interfere with U-Haul's computer servers or systems, and the program was user-installed. *Id*. at 727-29. Less persuasive was the court's view that the defendants' inclusion of both U-Haul's website address and "U-Haul" in the directory of the defendant's software program failed to constitute "use in commerce" because (i) WhenU did not sell the website address to its customers, (ii) it did not display U-Haul's address or "U-Haul" in its popup ads, and (iii) it did not use U-Haul's marks to identify the source of its goods or services. *Id*. at 728. Rather, WhenU's use of the address and "U-Haul" in its software "merely use[d] the marks for the 'pure machine-linking function' and in no way advertises or promotes U-Haul's web address or any other U-Haul trademark." *Id*.

Similarly, in *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F.Supp.2d 734 (E.D. Mich. 2003), the court found that WhenU pop-up ads did not use Wells Fargo's marks in commerce, and did not appear "on," "modify," or "frame" Wells Fargo's websites. *Id*. at 746-49. The use of Wells Fargo's marks in computer code to trigger the pop-up ads was held not to be a use in commerce because the marks were not used to indicate anything about the source of the products and services WhenU advertised. *Id*. at 762. In particular, the court distinguished *Brookfield*, deciding that "keying" a mark to generate an advertisement was not the same as using the mark in metatags to lure a consumer to a different website. *Id*. at 762-64. Further, Wells Fargo failed to submit competent evidence of likelihood of confusion from the pop-up ads. *Id*. at 749-50.[9]

The Second Circuit addressed pop-up advertising in *1-800-Contacts*, a case that has had important implications for later keyword-related disputes. There, the trial court preliminarily enjoined WhenU from using plaintiff 1-800-Contacts' marks in connection with WhenU's advertising. 414 F.3d at 402-03. The trial court held that WhenU used the marks "in commerce" when it caused pop-ups for competitor Vision Direct to appear when a user specifically tried to access 1-800's website, as well as by its inclusion of 1-800's website address (which the court thought incorporated its mark) in WhenU's directory of terms that triggered the pop-up ads. *Id*. at 407-08.

The Second Circuit reversed, and held as a matter of law that WhenU did not "use in commerce" the plaintiff's marks when it included the markholder's website address in its directory; nor did the delivery by WhenU's software of pop-up ads constitute the requisite "use." *Id*. at 403.[10] The court reasoned:

> A company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to a[n] individual's private thoughts about a trademark. Such conduct simply does not violate the Lanham Act, which is concerned with the use of trademarks in connection with the sale of goods or services in a manner likely to lead to consumer confusion as to the source of such goods or services.

Id. at 409. The court relied on several important facts to find there was no use in commerce. First, the markholder's website address did not encompass its mark. Second, WhenU's ads appeared contemporaneously with 1-800's marks only because 1-800 decided to use a mark similar to its trademark as its website address, and further decided to put its mark on its website; the ad would appear even if the marks were not displayed on the website. Third, a user's entry of

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[9] In particular, the court issued blistering criticisms of Wells Fargo's survey evidence on likelihood of confusion. Wells Fargo did not prepare a new survey for the case, but rather, used two surveys that had been prepared for other cases, one of which did not involve WhenU. *Id*. at 750-754.

[10] At the outset, the court noted that 1-800's website address (www.1800contacts.com) differed "quite significant[ly]" from its "1-800CONTACTS" mark, because the differences transformed the protectable mark into a functional word combination that permitted the public to access the website. *Id*. at 408-09. The court emphasized its view that WhenU was using the website address simply as an address, rather than for any reason relating to the trademark. *Id*. at 409. To the court, "in order for WhenU to capitalize on the fame and recognition of 1-800's trademark—the improper motivation both 1-800 and the district court ascribe to WhenU—it would have needed to put the actual trademark on the list." *Id*. The court also distinguished WhenU's actions from those ascribed to Google's keyword advertising program (discussed *infra*).

other search terms such as "eye care," followed by the user accessing 1-800's website also could cause WhenU's software to display a competitor's ads in proximity to 1-800's site. *Id*. at 410.

The court distinguished *Brookfield* and *Netscape* (discussed *infra*), where users were diverted or misdirected away from a chosen website, or altered the search results a user would receive when searching with a particular mark or website address. *Id*. at 411. It further noted that WhenU did not sell keyword trademarks to its customers, link trademarks to any particular competitor's ads, or permit a customer to pay to have its ad appear in connection with any specific website or mark. *Id*. at 411-12. Finding that WhenU made no use in commerce of plaintiff's marks, the court dismissed the trademark claims.[11]

IV. KEYWORD ADVERTISING

Internet search engine providers like Google offer keyword-triggered advertising programs that businesses use to increase Internet traffic to their websites. *J.G. Wentworth*, 2007 WL 30115 at *2. In Google's program called AdWords, a company can pay Google to have a link to its website displayed in a "Sponsored Links" section of a Google webpage whenever an Internet user searches for keywords "purchased" by the company. *Id*. Additionally, each time an Internet user clicks on a Sponsored Link, Google charges a fee to the AdWords participant associated with the linked website. *Id*.

Google's AdWords program offers its customers numerous matching options, including "Broad Matching," "Exact Matching," "Negative Matching," and "Embedded Matching." *See Rhino Sports, Inc. v. Sport Court, Inc.*, 2007 WL 1302745, *2 (D. Ariz. 2007). "For example, if the keyword purchased is 'courts,' and the keyword is broadly matched, the purchaser's ad could appear when users enter 'basketball court,' 'federal court,' 'court flooring,' or even 'sport court.'" *Id*. However, the embedded matching option could concurrently be used to exclude certain terms that otherwise would be included in the broad match. "For example if the purchaser of 'courts' excludes 'SPORT COURT' . . . in its Google AdWords profile, a query for 'SPORT COURT' . . . will not result in the purchaser's ad appearing as a sponsored link." *Id*. at *3.

Keyword advertising has become so popular that some companies hire "web and search engine optimization" firms to help them rank higher on Internet searches. These firms may, among other activities, buy keyword advertising for their clients. *See id.* at *2.

Before April 2004, Google complied with requests from advertisers to stop their competitors from bidding on their trademarks as keywords. *Id*. at *3. However, in April 2004, Google changed its policy to permit U.S. and Canadian advertisers to bid on any keyword, including trademarked terms. *Id*. In 2007, Google described its policy for responding to trademark complaints:

> When we receive a complaint from a trademark owner, we only investigate the use of the trademark in ad text. If the advertiser is using the trademark in ad text, we will require the advertiser to remove the trademark and prevent them from using it in ad text in the future. [But] we will not disable keywords in response to a trademark complaint.

Id. at *3-4. As Google expected, its policy change riled many trademark owners, and Google's AdWords program has generated several high-profile lawsuits with major commercial actors. Moreover, several markholders have sued competitors who use the AdWords program.

A. Claims against search engines

One significant keyword case not involving Google was *Playboy Enters., Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020 (9th Cir. 2004), which analyzed Netscape's practice of selling targeted advertising space on its search result pages by "keying" ads to appear whenever a consumer entered a particular term. In this case, an adult-oriented company paid Netscape to "key" its ads to over 400 adult-oriented terms, including "playboy" and "playmate," which are marks that the plaintiff owned. *Id*. at 1023. Many of the banner ads that appeared on the search pages were unlabeled or confusingly labeled; also, many instructed the user to "click here." *Id*.

