

THE CASE

- 800-JR Cigar, Inc. v. GoTo.com, Inc.
- 17 July 2006
- United States District Court for the District of New Jersey.



US Trademark owners secure another win... well sort of

☰ Keyword advertising



Neil K. Roman and **Hope Hamilton** of Washington, D.C based Covington & Burling investigate the extent to which trademark owners may prevent the use of their trademarks in competitive keyword advertising

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The United States District Court of New Jersey recently handed trademark owners a victory, albeit a partial one, in their dispute with Internet search engines that sell registered trademarks as keywords for triggered advertising. *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp. 2d 273 (D.N.J. 17 July 2006) (JR Cigar and GoTo). In denying summary judgment to both parties, the New Jersey Court ruled that GoTo's sale of JR Cigar's JR CIGAR and related trademarks as keywords for use by third parties seeking prominent placement within GoTo's search results listings constituted trademark use and could, therefore, subject GoTo to liability under the Lanham Act.

As soon to be discussed, courts remain sharply divided on the issue of the rights of trademark owners *vis-à-vis* third parties that use others' trademarks to trigger Internet advertisements for competing goods and services.

The Divide: Use v. No Use

JR Cigar was by no means the first U.S. trademark owner to challenge the keyword

advertising phenomenon. Indeed, several well-known U.S. companies, including *The Washington Post*, *Playboy*, U-Haul, Wells Fargo, and Geico have also filed similar Lanham Act claims.

In those suits, courts have split as to the threshold issue of whether the sale of trademarks as keywords constitutes "use in commerce" within the meaning of the Lanham Act. *See, e.g., Merck & Co. v. Mediplan Health Consulting, Inc.*, 431 F. Supp. 2d 425 (S.D.N.Y. 2006) (no use); *Edina Realty, Inc. v. TheMLSOnline.com*, No. Civ. 04-4371JRTFLN, 2006 WL 737064 (D. Minn. 2006) (use); *Gov't Employees Insurance Co. ("GEICO") v. Google Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004) (use); *Google Inc. v. American Blind & Wallpaper Factory, Inc.*, 2005 WL 832398, 74 U.S.P.Q.2d 1385 (N.D. Cal. 2005) (no use); *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005) (no use); *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734 (E.D. Mich. 2003) (no use); *U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723 (E.D. Va. 2003) (no use); *Playboy Enters., Inc. v. Netscape Communications, Inc.*, 453 F.3d 1020 (no use).



Courts finding “no use” in commerce have concluded that the sale and purchase of trademarks as keywords is an acceptable “internal” and “pure machine-linking function.” See, e.g., *1-800 Contacts*, 414 F.3d at 409; *U-Haul* 279 F. Supp. 2d at 728. This conduct is, thus, distinct from “trademark use” as contemplated by the Lanham Act, which defines “use in commerce” as the placement of the mark “on a good or their containers or their displays” or “on services when it is used or displayed in the sale or advertising of services.” 15 U.S.C. § 1127. Accordingly, courts finding “no use” have generally determined that because keyword triggered advertisements do not contain the trademark and because the trademarks are not used to communicate to the public the source, affiliation, or sponsorship of the advertisement, such conduct does not constitute trademark use. See, e.g., *1-800Contacts*, 414 F.3d at 409 (“[I]nternal utilization of a trademark in a way that does not communicate it to the public is analogous to an individual’s private thoughts about a trademark . . . [and] does not violate the Lanham Act.”); *U-Haul*, 279 F. Supp. 2d at 728 (use of trademark in pop-up advertising program is “pure machine-linking function” and in no way advertises or promotes” the source or mark).

800-JR Cigar, Inc. v. GoTo.Com, Inc.

In 2000, JR Cigar, a prominent seller of discount cigars and owner of incontestable U.S. federal trademarks for JR CIGAR and other similar marks, sued GoTo and third party advertisers for, among other things, trademark infringement, unfair competition, and trademark dilution. *800-JR Cigar, Inc.*, 437 F. Supp. 2d 273 (D.N.J. 2006). GoTo, now known as Yahoo! offered a “pay-for-priority” Internet search engine that allowed third party advertisers to bid for keywords or phrases that, when used as a search term, trigger a results list with links to the advertisers’ websites. Advertisers would then pay GoTo when an Internet user clicked on their listings.

