



510 - Internet Advertising: Getting it Right!

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Michael Geroe

Michael R. Geroe is general counsel of Adknowledge, Inc. in Kansas City, Missouri, a privately held advertising company assisting customers in reaching their audience more effectively through the Internet, using proprietary technology.

Previously, Mr. Geroe was in a private law practice based in Washington, DC, a partner in the business transactions group of Williams Mullen, and an attorney in the trade and litigation groups of Dewey Ballantine. Mr. Geroe has counseled privately held and public companies in Internet, technology, and allied industries, on corporate transactions, financing, regulatory, and litigation matters.

He sits on the board of directors of the Jewish Vocational Services of Kansas City and the American-Hungarian Executive Circle, and is a trustee of the bar foundation of the Bar Association of the District of Columbia (BADC), co-chairman of the Corporate Law Committee of the BADC, and is a member of the steering committee of Operation Crackdown, a BADC project fighting drug crime.

Mr. Geroe graduated summa cum laude from Georgetown University's School of Foreign Service and received his J.D. from Columbia University School of Law.

Douglas McPherson

Doug McPherson is general counsel and managing director of the New Ventures Group at Idealab, a creator and operator of technology companies, in Pasadena, California.

Prior to joining Idealab, Mr. McPherson served as chief legal officer and vice president, business development for Ticketmaster Online-CitySearch and its predecessor company, CitySearch. Before working at CitySearch, he was with the law firm of HellerEhrman LLP. He also served as a law clerk for a federal district judge and worked for The Rockefeller Foundation in New York City. He has served as an adjunct professor at the University of Southern California Gould School of Law and as a director of several private technology companies.

Mr. McPherson holds a B.A. from the University of North Carolina at Chapel Hill, an M.A. from the University of California, Berkeley, and a J.D. from Stanford Law School where he served on the Stanford Law Review.

Daniel Smith

Daniel J. Smith is currently assistant general counsel at Advertising.com, Inc., a subsidiary of AOL LLC. Advertising.com is a global online advertising services company offering a fully integrated suite of online advertising solutions, including mobile, video and display advertising, search engine marketing, ad serving technology, and managed affiliate placements. Mr. Smith's areas of responsibility at Advertising.com include negotiating agreements with advertiser and publisher clients, handling technology licensing and vendor relationships, as well as, addressing the variety of other issues facing a rapidly growing company.

Prior to joining Advertising.com, Mr. Smith was region operations counsel at Adelphia Communications Corporation, where he was responsible for the legal issues associated with the operations of the cable television business in a ten state area and, before joining Adelphia, he was in private practice. Before entering the practice of law, Mr. Smith was a captain in the U.S. Air Force where he served as an intelligence officer.

Mr. Smith participates in the Veterans Consortium Pro Bono Program and represents indigent veterans as appellants with their appeals before the Court of Appeals for Veterans' Claims.

He earned a B.A. and M.A. from Washington University in St. Louis and Georgetown University and his J.D. from the University of Virginia.



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**Information Technology & eCommerce:
Internet Advertising: Getting it Right!**

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LEGAL UPDATE

An incomplete but topical collection of recent legal activity relevant to Internet advertising.

- For the first time the FTC indicates that media companies are subject to challenge for deceptive advertising

In its history, the Federal Trade Commission has never sued a media company for running an allegedly deceptive advertisement for someone else's product or service. Now, that may be changing. In a July 9, 2007 letter closing an investigation of a national radio network involving advertising by the marketer of a diet supplement, the FTC took the position that the "active participation in advertising preparation" by a radio broadcaster (and presumably any other media company) is subject to challenge for possible violations of Section 5 of the Federal Trade Commission Act, which gives the Commission broad authority to prohibit "unfair or deceptive acts or practices." The advertiser in this case, Sunny Health Nutrition, already had been the subject of an FTC enforcement action which enjoined the further dissemination of the ads in question and required the advertiser to provide consumer redress. See *FTC v. Sunny Health Nutrition Tech. & Prods, Inc.*, CIV No. 8:06-CV-2193-T-24EJ (M.D. Fla.).