The trial court dismissed on summary judgment Playboy's claims for trademark infringement and dilution. On appeal, Playboy relied on the initial interest confusion doctrine adopted five years earlier in *Brookfield*. *Id*. at 1024 n.4 (noting that no other theory could survive defendant Netscape's summary judgment

[11] In *Overstock.com, Inc. v. SmartBargains*, *Inc.*, 192 P.3d 858 (Utah 2008), the Utah Supreme Court considered whether a defendant's pop-up ads constituted, among other things, common law unfair competition. *Id*. at 860. In holding that the ads in question had not been shown to deceive consumers, the court noted, "[w]e do not adopt a per se rule holding that all pop-ups do not violate Utah unfair competition law. The WhenU cases are of limited value in our analysis because they interpret federal laws . . . ." *Id*. at 863. In large part, this holding was due to a failure by the plaintiff to produce evidence. *Id*. at 864 (plaintiff could have conducted surveys and provided evidence of confusion, but did not).

motion). The court found that there was a likelihood of confusion, and thus Netscape's use of the marks was actionable. *Id*. at 1026-29. In rejecting Netscape's nominative use defense, the court focused on the fact that Netscape was not using the marks to identify Playboy or its products, but to identify consumers interested in adult-oriented products who could be drawn to the advertisers' websites. *Id*. The court reversed the award of summary judgment and remanded.

In a concurring opinion, Judge Marsha Berzon expressed concern that *Brookfield* and the initial interest confusion doctrine were leading the Ninth Circuit toward finding infringement when a defendant uses a markholder's marks to "just distract[ ] a potential customer with another *choice*, when it is clear that it is a choice." *Id*. at 1034-36. To Judge Berzon:

> When the search engine list generated by the search for the trademark ensconced in a metatag comes up, an Internet user might *choose* to visit . . . the defendant's website in *Brookfield*, instead of the plaintiff's . . . website, but such choices do not constitute trademark infringement off the Internet, and I cannot understand why they should on the Internet.

Id. at 1035.[12] Shortly after the Ninth Circuit's ruling, the parties settled the case.

In *Gov't Employees Ins. Co. v. Google*, *Inc.*, 330 F.Supp.2d 700 (E.D. Va. 2004), GEICO challenged Google's keyword advertising program. As discussed above, upon entry of a particular term (such as GEICO's mark) by a consumer, Google's search results page displayed not only a list of websites that its search engine generated, but also links to the websites of its paid advertisers. *Id*. at 702. Google moved to dismiss the suit, contending that the complaint failed to allege that it used the marks in commerce, or that it used them "in connection with the sale, offering for sale, distribution, or advertising of goods and services" as required by the Lanham Act. Google also asserted that there could be no consumer confusion because the marks were used only in internal computer algorithms that the public never views. *Id*. at 702-03. Relying on the *U-Haul* and *Wells Fargo* pop-up cases, Google argued that it used the marks "for a pure machine-linking function." *Id*. at 703.

Relying instead on *Netscape* and *PETA*, the court rejected Google's argument and allowed the case to go forward. GEICO's allegations that Google unlawfully used the marks to permit advertisers to bid on them and pay Google to be linked to the marks were sufficient to state a claim under the Lanham Act. *Id*. at 704. GEICO had alleged that Google used the marks in commerce in a way that implied that they had the markholder's permission to do so. The court distinguished *U-Haul* on the basis that there, WhenU permitted advertisers to bid only on broad categories of terms that included certain trademarks, but never sold the marks themselves as keywords. *Id*. Thus, the complaint survived the motion to dismiss. *Id*.

The court later held a bench trial. After GEICO rested its case, Google moved for judgment as a matter of law, which the court granted in part and denied in part. *See Gov't Employees Ins. Co. v. Google*, *Inc.,* 2005 WL 1903128 (E.D. Va. 2005). Evaluating whether GEICO had presented sufficient evidence to prove a likelihood of confusion, the court noted that the Fourth Circuit's traditional seven-factor test was "not really applicable" in the case, and went on to discuss initial interest confusion. *Id*. at *4. The court noted GEICO's contention that initial interest confusion could be particularly harmful in the car insurance business because the average insurance customer seeks less than two quotes before buying, thus misdirection to a competitor's website could cause the loss of significant business. *Id*.

The court discussed at length GEICO's survey evidence on consumer confusion. GEICO's expert asked potential customers (drivers who indicated a likelihood of buying and renewing their insurance policies within six months, and who further said they would use the Internet to search for insurance providers) to enter GEICO into Google's search engine, then view a results page with five links to advertisers ("Sponsored Links") alongside the results. *Id*. at *5 n.10. The survey indicated that 67% of respondents thought they would reach GEICO's web site by clicking on a Sponsored Link, and 69.5% thought the Sponsored Links were either links to GEICO's site or affiliated with GEICO in some way. *Id*. at *5. Twenty percent said they would click on a sponsored link to buy GEICO insurance. *Id*. However, the court found that Google's cross-examination exposed significant weaknesses in the survey evidence. In particular, the survey failed to isolate the source of control group confusion, introduced "demand effects," and showed respondents webpages that were visually different than those of an actual Google search. *Id*. at *5-6.

The court ruled that GEICO failed to show a likelihood of confusion from Google's use of its marks as keywords, and that its evidence was insufficient as to

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[12] Some commentators have argued that the *Brookfield* court went too far with its initial interest confusion holding. *See, e.g.,* Glynn S. Lunney, Jr., *Trademarks and the Internet: The United States' Experience*, 97 Trademark Rep. 931, 946-50 (Jul.-Aug. 2007).

whether confusion was likely to result from the Sponsored Links that did not expressly reference GEICO's marks in their headings or text. *Id*. at *7. However, as to the Sponsored Links that *did* expressly reference GEICO's marks in their headings or text, GEICO did show a likelihood of confusion. *Id*. As to these Sponsored Links, "despite the flaws in the survey, the extremely high percentages of respondents who experienced some degree of confusion when viewing such ads provides sufficient evidence to survive defendant's Motion for Judgment." *Id*. Google admitted it had no evidence to present on this issue, and the court found that GEICO established a Lanham Act violation. What remained to be addressed, then, were the issues of whether Google could be held liable for the Lanham Act violations (with, or as opposed to, its advertisers), and the measure of damages or other relief. *Id*. The court gave the parties thirty days to try to settle the case, and on the last day of that period, they announced a settlement.

The next Google keyword case was a declaratory judgment action filed by Google in November 2003 in the Northern District of California, asking for a declaration that its AdWords program did not infringe the trademarks of American Blind & Wallpaper Factory, a leading retailer of window treatments and wall coverings. *See Google Inc. v. Am. Blind & Wallpaper Factory*, *Inc.*, 2005 WL 832398 (N.D. Cal. 2005). American Blind filed counterclaims and third-party claims against Netscape, America Online, Compuserve, Ask Jeeves, and Earthlink. *Id*. Google and the third party defendants then moved to dismiss American Blind's counterclaims, asserting that American Blind had not alleged that they "used in commerce" its marks. *Id*. at *4. Citing the *WhenU* cases and the Sixth Circuit's decision in the *Interactive Products* domain name case,[13] they argued that American Blind could not state a claim unless it alleged that they used the marks to identify the source of their own search engines or advertising products. *Id*. As in the *GEICO* case, the district court declined to dismiss the claims at the pleading stage. *Id*. at *5.

