

# Track Two: Latest Tactics and Tricks in e-Commerce, Internet, and Trademark Litigation

Selected Hot Topics on the Internet

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## **I. Keyword Advertising**

In 2006, we saw several decisions handed down in cases against search engine companies and competitors that allege search engine advertising programs that let advertisers purchase or bid on someone else’s trademark as a search term are a form of trademark infringement or dilution. Most cases turn on whether such use is a “use in commerce” under the Lanham Act, but a few cases have gone on to look at the issue of consumer confusion or dilution.

### **A. Background – Search Engine Policies**

Search engines make money by selling advertising space on the search results page. The most popular search engines, including Google and Yahoo!, allow an advertiser to pay to have its ad (which is in the form of a link to the advertiser’s website) appear at the top of the list of search results or in the right margin. On Google, these paid-for listings are called Sponsored Links; on Yahoo!, they are called Sponsor Results. The appearance of these ads is triggered by the word or words that a computer user enters as search terms. An advertiser can select which search terms will trigger the appearance of its ads.

Google and Yahoo! allow advertisers to select one or more trademarks as the terms that will trigger the display of the ad, although their policies are slightly different. Yahoo! permits advertisers to bid on trademarks as keywords under limited circumstances. Yahoo!’s policy states:

For bids on search terms ... Yahoo! Search Marketing requires advertisers to agree that their search terms, their listing titles and descriptions, and the content of their Web sites do not violate the trademark rights of others.

See <http://searchmarketing.yahoo.com/legal/trademarks.php>.

The advertiser who places the highest bid on a word or trademark gets the top spot on the Yahoo! search results page. Yahoo! will accept a bid on a trademark only if:

the advertiser presents content on its Web site that (a) refers to the trademark or its owner or related product in a permissible nominative manner without creating a likelihood of consumer confusion (for example, sale of a product bearing the trademark, or commentary, criticism or other permissible information about the trademark owner or its product) or (b) uses the term in a generic or merely descriptive manner. *Id.*

On the other hand, Google's current keyword policy allows anyone—even competitors—to purchase a third-party's trademarks as keywords. Google will only take action upon receipt of a complaint from a trademark owner if the complained-of advertisement that appears as a Sponsored Link displays the complainant's mark in the actual content—i.e., the title or body—of the advertiser's link. If the trademarked term appears in the content of the link, Google will require the advertiser to remove it from the content of the link. Google will not, however, disable keywords (i.e., prevent their purchase) in response to a trademark owner's complaint. See [http://www.google.com/tm\\_complaint\\_adwords.html](http://www.google.com/tm_complaint_adwords.html).

Thus, when a company purchases a trademark as a keyword with a particular search engine, the ad (in the form of a Sponsored Link on Google or a Sponsor Result on Yahoo!) will appear when a consumer types the trademark/keyword into the search engine. However, it is interesting to note that the appearance of that Sponsored Link or Sponsor Result will vary significantly depending on the search engine. On Google, the Sponsored Link will display a hyperlink to the company's website, but no reference to the trademark/keyword. This means, in essence, that fair use of a trademark is not permitted, and the advertiser's Sponsored Link would not be able to function as traditional comparative advertising, e.g., "DELL computers are faster than Brand X." On Yahoo!, however, if a trademark keyword is purchased, the ad in the form of the Sponsor Result must make a fair use of the trademark/keyword.

With this background in mind, we can review the body of case law addressing whether the sale and purchase of trademarks as search engine keywords can create liability for those involved. Whether a keyword purchase is actionable as trademark infringement or a related claim depends on whether the triggering of sponsored links off a competitor's trademark (1) constitutes a sufficient use in commerce to trigger liability under the Lanham Act or applicable state statutory or common law, and (2) is likely to cause confusion (or dilution). Courts examining purchase of trademarks as keywords have split on both points, making it difficult to ascertain the risks involved. Both elements, and the cases discussing them, are discussed below.

## **B. Background – The “Early” Cases**

Early cases objecting to purchasing trademarks as keywords were brought against search engines, most notably, Google. This was likely viewed as a more efficient alternative than objecting to individual parties purchasing the keywords.