However, in its closing letter, which is publicly available on the FTC website at www.ftc.gov/os/closings/staffclosing.shtml, the FTC, even though closing the investigation of the radio network, characterized the broadcaster as a "hybrid entity," both producing radio programming and participating in the preparation of advertising. From there, the FTC went on to analogize media companies to advertising agencies, which have been found liable for a deceptive advertisement if the agency was actively involved in developing and producing the advertising campaign.

To the contrary, in contrast to advertising agencies, which charge substantial fees for developing ad campaigns, media companies help small advertisers by inserting voices, putting in music where appropriate, making sure that the ad runs for 30 or 60 seconds as



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desired by the advertiser, etc., and normally do so without charge. To require media companies to develop the resources for vetting an advertiser's substantiation could increase the media companies' cost so as to preclude or severely limit advertising by many small advertisers. This, in turn, would raise significant First Amendment issues due to the chilling effect on commercial speech that an FTC enforcement action against a media company would entail.

Moreover, in the past, the FTC has declared strong policy reasons for not going down this road. For example, in a speech given to the Cable Television Advertising Bureau on February 11, 2003, then-FTC Chairman Timothy Muris urged media companies to help combat deceptive weight loss advertising. Significantly, he stressed that "[w]e will not require network-style screening; we understand that this is impractical for many media outlets. Instead, we will send you a list of [deceptive weight loss advertising] claims that are commonly made, but that the scientists state are not valid. We will do the hard part of developing the list. You need only screen out those claims." He added that "[w]e are not asking media outlets to review clinical studies or other substantiation for weight loss ads." In short, the pronouncement of possible media company liability for deceptive advertising in its July 9, 2007 closing letter represents a sea change in FTC policy.

Whatever the merits (or lack thereof) of the FTC's announced change in policy, there are steps that can and should be taken by media companies that participate, even marginally, in advertising production in order to lessen the risk of future challenges by the FTC and others. Such risks include not only enforcement actions by the FTC, but class actions under state consumer protection laws that often follow FTC challenges. First, while media companies that assist in ad production can anticipate that their advertising will be more closely monitored by the FTC, currently there are several industries that are special targets for enforcement actions by the FTC and these should receive the most attention. These industries include: (1) dietary supplements; (2) weight loss and fitness; (3) debt negotiation and debt collection; and (4) child-focused food ads. For media companies that expect to be asked to participate in the production of advertising, particularly in these industries, it is recommended that procedures immediately be put in place for carefully reviewing such proposed advertising. While a media company would not have to substantiate independently the ad claims or scientifically re-examine the advertiser's substantiation, obvious shortcomings in the ad claims or facial flaws in the advertiser's substantiation should not be ignored. In these situations, the most prudent course to follow would be to decline to participate in the production of such advertising claims.

Source: Wiley Rein LLP (Hugh Latimer)



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- Split Decisions: The Issue of “Use” in the Context of Search Engine Keyword-Triggered Advertising

Keyword-triggered search engine advertising continues to be highly profitable for the major internet search engines. Many trademark owners, however, regard the sale of their trademarks as keywords, and the resulting placement of third-party ads on search result pages, as trademark infringement, unfair competition and, in some cases, trademark dilution. Search engines and advertisers contend that the practice is permissible because the trademark is not being used as a source-identifying designation in connection with the sale of goods or services in commerce. They further contend that even if this can be considered trademark use, it is either use that is not likely to cause confusion or else fair use.

US court decisions to date reflect an inconsistency of approach and reasoning. One critical area of disagreement is the threshold question of whether the sale and purchase of another’s trademark as a keyword constitutes “use” of that mark as a mark, which is necessary to assess liability for infringement under the US Trademark Act, also known as the Lanham Act, and state law. This paper will review key decisions handed down from January 2006 through mid-May 2007 involving actions by trademark owners against search engines or keyword advertisers that highlight the differences in how the courts have considered and ruled on the issue of trademark “use” in the context of search engine keyword-triggered advertising. A fairly clear split on the issue between federal trial courts in Ninth Circuit (the “use” requirement is satisfied) and the Second Circuit (the “use requirement is not satisfied except, perhaps, if the mark appears in the ad text) seems to be developing, although it is not uniform in either circuit. Courts in other circuits have also weighed in (most agreeing with the Ninth Circuit’s position). Key factors influencing the decisions of several courts are whether the mark appears in the visible ad title or text, and whether the ad clearly constitutes comparative advertising.