Two years later, the court considered Google's motion for summary judgment. 2007 WL 1159950 (N.D. Cal. 2007). The court stated that the "crux of this dispute is whether Google infringes ABWF's trademarks by refusing to disable trademarked keywords." *Id*. at *1. Google's motion for summary judgment again asked the court to hold that its sale of trademarked keywords did not constitute "use in commerce" under the Lanham Act. *Id*. at *2.

The court recognized conflicting authority presented by the cases decided after its 2005 decision on the motion to dismiss. *Id*. at *2-4. It found that the Ninth Circuit's decisions in *Brookfield* and *Netscape* suggested that the Ninth Circuit would assume that the AdWords program constituted use in commerce under the Lanham Act. *Id*. at *4-5. "While the Second Circuit's decision in *1-800-Contacts* and the subsequent district court decisions may cause the Ninth Circuit to consider this issue explicitly, the lengthy discussions of likelihood of confusion in *Brookfield* and [*Netscape*] would have been unnecessary in the absence of actionable trademark use." *Id*. at *6 (finding "Google's analogies to trademark infringements outside the digital realm" to be "attractive" but ultimately insufficient).

After resolving the next issue—whether the "American Blind(s)" marks, found to be descriptive marks, possessed the necessary secondary meaning to be enforceable—against American Blind, *id.* at *6-7, the court turned to the issue of infringement as to several other marks at issue in the case. Google argued that it should not be held liable for the actions of the advertisers in the AdWords program. The court disagreed, relying on the Ninth Circuit's holding in *Netscape* that the plaintiff could survive summary judgment on either a direct or contributory infringement theory, and its analysis of the multi-factor test for infringement "as if Netscape were responsible for the competitors' advertisements." *Id*. at *8.

Several factors supported finding that a triable issue of fact existed as to likelihood of confusion. American Blind's expert survey showed that 29% of respondents erroneously believed, after being shown Google search results for the term "American Blinds," that Sponsored Links on that page were affiliated with American Blind. *Id*. at *8-9 (noting that even though that mark was unenforceable, the survey was relevant to whether confusion stemmed from other, similar marks asserted by the plaintiff). Moreover, the goods offered by competitors who had bought Sponsored Links triggered by the relevant marks were in close proximity to the goods offered by American Blind. *Id*. at *9. American Blind also showed that a low degree of consumer care should be expected of Internet users, and that many could not identify which search results were sponsored. *Id*. And the evidence suggested that Google used the marks with an intent to maximize its own profits, a factor that favored American Blind. *Id*. The court thus decided that the plaintiff survived summary judgment on its claims that Google infringed the "American Blind Factory" and "American Blind & Wallpaper Factory" marks. *Id*.[14]

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[13] *See Interactive Prods. Corp. v. a2Z Mobile Office Solutions, Inc.*, 326 F.3d 687 (6th Cir. 2003).

[14] The court rejected Google's claim that the plaintiff was barred by the unclean hands doctrine from recovering on any

The parties subsequently settled the case, with American Blind apparently receiving no concessions from Google and stating that it had to drop the litigation for financial reasons. American Blind's CEO stated that American Airlines, which had recently filed its lawsuit against Google, was in a better position to pursue the issue.

In *800 JR Cigar*, *Inc. v. GoTo.com, Inc.*, 437 F.Supp.2d 273 (D. N.J. 2006), the plaintiff sued a pay-for-priority search engine that gave priority results for search terms to the highest-paying advertiser; each advertiser's rank in the search results was determined by the amount it bid on the search terms entered. *Id*. at 277-78. "Natural" or "unpaid" search listings of sites most relevant to the search term were listed only after all paying advertiser's sites were listed. *Id*. Defendant GoTo was paid only when a user clicked on a paying advertiser's site. *Id*. at 277.

JR claimed GoTo's sale of its marks (and similar marks) as keywords violated the Lanham Act, and both parties moved for summary judgment. *Id*. at 278-80. The court found that GoTo's conduct "is qualitatively different from the pop-up advertising context, where the use of trademarks in internal computer coding is neither communicated to the public nor for sale to the highest bidder." *Id*. at 285. GoTo made "trademark use" of the plaintiff's marks by (1) accepting bids from the plaintiff's competitors; (2) "ranking its paid advertisers before any 'natural' listings," thus injecting itself into the marketplace, acting as a conduit to steer potential customers away from JR to JR's competitors"; and (3) using its "Search Term Suggestion Tool" to tell JR's competitors which of its marks would be the most effective search terms. *Id*.

Also, in applying the Third Circuit's ten-factor test for likelihood of confusion, it extensively analyzed initial interest confusion and identified four pertinent factors: (i) product relatedness, (ii) level of care used by consumers in their purchasing decisions, (iii) consumer sophistication, and (iv) intent of the alleged infringer in adopting the mark. *Id*. at 290. Further, JR's evidence that during a two-month period, GoTo "diverted" an average of 24% of users to JR's competitors' websites arguably indicated a likelihood of confusion. *Id*. at 292.

of its claims due to its own purchase of keyword advertising from Google triggered by its competitors' marks. *Id*. at *11. The court noted the plaintiff's willingness to agree with its competitors to refrain from buying each other's marks as AdWords keywords. It also stated that "the large number of businesses and users affected by Google's AdWords program indicates that a significant public interest exists in determining whether the AdWords program violates trademark law." *Id*.

Thus, the court declined to grant summary judgment to either party on the trademark infringement or dilution claims. The case settled before trial.[15]

In August 2007, American Airlines sued Google in the Northern District of Texas, asserting that Google's keyword program violated its trademark rights. *See American Airlines, Inc. v. Google, Inc.*, Case No. 4:2007-cv-00487 (N.D. Tex.), Dkt. #1. In its motion to dismiss, Google contended that triggering ads with keywords does not constitute a "trademark use." Rather, Google likened its keyword program to allowing a manufacturer to place its product next to that of its competitor on a store shelf. Mtn. to Dismiss (Dkt. #9) at 1. Relying heavily on *1-800 Contacts* and its Second Circuit progeny, Google argued, without explicitly stating that it was attacking the "use in commerce" element, that its keyword program does not "use" American's marks in their trademark sense. Mtn. to Dismiss at 6-9. Google also argued that all of the "uses" of American marks in the online ad texts identified in the Complaint were legitimate because they accurately described what an independent seller was selling, or they were mere news articles about American. Mtn. to Dismiss at 10-12.