***GEICO v. Google I.*** The first significant decision on keyword purchasing was issued in *Government Employees Insurance Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004). The court found that Google's AdWords program constituted a “use in commerce,” and the court denied Google's motion to dismiss, rejecting its argument that it was not using GEICO “in commerce” by allowing advertisers to bid on trademarks and pay for

links to be triggered by their use. In so ruling, the court distinguished cases holding that the use of marks in broad categories to generate pop-up advertisements does not constitute sufficient use in commerce to trigger coverage under the Lanham Act. See, e.g., *Wells Fargo & Co. v. WhenU.Com*, 69 U.S.P.Q. 2d 1171 (E.D. Mich. 2003), and *U-Haul International, Inc. v. WhenU.Com*, 279 F. Supp. 2d 723 (E.D. Va. 2003) (both holding that using trademarks to generate pop-up advertisements is not “use” under the Lanham Act). The *GEICO* holding also is consistent with *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), which found Netscape’s use of trademarks to trigger banner advertisements on the search results page sufficient to subject it to liability under the Lanham Act. Cf. *1-800 Contacts, Inc. v. WhenU.Com, Inc. and VisionDirect, Inc.*, 414 F.3d 400 (2d Cir. 2005) (distinguishing selling keywords from WhenU’s activities, noting the *GEICO* case’s holding that Google’s sale of trademarks as keywords is a use in commerce).

***GEICO v. Google II***. In a later ruling in the same case, the court held that Sponsored Links that did not mention the mark used as the keyword either in the title or the text of the Sponsored Link were not likely to cause confusion. *Government Employees Insurance Co. v. Google, Inc.*, 2005 U.S. Dist. LEXIS 18642 (E.D. Va. Aug. 8, 2005). Note, however, that the court did allow GEICO to proceed with its claim that Google’s sale of the trademark GEICO to trigger keyword ads that featured GEICO in the title or text of the Sponsored Link was likely to cause confusion.

### **C. The Recent Cases – Against Search Engines**

***800-JR Cigar, Inc. v. GoTo.com, Inc.***, 437 F. Supp. 2d 273 (D.N.J. July 17, 2006).

This case was filed in June, 2000, before GoTo.com changed its name to Overture and Overture was acquired by Yahoo!. Accordingly, the roots of the case are “old” and the current real party in interest is Yahoo!.

The court found that GoTo.com’s conduct was, as a matter of law, a “use in commerce,” but the court denied the plaintiff’s motion for summary judgment because the question of likelihood of confusion was not suitable for a summary judgment ruling.

GoTo.com argued that its use of trademarks in its advertising program and search term suggestion tool was consistent with laws allowing for comparative advertising, “gripe sites,” and other cases of fair use, that it did not use any trademarks to promote its own services, and that it was not liable for contributory infringement because it did not intentionally induce infringement or continue to offer its service to an advertiser that it knew to be infringing.

The court rejected GoTo.com’s reasoning and explained why its use was a “use in commerce”:

GoTo makes trademark use of the JR marks in three ways. First, by accepting bids from those competitors of JR desiring to pay for prominence in search results, GoTo trades on the value of the marks. Second, by ranking its paid advertisers before any “natural” listings in a search results list, GoTo has injected itself into the marketplace, acting as a conduit to steer potential customers away from JR to JR’s competitors. Finally, through the Search Term Suggestion Tool, GoTo identifies those of JR’s marks which are effective search terms and markets them to JR’s competitors.... For these reasons, the Court concludes that there are no disputed material issues of fact which would prevent the Court

from concluding, as a matter of law, that GoTo is making trademark use of JR Cigar's trademarks.

As to the issue of likelihood of confusion, the court wrote that there were material issues in dispute which precluded summary judgment for either party. The court also briefly discussed the defendant's argument of fair use, noting that the defendant's use of the plaintiff's marks "is probably fair in terms of its search engine business; that is, where GoTo permits bids on JR marks for purposes of comparative advertising, resale of JR's products, or the provision of information about JR or its products. However, fairness would dissipate, and protection under a fair use defense would be lost, if GoTo wrongfully participated in someone else's infringing use. Thus, the factual issue of whether GoTo's conduct supports a fair use defense is for the trier of fact."

***Rescuecom Corp. v. Google, Inc.***, 456 F. Supp. 2d 393 (N.D.N.Y. Sept. 28, 2006).

The court granted Google's motion to dismiss for failure to state a claim finding that Google's sale of trademark keywords was not a use in commerce. The court rejected each of the plaintiff's arguments for finding a use in commerce, namely that: (1) Google was capitalizing on the good will of the plaintiff's trademark by marketing it to the plaintiff's competitors to generate advertising revenues; (2) the plaintiff's competitors believed Google was authorized to sell its trademark; (3) that Internet users viewing the competitors' sponsored links were confused as to whether the sponsored links belonged to or emanated from the plaintiff; and (4) that Google's sale of the mark altered the search results and prevented Internet users from reaching the plaintiff's website. The court drew a distinction between "use in commerce" and "trademark use": "Although these facts may suffice to satisfy the 'in commerce' and likelihood of confusion requirements at the pleading stage, without an allegation of trademark use in the first instance, they cannot sustain a cause of action for trademark infringement." 456 F. Supp. 2d at 401.