Sale or Purchase of Another’s Mark is “Use”

The first court to squarely hold that facilitating the display of advertisements triggered by third-party trademarks as keywords constitutes use of the mark for purposes of the Lanham Act was the US District Court for the Eastern District of Virginia, in *Government Employees Insurance Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004) (“GEICO I”). In 2005, the US District Court for the Northern District of California noted the unsettled state of the law regarding the use requirement in the context of keyword-triggered ads in denying Google’s motion to dismiss the trademark owner’s claim. *Google, Inc. v. American Blind & Wallpaper Factory, Inc.*, No. 03-05340, 2005 WL 832398, 74 U.S.P.Q.2d 1385 (N.D. Cal. March 30, 2005) (“American Blind I”). While a number of courts (particularly in the Second Circuit) have since disagreed that the “use” requirement is satisfied in the context of keyword-triggered ads, a majority of the decisions from 2006 to the present have held that the “use” requirement can be



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satisfied, particularly (but not always necessarily), when the trademark /keyword appears in the title or text of the ad.

In *Edina Realty, Inc. v. TheMLSOnline.com*, No. Civ.04-4371-JRT/FLN, 2006 WL 737064, 80 U.S.P.Q.2d 1039 (D. Minn. March 20, 2006), reconsideration denied, 2006 WL 1314303 (D. Minn. May 11, 2006), the court held that purchasing another’s mark for use as a search engine keyword to generate a sponsored link advertisement constitutes “use” of the mark under the Lanham Act. The case involved the federally registered mark EDINA REALTY, owned by the largest real estate brokerage firm in the Midwest. The defendant was a competing real estate brokerage firm that purchased the mark as a keyword on both Google and Yahoo! and used the mark in the text of its sponsored link ads and in hidden links and hidden text on its Web site.

The defendant first argued that purchasing keywords is not “use in commerce” as that term is defined in Section 45 of the Lanham Act. The Lanham Act deems a mark to be used in commerce when it is “used or displayed in the sale or advertising of services.” The court, however, noted that while purchasing search engine keywords is not a “conventional” use of a mark, it nonetheless is use in commerce contemplated under the Lanham Act. The court supported its decision by drawing a parallel with the often-cited case *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999), which held that incorporating a trademark in a Web site metatag constitutes use of that mark under the Lanham Act, even though the trademark is not visible to consumers and third parties.

The defendant also argued that, because it offered actual EDINA REALTY real estate listings on its site (among other listings), its purchase of the keywords was “nominative fair use” (i.e., using a party’s mark to describe or refer to that party’s services, rather than to describe the user’s own services). However, the court noted that one of the requirements for claiming nominative fair use is that the party can use “only so much of the plaintiff’s mark as is necessary to describe plaintiff’s product.” The court found that the defendant could not claim fair use in this instance because the EDINA REALTY mark was not necessary to describe the defendant’s listings. (e.g., it could have purchased keyword ads for “Twin Cities Real Estate,” which would have covered listings by Edina Realty). As questions of fact still existed with regard to the likelihood of consumer confusion, the court denied the parties’ motions for summary judgment on the issue of trademark infringement.