American responded that Google's argument improperly conflated the "use in commerce" requirement and the concept of fair use. American further argued that any fair use argument should be an affirmative defense and a fact-specific inquiry not proper at the 12(b)(6) stage.[16] The court denied Google's motion to dismiss, and the case went forward. Before the parties had completed briefing on summary judgment motions, however, the case settled. American Airlines later sued Yahoo, asserting claims almost identical to those in its case against Google. *See American Airlines, Inc. v. Yahoo! Inc.*, Case No. 4:08-cv-00626-A (N.D. Tex.) (Dkt. #1).[17]

[15] *See also Buying for the Home, LLC v. Humble Abode, LLC*, 459 F.Supp.2d 310, 323 (D. N.J. 2006) (finding that buying another's mark for keyword advertising on Google constituted "use in commerce.") This case also settled after the denial of cross-motions for summary judgment.

[16] Google also argued that all of American's state-law claims were barred by the Communications Decency Act, which provides "No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider." 47 U.S.C. 230(c)(1). The court rejected this argument as well.

[17] Interestingly, Yahoo filed its own action for declaratory relief in the Northern District of California, then moved to have the Texas action transferred and consolidated with the California case. *See American Airlines, Inc. v. Yahoo! Inc.*, Case No. 4:08-cv-00626-A (N.D. Tex.) (Dkt. #16) (Mot. to Transfer). The court denied Yahoo's motion. *Id*. (Dkt. #32).

The court in *Rescuecom Corp. v. Google, Inc.*, 456 F.Supp.2d 393 (N.D.N.Y. 2006), considered Google's motion to dismiss trademark claims filed by a computer services company whose marks were sold by Google as part of its AdWords program. The court's decision hinged on its conclusion that a "'trademark use' is one indicating source or origin." *Id*. at 400 (citing *Pirone v. MacMillan, Inc.*, 894 F.2d 579, 583 (2d Cir. 1990)). The court noted the Second Circuit's pronouncement in *1-800-Contacts* that "trademark use" typically involves the placement of marks on goods or services "to pass them off as emanating from or authorized by the trademark owner." *Id*. It distinguished *Edina Realty* (*infra*) and *GEICO* as having premised their findings of trademark use on allegations of confusion or commercial use of marks, which the court believed conflated three elements (trademark use, use in commerce, and likelihood of confusion) that should remain separate. *Id*. Because Google's AdWords program did nothing to "place plaintiff's trademark on any goods, displays, containers, or advertisements, or used plaintiff's trademark in any way that indicates source or origin, plaintiff can prove no facts in support of its claim which would demonstrate trademark use." Thus, the court dismissed the trademark infringement and dilution claims. *Id*. at 403.

This case has been appealed to the Second Circuit, which heard oral arguments on April 3, 2008. *See* No. 06-4881-cv (2d Cir. April 3, 2008).

B. Claims against keyword purchasers

A number of plaintiffs have chosen not to bring claims directly against the search engines that sell their marks as keyword search terms. Instead, they have pursued individual purchasers of their marks.

1. Courts in the Second Circuit

In *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F.Supp.2d 402 (S.D.N.Y. 2006), the district court considered Merck's suit for trademark infringement and dilution against Canadian websites offering to sell Merck's Zocor product as well as its generic equivalent. *Id*. at 408. Some of the defendants also had purchased keyword advertising from Google and Yahoo triggered whenever "Zocor" was used as a search term. *Id*. at 415-16. The defendants moved to dismiss and for judgment on the pleadings. The court declined to dismiss the trademark claims based on the use of the Zocor mark in connection with the websites' sales of the product and its generic equivalent, reasoning that it could not conclude at the pleading stage that Merck would be unable to prove the elements of its claims. Further, fact issues prevented any finding that the defendants' alleged uses of the mark were nominative fair uses. *Id*. at 412-15.

However, the court granted the defendants' motions to dismiss the claims premised on their use of the Zocor mark in search engine keyword advertising. Following the Second Circuit's reasoning in *1-800-Contacts*, and taking note of the district court decisions in the *U-Haul* and *Wells Fargo* cases, the court decided that the defendants' purchase of keyword ads triggered by the Zocor mark did not constitute a use of the mark in a trademark sense:

> [I]n the search engine context, defendants do not "place" the ZOCOR marks on any goods or containers or displays or associated documents, nor do they use them in any way to indicate source or sponsorship. Rather, the ZOCOR mark is "used" only in the sense that a computer user's search of the keyword "Zocor" will trigger the display of sponsored links to the defendants' websites. This internal use of the mark "Zocor" as a key word to trigger the display of sponsored links is not use of the mark in a trademark sense.

Id. at 415. The court also deemed it "significant" that the defendants actually sold Zocor made by Merck's Canadian affiliates on their websites, and found nothing improper about their keyword purchases. *Id.* at 415-16.

In declining to reconsider its ruling, the court stated that the "sponsored link marketing strategy is the electronic equivalent of product placement in a retail store." *Id*. at 427 (noting that a drug store may place "its generic products alongside similar national brand products to capitalize on the latter's name recognition"). Moreover, the court decided that the differences between pop-up ads and keyword advertising were not meaningful, because neither used the mark to indicate source or sponsorship. *Id*. at 428. "It may be commercial use, in a general sense, but it is not trademark use. Indeed, if anything, keywording is less intrusive than pop-up ads as it involves no aggressive overlaying of an advertisement on top of a trademark owner's webpage." *Id*.

In *Hamzik v. Zale Corp./Delaware*, 2007 WL 1174863 (N.D.N.Y. 2007), a pro se plaintiff who had registered the mark "The Dating Ring" sued jeweler Zale Corporation, alleging among other things that the defendant infringed its mark by having purchased from various search engines advertising triggered by a user's entry of the plaintiff's mark as a search term. *Id*. at *1. The defendants moved to dismiss and for sanctions. *Id*.

The court focused on the fact that Zale's purchase of the phrases "dating ring" and "dating rings" from search engines led to the return of results that displayed "Dating Ring-Zales" or "Dating Rings-Zales" upon an Internet user's entry of "dating ring" as a search term.

Id. at *3. This distinguished the case from *1-800 Contacts*, *Rescuecom,* and *Merck*, as it suggested to the court that the plaintiff could show that its mark appeared on displays associated with goods, or on documents associated with goods or their sale. *Id.*[18] The court thus allowed the trademark infringement claims based on the alleged purchase of keyword ads triggered by "dating ring(s)" to go forward. *Id*. at *3-4.

In *FragranceNet.com, Inc. v. FragranceX.com, Inc.*, 493 F.Supp.2d 545 (E.D.N.Y. 2007) (denying motion to amend complaint) the court followed the same approach to "use in commerce," and it expounded on the theme that the bricks-and-mortar analogues to keyword advertising are permissible: "In the world outside the Internet, individuals in search of a company or product are not blinded to competitive products. In other words, it is not unlawful to strategically place billboards or even store locations next to billboards or store locations of competitors." *Id.* at 551. The court decided that "[w]ith the technological development of the Internet, the landscape for the advertisement of goods and services has changed dramatically; however, internal uses of trademarks in cyberspace are not converted into Lanham Act 'uses' merely because of the advancements in the effectiveness and scope of advertising that has come with development of the Internet." *Id*. at 552. *See also Site Pro-1, Inc. v. Better Metal, LLC*, 506 F.Supp.2d 123 (E.D.N.Y. 2007) (noting split between courts inside and outside the Second Circuit and dismissing keyword case).