Rescuecom has appealed the case to the Second Circuit, arguing, inter alia, that a visual branding of goods or services is not required to find a trademark use, and that sale of a trademark as a keyword is a use in commerce, as found by the courts in the subsequently decided *Edina Realty, Buying for the Home*, and *JG Wentworth* cases, each of which is discussed below.

***Google v. American Blind & Wallpaper Factory, Inc.***, Case No. C03-5340 JF EAI (N.D. Cal.). Google sought a declaration that its sale of trademark keywords did not violate American Blind's rights. American Blind counterclaimed that Google's sale was infringing. Google moved for summary judgment on December 26, 2006, on the familiar grounds that its sale was not a trademark use. The motion is still pending.

#### **D. The Recent Cases – Against Competitors**

Following the initial decisions in the Google cases, several decisions have addressed a company's liability for purchasing a competitor's trademark as a keyword. As in the search engine cases, courts have split on whether purchase of a trademark keyword is a use in commerce or a trademark use. The courts have, in some cases, treated these two concepts interchangeably, making it difficult to interpret the findings. However, arranged in chronological order, the relevant decisions demonstrate that courts have alternated between finding trademark use in commerce and no use in commerce. The three courts that have found purchase of a trademark keyword to be a use in commerce have reached

varying results on the issue of likelihood of confusion. Thus, there is not yet a settled consensus on overall liability.

***Edina Realty, Inc. v. The MLSOnline.com***, 2006 U.S. Dist. LEXIS 13775 (D. Minn. Mar. 20, 2006); reconsideration denied, 2006 U.S. Dist. LEXIS 29117 (D. Minn., May 11, 2006).

The court found that the defendant's use was a "use in commerce" but denied the plaintiff's motion for summary judgment on the trademark infringement claims so that the case could proceed to trial; the court granted the defendant's motion for summary judgment on the trademark dilution claim because the plaintiff failed to prove actual dilution. (The parties subsequently settled.)

The parties are competitors in the real estate brokerage market in Minneapolis and St. Paul. For several years, the defendant purchased the following search terms from Google: Edina Realty, Edina Realty, EdinaRealty.com, EdinaRealty, EdinaRealty.com, www.EdinaRealty.com and www.EdinaRealty.com. The defendant purchased similar search terms from Yahoo!. The defendant's sponsored links usually appeared more prominently than the link for the plaintiff. Until 2005, the defendant also included the plaintiff's mark in the text of its ads that appeared as sponsored links. For example, when a Yahoo! user would type in "edina realty" as a search term, a sponsored link advertisement would appear, with the following headline in underlined font: "Edina Realty<sup>TM</sup> listings—MLS Home Search." The ad would also state, "Find Edina Realty<sup>TM</sup> and Twin Cities MN MLS listings. Also includes listings from Coldwell Banker Burnet, Counselor Realty and many more. Updated daily. Request showings online." The bottom line on the ad would state, "www.themlsonline.com." The defendant also used the plaintiff's mark in hidden links and text on its website. Interestingly, the court found that "The percentage of Google users that click on the advertisement and enter TheMLSOnline.com, instead of plaintiff's website, has ranged from 31.6 to 17.9 percent. The rate has been as high as 39.7 percent on Yahoo!."

The court spent little time on the use in commerce issue. Citing *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999), the court held that "[w]hile not a conventional 'use in commerce,' defendant nevertheless uses the Edina Realty mark commercially. Defendant purchases search terms that include the Edina Realty mark to generate its sponsored link advertisement. Based on the plain meaning of the Lanham Act, the purchase of search terms is a use in commerce." (citation omitted).

The court also held that the defendant's use of the plaintiff's mark was not a nominative fair use as a matter of law because the defendant "uses the mark as an Internet search term, in its Sponsored Link advertisements, and in hidden text and hidden links on its website. None of these uses requires the Edina Realty mark. In its advertisements and hidden links and hidden text, defendant could easily describe the contents of its website by stating that it includes all real estate listings in the Twin Cities. Similarly, defendant could rely on other search terms, such as Twin Cities real estate, to generate its advertisement. In addition, defendant's use of the Edina Realty mark in its advertisement does not reflect the true relationship between plaintiff and defendant."