The US District Court for the District of New Jersey ruled similarly in July 2006, in *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp.2d 273 (D.N.J. 2006). In that case, the court held that, as a matter of law, search engine GoTo.com made trademark use of JR Cigar’s marks (1) by accepting bids from JR Cigar’s competitors that paid for prominence in search results; (2) by ranking its paid advertisers before any “natural” listings in a search results list, thus injecting itself into the marketplace and acting as a



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conduit to steer potential customers from JR Cigar to JR Cigar's competitors; and (3) through its "search term suggestion tool," which identified JR Cigar's marks as effective search terms and marketed them to JR Cigar's competitors. In this case, the court looked to Section 32(1) of the Lanham Act (which defines infringing conduct and provides remedies), rather than Section 45 (the definition section), for guidance on the "use as a trademark" question. The parties settled after this decision issued.

The same New Jersey federal court ruled consistently in another decision considering the issue of trademark "use" in the context of search engine keyword-triggered advertising. In *Buying for the Home, LLC v. Humble Abode, LLC*, 459 F. Supp.2d 310 (D.N.J. 2006), online furniture retailer Buying for the Home, which operates a website at totalbedroom.com, sued competitor online furniture retailer Humble Abode, which operates a website at humbleabode.com. Buying for the Home asserted that Humble Abode misappropriated its common law mark TOTAL BEDROOM by causing a sponsored ad to appear next to the natural results on the Google search engine when a computer user entered the search phrase "total bedroom." The ad did not display the TOTAL BEDROOM mark in text.

Defendant Humble Abode moved for summary judgment. First, it disputed the allegation that it had actually purchased "total bedroom" as a keyword phrase, but the court found a genuine issue of material fact on this point. Next, the court examined the "use" issue in light of the *Edina Realty*, *Merck*, *800-JR Cigar*, and *Rescuecom* cases (discussed supra and infra). The court stated that it was "mindful of the challenges that sometime arise in applying existing legal principles in the context of new technologies." Ultimately, it agreed with the reasoning set forth in *Edina Realty*, and found that Buying for the Home had satisfied the "use" requirement of the Lanham Act, citing Sections 43(a) and 45, in that Humble Abode's alleged use was "in commerce" and was "in connection with any goods or services." Interestingly, this decision did not cite Section 32(1) of the Lanham Act, even though the *800-JR Cigar* decision in the same court (different judge) did so. More significantly, the court noted that the ads in question included a link and access to Defendant Humble Abode's website, through which the user could purchase goods that were directly competitive with Plaintiff's goods. This factor, stated the court, contributed to its view that the alleged purchase of the keyword was a commercial transaction that occurred "in commerce." The fact that the TOTAL BEDROOM mark did not appear in the ad text was not significant for the court, unlike in the *Rescuecom* case, discussed infra.

In another nod to the "challenges of applying existing law to new technologies," the court granted Plaintiff Buying for the Home's motion to strike Defendant Humble Abode's demand for attorneys' fees on its counterclaim. The Lanham Act provides for such an award only in "exceptional cases" so, given the fact that this case "presents novel issues of Internet advertising rather than flagrant violations of well-settled trademark law," and the fact that Buying for the Home had consulted counsel with regard to its use of Humble



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Abode's marks and had included trademark disclaimers on its website, an "exceptional case" involving intentional infringement had not been established. The parties to this case settled after the court's ruling.

The US District Court for the Northern District of Illinois has also ruled that the purchase of another's trademark as a keyword from an online search engine constituted a "use in commerce" under the Lanham Act. In *International Profit Associates, Inc. v. Paisola*, 461 F.Supp.2d 672 (N.D. Ill. 2006), the court granted a temporary restraining order against a defendant who purchased IPA's trademark INTERNATIONAL PROFIT ASSOCIATES through Google's AdWords program. The defendants were not competitors of IPA, but, rather, had become aware of disputes between IPA and some of its former customers, and created two web sites to post commentary and other information about IPA. The INTERNATIONAL PROFIT ASSOCIATES mark did not appear in the text of the sponsored links; however, one of the links did include the text "National Profit Ripoff," and directed the user to the defendant's web site. The defendants had also used IPA's trademarks on their web site.