2. Courts not in the Second Circuit

Google's Sponsored Links again were at issue in *Rescuecom Corp. v. Computer Troubleshooters USA, Inc.*, 464 F.Supp.2d 1263 (N.D. Ga. 2005). There, plaintiff Rescuecom alleged that the defendant violated the Lanham Act by purchasing keyword advertising on Google that produced Sponsored Links to defendant's website whenever a computer user typed in "rescuecom" as a search term. The defendant moved to dismiss the complaint, arguing that its purchase of keyword advertising was not a "use in commerce" of the plaintiff's mark. *Id*. at 1265. The court denied the motion, finding that the complaint presented novel legal questions not readily answerable under a traditional Lanham Act analysis. As such, the court decided that the better course was to rule only after a complete factual record had been developed. *Id*. at 1266-67. The parties apparently settled the lawsuit before discovery was complete.

In *Edina Realty*, *Inc. v. TheMLSonline.com*, 2006 WL 737064 (D. Minn. 2006), the plaintiff was the Midwest's largest real estate brokerage, and the defendant was one of its direct competitors. *Id* at *1. The defendant purchased advertising from Google and Yahoo keyed to several search terms that all were variants of plaintiff's registered EDINA REALTY mark. *Id*. Thus, whenever a Yahoo or Google search was run for any of these terms, the defendant's Sponsored Link advertisement appeared at the top of the list of websites, with the plaintiff's site appearing "in a less noticeable position further down the page." *Id*. The ads were shaded blue, visually separated from the natural search results, and appeared under the caption "Sponsored Link" or "Sponsored Result." *Id*. at *2. The summary judgment evidence showed that between 17.9 and 31.6 percent of Google users clicked on the ad to enter the defendant's site instead of the plaintiff's site; on Yahoo, up to 39.7% of searchers did the same. *Id*. The defendant also used the plaintiff's mark in "hidden links and text" on its site, which operated like metatags. *Id*.

Evaluating the plaintiff's motion for summary judgment on its Lanham Act claims, the court found that the defendant did use the plaintiff's mark commercially, simply because it bought search terms that included the mark to generate its Sponsored Link ads. *Id*. at *3. Applying a multi-factor test to determine likelihood of confusion, it also found that fact issues precluded summary judgment. *Id*. at *4-6.

The court made short work of the defendant's nominative use defense. That defense commonly is available to a defendant who can show:

- that its use of a plaintiff's mark is needed to describe both the plaintiff's product/service and the defendant's product/service;
- that it only used as much of the mark as needed to describe the plaintiff's product; and
- that its conduct or language reflect the true and accurate relationship between the parties' products/services.

Id. at *6 (citing *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 222 (3d Cir. 2005)).[19]

[18] The court noted the argument that the search results did not display "goods" in connection with the plaintiff's mark, but only a link to Zales.com where the goods were offered for sale. However, the court also noted the counter that these links were documents associated with the goods or their sale. *Id.* at n.4 (deciding that for 12(b)(6) purposes, it was enough that the plaintiff alleged that the defendant used its mark in connection with the sale of goods).

[19] The Ninth Circuit applies a different test: (1) is the product or service one that is not readily identifiable without use of the mark; (2) is the mark used only to the extent reasonably needed to identify the product or service; and (3) has the user done anything that would, in conjunction with the mark, suggest sponsorship or endorsement by the

But here, the defense was not available because defendant's use of the plaintiff's mark as an Internet search term and in hidden links and text on its website was unnecessary. *Id*. at *7. Further, the defendant did not need to use the mark to advertise that the plaintiff's listings were on the defendant's site; rather, it simply could have stated that its site included all the real estate listings in the Twin Cities, and thus avoided using the plaintiff's mark. *Id*.

After the court's ruling, on April 26, 2006, the parties reached a settlement.

In *Int'l Profit Assocs., Inc. v. Paisola*, 461 F.Supp.2d 672 (N.D. Ill. 2006), the district court granted a motion for an *ex parte* temporary restraining order filed by a business consulting firm against an individual (Paisola). The firm alleged that Paisola ran two websites that published false or misleading information about the firm, and also that he had purchased keyword advertising from Google that was triggered by the firm's "International Profit Associates" mark. *Id*. at 675. The court found that the firm had shown that Paisola was using the mark as a search term in Google's AdWords program in a manner that was likely to cause confusion, and thus had shown a likelihood of success on its Lanham Act claim. *Id*. at 677. In so doing, the court noted the absence of Seventh Circuit case law on whether the use of keyword advertising was a "use in commerce," but relied on the New Jersey District Court's decision in *Buying for the Home*, and the cases it collected, to find that it was. *Id*. at 677 n.3. The TRO required Paisola to cease conducting further advertising using any of the firm's marks, and particularly to cease using the firm's marks as keywords for any advertising service including Google or Yahoo. *Id*. at 680-81.

In *J.G. Wentworth* (cited *supra*), the plaintiff alleged that the defendant used its marks both in website metatags and as keyword search terms in Google's AdWords program. 2007 WL 30115 at *1. The defendant moved to dismiss the complaint, arguing that the plaintiff could not show use of the marks to identify goods or services in a manner likely to cause source confusion. *Id*. at *4.

The court noted the conflict between the *WhenU* cases and *Buying for the Home*, but it found that the defendant's purchase of keyword ads triggered by the plaintiff's marks was "the type of use consistent with the language in the Lanham Act which makes it a violation to use 'in commerce' protected marks 'in connection with the sale, offering for sale, distribution, or advertising of any goods or services,' or 'in connection with any goods or services.'" *Id*. It reasoned that "[b]y establishing an opportunity to reach consumers via alleged purchase and/or use of a protected trademark, defendant has crossed the line from internal use to use in commerce under the Lanham Act." *Id*.

Nevertheless, the court dismissed the case on the ground that, as a matter of law, defendant's alleged acts did not create a likelihood of confusion. The court acknowledged that the Third Circuit had recognized initial interest confusion as being actionable under the Lanham Act, but it had not joined the other circuits in extending that doctrine to keyword metatags. *Id*. at *6-7. The court disagreed with *Brookfield*'s assertion that web surfers looking for the plaintiff's products who are taken by a search engine to the defendant's website would find a database similar enough that a sizeable number of consumers who were originally looking for plaintiff's product will simply decide to utilize defendant's offerings instead. The court found this to be "a material mischaracterization of the operation of Internet search engines."

> At no point are potential consumers 'taken by a search engine' to defendant's website due to defendant's use of plaintiff's marks in meta tags. Rather . . . a link to defendant's website appears on the search results page as one of many choices for the potential consumer to investigate.

Id. "Due to the separate and distinct nature of the links created on any of the search results pages in question, potential consumers have no opportunity to confuse defendant's services, goods, advertisements, links or websites for those of plaintiff," the court decided, and granted the motion to dismiss. *Id*. at *8.