***Merck & Co., Inc. v. Mediplan Health Consulting, Inc.***, 425 F. Supp. 2d 402 (S.D.N.Y. March 30, 2006); reconsideration denied, 431 F. Supp. 2d 425 (S.D.N.Y. May 24, 2006).

The court granted the defendants' motion to dismiss the trademark infringement claims relating to keyword ad programs.

The defendants operate Canadian online pharmacies and offer for sale to U.S. consumers generic versions of the plaintiff's popular cholesterol medication, Zocor. In listing their products, certain defendants use the plaintiff's trademark ZOCOR on their websites, identifying their products as "generic ZOCOR" or some variation thereof, and several defendants also purchased sponsored links from Google and Yahoo!.

The court found that using the plaintiff's mark as a search term was not a use in commerce. Relying on *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005), the court wrote "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 defendants' web sites. 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."

In denying the plaintiff's motion for reconsideration, the court specifically said that it disagreed with the holding in *Edina Realty*, and it explained why the Second Circuit's holding in *1-800 Contacts*, which involved pop-up ads triggered by keywords that are trademarks, is similar to search engine's keyword ad programs. The court compared how search engines include trademarks in their internal directories of keywords, and how search engines automatically generate the paid and unpaid listings on the results page. Pop-up ads are also generated automatically based on terms, including trademarks, contained in an internal directory. In both cases, the use of the trademark is not use of the mark to indicate source or sponsorship; "[i]t 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." Finally, the court noted as "significant" that the defendants sell Zocor manufactured by Merck's Canadian affiliates on their websites.

***Buying for the Home v. Humble Abode LLC***, 459 F. Supp. 2d 310 (D.N.J. Oct. 19, 2006).

The court held that the defendant used the plaintiff's mark, but denied the defendant's motion for summary judgment because neither party had provided arguments or evidence on likelihood of confusion.

After surveying most of the keyword cases and their holdings, the court concluded that the plaintiff satisfied the use requirement of the Lanham Act in two ways:

First, the alleged purchase of the keyword was a commercial transaction that occurred "in commerce," trading on the value of Plaintiff's mark. Second, Defendant's alleged use was both "in commerce" and "in connection with any goods or services" in that Plaintiff's mark was allegedly used to trigger commercial advertising which included a link to Defendant's furniture retailing website. Therefore, not only was the alleged use of Plaintiff's mark tied to the promotion of Defendant's goods and retail services, but the

mark was used to provide a computer user with direct access (i.e., a link) to Defendant's website through which the user could make furniture purchases. The Court finds that these allegations clearly satisfy the Lanham Act's "use" requirement.

***The Nautilus Group, Inc. v. Icon Health & Fitness, Inc.***, 2006 U.S. Dist. LEXIS 92550 (W.D. Wash. Dec. 21, 2006).

The court granted the defendant's motion for summary judgment on the plaintiff's dilution claim. The court held that the plaintiff failed to prove the defendant actually used its marks.

It is clear from defendant's evidence that it purchased the keyword Bowflex only in the context of comparative advertising. Defendant's witness Amy Guymon, the person in charge of purchasing keywords, identified the single term in which it used the word Bowflex—"Bowflex information"—and testified that the term was purchased so that defendant could appear as a "sponsored link" on the search results page of a search engine. The title of that sponsored link was "Compare CrossBow to Bowflex." The description that followed the title asked users to compare the two machines, and summarized what the CrossBow machine had to offer. The URL was listed as [www.cross-bow.com](http://www.cross-bow.com). It is well-settled in the Ninth Circuit that such use of a trademark is excepted from the reach of the statute. *Playboy Enters.*, 279 F.3d at 806 (explaining that such uses do not create an improper association between a mark and a new product, but merely identify the trademark holder's products).

***J.G. Wentworth, S.S.C. Ltd. Partnership v. Settlement Funding LLC***, 2007 U.S. Dist. LEXIS 288 (E.D. Pa. Jan. 4, 2007).

The court found that the defendant was using the plaintiff's mark, but granted the defendant's motion to dismiss because no reasonable factfinder could conclude that the use was likely to cause confusion.

The parties are both finance companies that provide cash payments in exchange for the rights to future payments from structured settlements, annuities, real estate notes and other assets. The plaintiff claimed that the defendant was using its trademarks as keywords in Google's AdWords program and as keyword meta tags in the defendant's website. The plaintiff's marks did not appear in any discernable way in defendant's search results ads or links.