JR Cigar filed its complaint after discovering that GoTo was selling to third party advertisers the right to use keywords, including “JR Cigar,” “J R Cigar,” “J&R Cigar,” “J-R Cigar,” “JRCigars.com,” and “800 JR Cigar.” Discovery revealed that GoTo facilitated third party advertisers by accepting bids for search terms and by assisting advertisers in the selection of search terms with an automated “Search Term Suggestion Tool” that would “assess the usefulness of a search term . . . by showing how many times the term and related terms were searched during the prior month.”

Id. at 278. GoTo also gave priority placement to keyword advertisers, placing those listings in the results list before “natural” listings (“i.e. those whose sites are most logically relevant to the search criteria”). *Id.*

Although JR Cigar settled its claims with the third party advertisers who had purchased JR Cigar’s trademarks to trigger their competing listings, it pursued its claims as to GoTo. After six years of settlement negotiations, discovery, and motions practice, the parties cross moved for summary judgment on the key Lanham Act and parallel state law claims of trademark infringement, unfair competition, and trademark dilution. On 17 July 2006, the court denied the motions.¹ *Id.* at 292-93.

On the critical issue of “use in commerce,” the court concluded that GoTo’s sale of JR Cigar’s trademarks constituted commercial use 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.

Id. at 285. The court then considered the likelihood of confusion factors, concluding that while several factors appeared to weigh in JR Cigar’s favour, questions remained regarding GoTo’s intent, confusion and consumer impact, and initial interest confusion.

Of additional significance was the court’s unprompted discussion of secondary liability, a claim that JR Cigar had not alleged in its initial complaint. Relying on *GEICO v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004), which recognized the merits of a contributory infringement claim asserted against Google and Overture in that case, the court suggested that had JR Cigar advanced a similar theory in this case, summary judgment in its favour may have been warranted. *Id.* at 281-82. Not surprisingly, less than a month later JR Cigar amended its complaint to add a contributory trademark infringement claim. The court has set a


bench trial for 31 October 2006.

Information current as of the date going to press. Readers are encouraged to check the case docket for changes in status.

Comments

Although *JR Cigar* represents another victory for trademark owners in cyberspace, the extent to which trademark owners may prevent the use of their trademarks in competitive keyword advertising is still far from resolved. Given the seemingly endless potential for profit through keyword advertising, seen both in connection with search engines, and now in the growing arena of “parking pages” for domain names, the threshold issue of whether or not the sale of trademarks as keywords constitutes commercial use remains in flux and could ultimately be presented to the U.S. Supreme Court.

JR Cigar confirms the speed with which business on the Internet evolves and the difficulty courts have resolving intellectual property disputes involving such ventures. In the six years that *JR Cigar* has been pending, Yahoo! and other search engines have adapted their methods for selling and placing keyword and “sponsored” advertisements in an attempt to avoid trademark challenges. For example, most search engines have taken measures better to identify links that appear as “sponsored” advertisements, as compared to those, which are “natural” listings. Yahoo! and others have also ceased to allow third parties to purchase registered trademarks as keywords and try to use agreements that shelter them from liability for any infringing acts of third party advertisers.

Nor is it always economical for U.S. trademark owners to enforce their rights in the context of cyberspace. GoTo, for example, is said to have generated only \$345 from its sale of JR CIGAR related marks as keywords, and the cost of litigating undoubtedly will greatly exceed any thing JR Cigar will recover in the event it should prevail at trial. As a result, many trademark owners are retooling their Internet enforcement programs so as to attack only the most obvious and damaging cases of direct infringement, although they do so at the risk that they will be unable to prevent dilution and preserve the strength of their marks. 

Notes

- 1 The court did grant summary judgment in favour of GoTo with respect to all counts alleged under the New Jersey Consumer Fraud Act and the Telemarketing and Consumer Fraud and Abuse Prevention Act. *800-JR Cigar*, 437 F. Supp. 2d at 296.