In *Boston Duck Tours, L.P. v. Super Duck Tours, LLC*, 527 F.Supp.2d 205 (D. Mass. 2007), the court had preliminarily enjoined defendant Super Duck from using the phrase "duck tours" in connection with its sightseeing tour service. *Id*. at 206. The court then was called upon to decide whether Super Duck's purchase of Sponsored Links triggered by the phrase "boston duck tours" on a Google search violated the injunction. *Id*. After briefly reviewing Second Circuit cases, and decisions from courts in other circuits, the court decided that "the emerging view outside the Second Circuit is in accord with the plain language of the statute. Because sponsored linking necessarily entails the 'use' of the plaintiff's mark as part of a mechanism of advertising, it is 'use' for Lanham Act purposes." *Id*. at 207. However, the court went on to find that Super Duck's keyword advertising did not violate the injunction, in view of Super Duck's compliance with the injunction by adopting the new mark "Super Duck Excursions" to replace "Super Duck Tours," and further in view of the fact that its ads were intended to distinguish itself from the plaintiff. *Id*. at 208 (deciding

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markholder? *New Kids on the Block v. News Am. Pub., Inc.*, 971 F.2d 302, 308 (9th Cir. 1992).

that "such advertisement [is] an effort by Super Duck to distinguish itself from Boston Duck Tours, which is fair, albeit aggressive, competition not prohibited by the Lanham Act").

C. Litigation issues

As pervasive as keyword advertising is among Internet search engines, it is remarkable that no reported cases have gone to a jury trial, and so few cases have reached appellate review. There is much anticipation surrounding the Second Circuit's impending decision in the *Rescuecom* case, but it is unclear what persuasive effect it will have outside that circuit. The breadth of the appellate court's ruling could have important implications not only for other online technologies (just as *1-800 Contacts* evaluation of pop-up advertising set the course for courts within the Second Circuit to dismiss keyword suits), but also for various trademark uses in the brick-and-mortar world.

With the predominant pattern outside the Second Circuit being that such cases survive Rule 12(b)(6) motions to dismiss, the key substantive litigation issue has become whether plaintiffs can produce sufficient evidence of likelihood of confusion to survive summary judgment. Moreover, many of these cases focus on theories of initial interest confusion, which tends to increase the importance of survey evidence. All of this increases costs to all litigants of keyword disputes. But keyword advertising is highly lucrative, and search engine defendants are well funded. Thus, it is likely that only major commercial actors (like GEICO or American Airlines) will bring suit directly against the search engines, as smaller players eventually may be forced to drop litigation for financial reasons, as did American Blind.

V. ONLINE AUCTIONS AND OTHER SECONDARY MARKETS

The recent case of *Tiffany Inc. v. eBay Inc*. involves another area of e-commerce – online secondary markets – that likely will be important in trademark law. 576 F.Supp.2d 463 (S.D.N.Y. 2008). As with the search engines in keyword cases, companies like eBay derive revenue from third parties who often leverage the marks of others. The *Tiffany v. eBay* case focused on counterfeiting of Tiffany's products – a classic concern of trademark law – but it raises important questions of contributory infringement liability that are likely to recur in other contexts.[20]

A. eBay and other websites

eBay operates a prominent online marketplace through its ebay.com website. eBay allows sellers of goods to create listings for their items to be posted for sale on the eBay site. *Id*. at 474. Sales can be conducted several ways, including through an auction process or by a fixed price. *Id*. When a buyer purchases a listed item, eBay facilitates the transaction between the parties, but it does not take physical possession of any of the goods. *Id*. at 475.

eBay derives its revenues from several fees: (1) initial fees paid by sellers to list their goods on the site, (2) final value fees paid by sellers as a percentage of the price on completed sales, and (3) fees charged to sellers by eBay's Paypal company to process transactions. *Id*. at 475. Through various programs, promotions, and advice, eBay works closely with sellers to increase their activity on the site. *Id*.

eBay's efforts to prevent fraud and counterfeiting include its "fraud engine" technology, which searches the site for prohibited conduct, and its Verified Rights Owner ("VeRO") Program, which allows rights owners to notify eBay of potentially infringing items to be removed from the site. *Id*. at 477-78. eBay also allows rights owners to post a page on the eBay website describing their products or intellectual property rights. *Id*. at 479. Nevertheless, the sale of counterfeit goods remains a substantial challenge for eBay.

Although eBay is by far the most famous online marketplace and auction site, it is not the only one. Other prominent websites with auction or similar features include Amazon.com, Yahoo.com, uBid.com, and Overstock.com. Each of these sites has policies to address counterfeiting and other prohibited conduct in connection with their online sales.[21]

B. *Tiffany, Inc. v. eBay, Inc.*

In this case, famous jeweler Tiffany sued over eBay's involvement in the sale of counterfeit Tiffany silver jewelry via eBay's website. *Id*. at 469. Tiffany asserted causes of action for direct and contributory trademark infringement, false advertising, unfair competition, and direct and contributory trademark dilution. *Id*. Tiffany contended that eBay knew that counterfeit sales were occurring, and that it should be

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[20] The *Tiffany* case is not the first time that eBay has been at the center of a dispute that called on the courts to apply traditional legal rules to the Internet. In *eBay, Inc. v. Bidder's Edge, Inc.*, eBay obtained an injunction prohibiting a competitor website from "screen-scraping" data from eBay's website. 100 F.Supp.2d 1058 (N.D. Cal. 2000). After considering bricks-and-mortar analogues to the robotic scraping, the court found that the screen-scraper had committed the tort of trespass to chattels by using eBay's property without authorization. *Id*. at 1069-72.

[21] For a more detailed discussion of the policies of each site, *see* Emily Favre, Note and Comment, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 J. L. & Pol'y 165, 171-77 (2007).

required to screen its listings and decline to post offers to sell five or more Tiffany items. *Id*. Tiffany further asserted that eBay was required immediately to suspend sellers once it learned of Tiffany's belief that the seller was infringing. *Id*.

The court recognized that both eBay and Tiffany wanted to eliminate sales of counterfeit Tiffany goods on eBay, and characterized "the heart of this dispute [as] not whether counterfeit Tiffany jewelry should flourish on eBay, but rather, who should bear the burden of policing Tiffany's valuable trademarks in Internet commerce." *Id*. The court ultimately concluded, after a bench trial, that Tiffany bore that burden. *Id*. at 470.

The court's lengthy opinion emphasized early on the importance of the lack of evidence in the trial record about the size and scope of the legitimate secondary market in Tiffany goods, as well as that of the counterfeit market. In particular, the court noted that "[t]his deficiency is significant, since the law clearly protects such secondary markets in authentic goods." *Id*. at 473 (citing *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61-62 (2d Cir. 1992) ("As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner.")). The court stated that eBay and other online market websites "may properly promote and facilitate the growth of legitimate secondary markets in brand name goods," but "[u]nfortunately, the trial record offers little basis from which to discern the actual availability of authentic Tiffany silver jewelry in the secondary market." *Id*. at 473-74. This concern with the first sale doctrine likely will play prominently in any future litigation involving trademark issues presented by online auction sites.