The court held that the defendant was using the plaintiff's marks, explaining that the defendant's use of the plaintiff's mark to trigger online ads for itself "is 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.' Such use is not analogous to 'an individual's private thoughts' as defendant suggests. By 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."

Turning to the likelihood of confusion, the court disagreed with the Ninth Circuit's holding in *Brookfield* that meta tags cause initial interest confusion by taking a consumer to the defendant's website. Here, the court wrote that the search results page provides a link to the defendant's website as one of many choices for consumers to investigate, and

that the link to the defendant's website was independent and distinct from the other results because it was a Sponsored Link. "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. Therefore, I find that initial interest protection does not apply here. Because no reasonable factfinder could find a likelihood of confusion under the set of facts alleged by plaintiff, I will grant defendant's motion to dismiss."

## II. Domain Name "Tasting" and Domain Name "Kiting"

### A. Domain Tasting

ICANN policy provides for a 5-day grace period after registration of a domain name (the "Add Grace Period") during which time the registration can be cancelled and the registration fee refunded. The Add Grace Period was intended to allow for cancellation of a domain name in the event of a mistake during the registration process, such as misspelling. Within the past year or so, those in the domain name acquisition business—primarily registrars and their largest clients—have begun to exploit this loophole.

In a practice that has come to be known as "domain tasting," a domain name is registered, traffic to the site is measured for the 5-day period, often by using a website featuring fee-generating sponsored links. If the site receives enough traffic to recoup the registration fee (usually around \$6), the domain name is kept. If not, the domain name is dropped or deleted, and the registration fee refunded.

### B. Domain Kiting

"Domain kiting" is the practice of repeatedly adding and dropping a domain name using the process described above. During the times when the domain name is registered, a website featuring sponsored links is erected to earn commissions based on click-through traffic. For a registrar or a party acting in concert with a registrar, it is possible to kite a specific domain name indefinitely, registering a domain name in 5-day increments without ever actually incurring the cost for registering the domain name.

### C. Concerns About Domain Tasting and Domain Kiting

Because of the economics involved in both domain tasting and kiting, it is most often registrars and/or those acting in concert with them, usually their largest clients, that engage in the behavior. Estimates of the extent of the domain tasting problem vary. By way of example, however, over 36 million .com and .net domain names were deleted in October 2006.<sup>1</sup> The vast majority of these deletions were the result of domain tasting. To put this in perspective, as of the end of October 2006, there were only 65 million .com and .net domain names in existence. Some estimates suggest that only 2 percent of all domain name registrations are legitimate, and that more than 1 million domain names are tasted every day.

Domain tasting and kiting create a number of problems. First, it results in large numbers of domain names being unavailable for registration by interested individuals. Second, it puts tremendous strain on the registry system, increasing the total number of transactions (domain name creations and deletions) by many millions per month. Third, it places great strain on trademark owners to police their marks on the Internet; because domain

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1. <http://www.icann.org/tlds/monthly-reports/com-net/verisign-200610.pdf>.

names are registered for such short periods of time, it makes it challenging to track those entities engaging in the practice and to develop an appropriate defensive strategy. Fourth, it makes it possible for spammers and others engaged in unscrupulous activity to evade detection by frequently rotating the domain names used on a frequent basis without taking ownership of domains or incurring the cost for those registrations.

Public condemnation of the domain tasting and kiting behaviors has come from several quarters. For example, GoDaddy.com, the world's largest domain name registrar, has publicly criticized the practice, and has called attention to other registrars that engage in tasting/kiting.<sup>2</sup>

In November 2006, the Public Interest Registry ("PIR"), the administrator of the .org TLD, proposed to ICANN that excessive deletions be charged \$0.05 per domain name. This restriction was intended to recover some of the financial outlays that are necessitated by widespread domain tasting. While ICANN was considering PIR's proposal, the International Trademark Association submitted a proposal that the add grace period be deleted from the .org namespace entirely, since the \$0.05 per domain name fee provided little, if any, deterrent effect on the practice. ICANN approved PIR's proposal on November 22, 2006, thereby implementing a \$0.05 per domain name on registrars that have "excess" deletions (a number in excess of 90% of registrations).

On the judicial front, in 2006, Neiman Marcus sued domain name registrar Dotster, claiming, *inter alia*, that Dotster used the domain tasting function to register domain names that were similar to Neiman Marcus' name and trademarks and identify those domains that receive adequate traffic. As of February 20, 2007, it appeared that the parties had settled.

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2. <http://www.bobparsons.com/DomainKiting.html>