1. <u>Tiffany's direct trademark infringement claim</u>

Tiffany's claims for direct infringement were based on the following: (1) eBay's advertisement of the availability of Tiffany jewelry on the eBay website; (2) the use of the Tiffany name on eBay's home page, documents, and publications, such as by informing buyers and sellers that "Tiffany" and "Tiffany & Co." are top search terms in eBay's Jewelry and Watch category, and by providing hyperlinks labeled "Tiffany" that could be clicked on to bring a user to listings offering Tiffany goods; and (3) eBay's purchase of Sponsored Links on Google and Yahoo! advertising eBay listings that offered Tiffany jewelry. Tiffany contended that eBay "should be liable for direct trademark infringement, just as an officer or employee of a store selling infringing merchandise is jointly and severally liable with the store for that infringing sale." *Id*. at 494.

The court concluded that eBay's use of the Tiffany marks on eBay's website was permissible as a nominative fair use. The court found that the Tiffany products being sold were not readily identifiable without use of the mark, eBay used only so much of the mark as was reasonable to identify the goods, and eBay did not suggest Tiffany's sponsorship or endorsement. *Id*. at 496-98.

Further, the court held that eBay's practice of buying Sponsored Links triggered by the "Tiffany" keyword did not constitute direct infringement. The court distinguished the Second Circuit's decision in *1-800-Contacts* because eBay's purchases of Sponsored Links generated links that displayed the Tiffany marks to the search engine user. *Id*. at 500 (noting for example that "when a user typed in the search term 'Tiffany,' the search engine generated a sponsored link that said, for example, 'Tiffany for sale. New and Used Tiffany for sale. Check out the deals now! www.ebay.com."). The court held that this could not be considered an "internal" use of the mark permissible under *1-800-Contacts*; rather, "it would be as if eBay purchased an ad in the Yellow Pages next to Tiffany's listing, and then used Tiffany's mark in its own advertisement." *Id*. at 500-01.

However, the court concluded that whether or not this constituted use in commerce under the Lanham Act, it nonetheless was permissible under the nominative fair use doctrine, because it was "effectively identical to its use of the Tiffany name on the eBay website." *Id*. at 501.

2. <u>Tiffany's claims for contributory trademark infringement</u>

The court next considered Tiffany's claims for contributory infringement. The first issue it resolved was the proper standard to apply to such claims. Specifically, Tiffany argued that the test put forth by the Restatement (Third) of Unfair Competition, Section 27 (1995) provided an alternative or separate basis for liability than the one articulated by the U.S. Supreme Court in *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982). In *Inwood*, the Supreme Court stated the test for contributory infringement as follows:

> [I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit.

456 U.S. at 854. Here, Tiffany did not allege that eBay intentionally induced infringement, but rather that it continued to provide "its platform despite its knowledge, or reason to know, that counterfeit merchandise is being sold." *Tiffany*, 576 F.Supp.2d at

502. Tiffany urged the court to apply the Restatement's test, which would impose liability on eBay if it "fail[ed] to take reasonable precautions against the occurrence of [a] third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated." Restatement (Third) of Unfair Competition §27 (1995).

However, the court noted that the *Inwood* decision itself rejected a "reasonable anticipation" standard, deeming it "watered down and incorrect." *Tiffany*, 576 F.Supp.2d at 502-03.

The next hurdle for Tiffany was whether eBay supplied a "product" under *Inwood*. The court concluded that *Inwood*'s proscription against contributing to trademark infringement was not limited to only suppliers of a product, but could reach venues that provide services, such as eBay. *Id*. at 504-06. The court noted cases holding that flea market and swap meet owners could be liable for contributory infringement based on knowledge of the sale of counterfeit goods on their premises. *Id*. at 504-05. But the court was particularly influenced by *Lockheed Martin Corp. v. Network Solutions, Inc.,*[22] in which the Ninth Circuit decided that the critical factor was "the extent of control exercised by the defendant over the third party's means of infringement." 194 F.3d at 984. The court agreed with *Lockheed Martin* that it does not matter whether the "venue is online or in brick and mortar." *Tiffany*, 576 F.Supp.2d 505.

Specifically, eBay did exercise sufficient control and monitoring of its site and the transactions conducted on it:

- It provided the software to establish the listings of offers, and store such information on its servers;
- It actively supplied buyers to sellers, and actively facilitated transactions between them;
- It actively promoted the sale of Tiffany jewelry items, advertising goods on its site and other sites, actively working with sellers to help them grow their jewelry businesses, including advising them to use "Tiffany" and "Tiffany & Co." as keywords;
- It profited from the various fees charged to sellers;
- It maintained significant control over the listings on its site; and
- Though it tried to cast itself as merely a classified ad service, it actually operated a separate classified ad service apart from the listings challenged by Tiffany.

Id. at 506-07.

Therefore, the court analyzed whether eBay continued to supply its services to sellers it knew, or had reason to know, were infringing Tiffany's marks. *Id*. The evidence showed that eBay had "generalized" knowledge that some of the Tiffany goods sold on its site could be counterfeit. *Id*. at 507-08. But this generalized knowledge was insufficient under *Inwood* to obligate eBay to remedy the problem. *Id*. at 508. Tiffany had not alleged, nor had the evidence shown, that all of the Tiffany goods sold through eBay were counterfeit, but rather, a "substantial number" of genuine Tiffany goods were sold on eBay, occasionally in lots of five or more. *Id*. at 509. The court reasoned:

> Were Tiffany to prevail on its argument that generalized statements of infringement were sufficient to impute knowledge to eBay of any and all infringing acts, Tiffany's rights in its mark would dramatically expand, potentially stifling legitimate sales of Tiffany goods on eBay. Given the presence of authentic goods on eBay, it therefore cannot be said that generalized knowledge of counterfeiting is sufficient to impute knowledge to eBay of any specific acts of actual infringement.

Id. at 510 (citations omitted). Thus, Tiffany had to prove that eBay knew, or had reason to know, of *specific instances* of *actual* infringement. *Id*.

Next, the court examined whether the general allegations of infringement that Tiffany made to eBay prior to bringing suit gave eBay the requisite knowledge. *Id*. at 511. Tiffany had sent eBay demand letters in 2003 and 2004, which alleged rampant counterfeiting among the items listed on eBay's site and presumed that any listing of five or more Tiffany goods was counterfeit. *Id*. The court held that "mere assertions and demand letters are insufficient to impute knowledge as to instances not specifically identified in such notices, particularly in cases where the activity at issue is not always infringing." *Id*. (citations omitted). Moreover, it found that Tiffany was "ambiguous as to the precise contours of its proposed 'five-or-more' rule," and that in fact little support existed for the proposed rule. *Id*. at 512.

More striking was the court's evaluation of the knowledge eBay would have gained if Tiffany had given it contemporaneous information from Tiffany's two "buying programs," in which it purchased items sold on eBay that purported to be genuine Tiffany goods. Tiffany discovered each time that between 73 to 75 percent of the purported Tiffany items were counterfeit. *Id*. at 485, 512-13. Nevertheless, even if Tiffany had given these results to eBay, such knowledge would be inadequate under *Inwood*:

[22] 194 F.3d 980 (9th Cir. 1999).

> To be sure, the amount of counterfeit merchandise discovered in the Buying Programs is voluminous. Nonetheless, the Buying Programs simply put eBay on notice that, absent Tiffany's routine policing efforts via the VeRO program, a high percentage of the merchandise sold as Tiffany sterling was counterfeit. The Buying Programs also revealed that even when Tiffany totally refrained from participating in the VeRO Program, some quantity of the jewelry sold through eBay was, in fact, genuine. . . . This information was insufficient to require eBay to ban all Tiffany listings, particularly because Tiffany presented no evidence that eBay ever failed to remove a specific listing that had been reported to eBay . . . .

Id. at 512-13.

The court went on to decide that eBay was not "willfully blind" to the alleged infringement, which would have satisfied the "reason to know" test. Willful blindness would require a finding that eBay suspected wrongdoing and deliberately failed to investigate. *Id*. at 513. Instead, the court found that eBay had taken significant steps, and "invested significant financial, technological, and personnel resources in developing tools" to deter counterfeiting. *Id*. at 514-15.

Further, as to the specific instances of alleged infringement that Tiffany had brought to eBay's attention (via "Notices of Claimed Infringement"), the court noted that *Inwood*'s test directed it to examine the actions taken by eBay upon receiving such notice. Upon receiving a NOCI from Tiffany, eBay removed the challenged listing from its site, warned sellers and buyers, cancelled all fees associated with the challenged listing, and told buyers not to purchase the listed item. *Id*. at 516.

The most interesting part of the court's analysis was its rejection of Tiffany's argument that eBay should be liable for contributory infringement no matter what steps it took upon receiving a NOCI because the tools eBay provided markholders such as Tiffany were inadequate. Tiffany indicated that it simply was incapable of policing the vast number of listings offering Tiffany goods in such a way that it could timely notify eBay before each allegedly counterfeit sale was made. *Id*. at 517-18. The court responded first by noting the absence of evidence that the tools provided by eBay "made it unreasonably burdensome [on Tiffany] to capture the counterfeit listings on eBay." *Id*. at 518 (finding instead that Tiffany's commitment to using those tools was "sporadic and relatively meager"). Second:

> while the court is sympathetic to Tiffany's frustrations in this regard, the fact remains that rights holders bear the principal responsibility to police their trademarks. In effect, Tiffany's contributory trademark infringement argument rests on the notion that because eBay was able to screen out potentially counterfeit Tiffany listings more cheaply, quickly, and effectively than Tiffany, the burden to police the Tiffany trademark should have shifted to eBay. Certainly, the evidence adduced at trial failed to prove that eBay was a cheaper cost avoider than Tiffany with respect to policing its marks. But more importantly, even if it were true that eBay is best situated to staunch the tide of trademark infringement to which Tiffany and countless other rights owners are subjected, that is not the law.

Id. at 518. Thus, Tiffany's trademark infringement claim failed.

3. <u>Tiffany's remaining claims</u>

Tiffany's unfair competition claims were dismissed by the court on the same grounds as its trademark infringement claims, as both were governed by the same standards. *Id*. at 519. Its false advertising claims, premised on eBay's use of the Tiffany mark while knowing that some counterfeit sales of Tiffany goods were occurring, was similarly ill-fated. The court held that because authentic Tiffany goods were sold on eBay's site, its advertising practices hadn't been shown to be literally false. *Id*. at 520. Moreover, the court pointed out that any falsity in any ads was the fault of the third party seller, not eBay. *Id*. at 521 (adding that "inauthentic items were only listed on eBay due to the illicit acts of third parties").

Tiffany also lost on its dilution claims, as the court decided that eBay had not used Tiffany's marks in a way likely to cause dilution either by blurring or tarnishment. *Id*. at 523-26 (also reiterating that eBay's purchase of Sponsored Links triggered by the Tiffany marks was a protected nominative fair use). The dilution claims failed primarily because eBay did not use the Tiffany marks to refer to eBay's own product. *Id*. at 524-25.

C. Other online reseller litigation

The *Tiffany* case brings a number of trademark issues into sharp relief in the Internet context, at least when it comes to the traditional problems of counterfeit goods. Several other recent cases have addressed the broader issue of online sale of goods by unauthorized distributors. Courts have long grappled with disputes in which manufacturers who operate tightly controlled distribution systems pursue unauthorized distributors

who have somehow obtained those products. *See, e.g., Matrix Essentials, Inc. v. Emporium Drug Mart, Inc., of Lafayette*, 988 F.2d 587 (5th Cir. 1993) (rejecting manufacturer's claim that unauthorized sale of hair care products by retailer violated the Lanham Act). The rise of online resale or auction sites, however, may present new challenges for courts evaluating such disputes.

In *Australian Gold,* 436 F.3d 1228 (discussed *supra*), the Hatfield family's unauthorized resale of tanning lotion products over the Internet was possible because they had "purchased [p]roducts using deceptive means, not the open market, relying on tortious acts like using a fake name and dishonestly stating that they operated a network of ten salons to purchase [p]roducts." *Id*. at 1237. The defendants asserted the first sale doctrine, which generally shields resellers from trademark claims on the theory that the trademark holder retains no right to control distribution of the product once it has been placed in the stream of commerce by the first sale. However, courts have held this doctrine inapplicable when a defendant engages in misleading conduct. The *Australian Gold* court noted that "the first sale doctrine does not protect resellers who use other entities' trademarks to give the impression that they are favored or authorized dealers for a product when in fact they are not." *Id*. at 1241. "Defendants' intentional use of Plaintiffs' trademarks on Defendants' Web sites, in the metatags for the Web sites, and with Overture.com . . . were indicative of an intent to cause consumer confusion, and are not shielded by the first sale doctrine." *Id*. Thus, the unauthorized resale of the tanning products, coupled with the use of marks online in a way that suggested authorization, was actionable under trademark law.

Similarly, *Standard Process, Inc. v. Total Health Discount, Inc.*, 559 F.Supp.2d 932 (E.D.Wis. 2008), involved an unauthorized distributor of plaintiff's dietary supplements that paid to receive prominent placement in sponsored search engine results for plaintiff's trade name. Further, the plaintiff's policy as to its authorized suppliers was to prohibit them from selling the products over the Internet. *Id*. at 936. On defendant's motion for summary judgment, the court found that this, along with other conduct, created fact issues as to whether consumers would be confused and led to believe that the defendant was an authorized seller of the products. This defeated the defendant's motion for summary judgment as to both the first sale doctrine and its nominative fair use defense, despite the defendant's website disclaimer that included a statement that it was "in no way affiliated with, authorized, sponsored or related to Standard Process, Inc." *Id*. at 936, 938-39.

Although the court rejected the plaintiff's argument that its resale policy was contractual in nature, one can imagine situations in which product suppliers effectively could restrict product resale. Such scenarios may present challenges to online auction sites like eBay.

VI. CONCLUSION

There is a substantial and evolving body of caselaw applying traditional trademark doctrines to Internet-related activities. As e-commerce has expanded, online trademark issues increasingly have led to disputes between major companies, rather than merely between markholders and individuals such as cybersquatters. As search engines and online secondary marketplaces continue to expand, it is a virtual certainty that more conflicts will arise between them and markholders. Under the current state of the caselaw, it will be difficult for many defendants to escape liability for such claims prior to summary judgment, if at all.