In evaluating IPA's Lanham Act claims, the court concluded that IPA had sufficiently demonstrated that defendants were "using terms trademarked by IPA as search terms in Google's Adwords program in a manner likely to cause confusion." The court did not undergo a lengthy analysis of what factors may have influenced its decision, for example, the use of the term "National Profit Ripoff" or the use of IPA's marks on defendants' web sites. Rather, the court merely explained in a footnote that although the Seventh Circuit Court of Appeals had been silent on the issue of whether purchasing a trademarked term as a keyword through an online search engine was "use" under the Lanham Act, other courts had so held, citing the *Buying for the Home* decision. Given that IPA had shown a likelihood of success on its Lanham Act claim, the court found that IPA was entitled to a temporary restraining order.

In *J.G. Wentworth, S.S.C. Limited Partnership v. Settlement Funding LLC*, No. C.A. No. 06-0597, 2007 WL 30115 (E.D. Pa. Jan. 4, 2007), the court held that a competitor's purchase of a trademarked keyword for the purpose of triggering internet advertising constituted "use in commerce" as contemplated by the Lanham Act. The court went on to conclude, however, that such use did not result in any actionable likelihood of confusion in this case.

The plaintiff, a leader in the structured settlement industry, alleged that the defendant, a key competitor, used its trademarks as keywords through Google's AdWords program and as a metatag on its web site. The defendant moved to dismiss the complaint, claiming that it had not made "use" of the mark and that no likelihood of confusion could exist as a matter of law.



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With respect to the use issue, the defendant argued that its use of the plaintiff's marks could not identify the source of goods and services because it was confined to source code that was invisible to consumers -- akin to an individual's private, internal thoughts about a trademark. The court rejected this argument. Citing the decision and reasoning in *Buying for the Home*, the court explained that, in the context of this new technology, such acts constitute "use" because the purchase of the keyword (1) was a commercial transaction that occurred "in commerce" and traded on the value of the plaintiff's mark; and (2) was "in connection with any goods and services" insofar as the mark was used to trigger commercial advertising which included a link to the defendant's web site. The court stated 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."

Turning to the likelihood of confusion issue, the court acknowledged that initial interest confusion may generally be actionable under the Lanham Act. However, the court declined to follow *Brookfield*, and rejected the application of the doctrine in the context of keyword-triggered advertising and metatags. As explained by the court, nothing in the operation of internet search engines automatically takes potential purchasers to the defendant's web site. Instead, a link to the defendant's web site appears on the search results page as one of many possible choices the consumer could investigate. Given the separate and distinct nature of the links disclosed on a search results page, "potential consumers have no opportunity to confuse defendant's services, goods, advertisements, links or websites for those of plaintiff."

Interestingly, the court observed that the "plaintiff [did] not allege that defendant's advertisements and links incorporate plaintiff's marks in any way discernable to internet users and potential customer." Although the court did not elaborate on this point, it does raise the question of whether the court might have reached a different result on the likelihood of confusion issue had the defendant used the marks in the visible text of the link.

Because the court concluded that no reasonable factfinder could find a likelihood of confusion under the alleged facts of the case, it granted the defendant's motion and dismissed the action. This case has been appealed to the US Court of Appeals for the Third Circuit.

In another key (but not unexpected) recent decision, *Google Inc. v. American Blind & Wallpaper Factory, Inc.*, No. C 03-5340 JF(RS), 2007 WL 1159950, (N.D. Cal. April 18, 2007)(labeled "not for citation")("American Blind II"), the US District Court for the Northern District of California denied summary judgment to Google on its claim seeking declaratory relief that its AdWords advertising program does not infringe American Blind's trademarks.



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After an extensive review of the relevant case law, including the decisions in *GEICO I*, *Merck*, *Rescuecom*, *800-JR Cigar*, *Buying for the Home*, *International Profit Associates*, *J.G. Wentworth* and *Edina Realty*, and relying heavily on the Ninth Circuit's decision in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), and on *Brookfield*, the court concluded that the sale of trademarked terms in the AdWords program constituted a "use in commerce" under the Lanham Act, going much further than it had in its 2005 decision in *American Blind I*. The court stated its belief that such a conclusion had been implicit in, and was, indeed, required by, the Ninth Circuit's *Playboy Enterprises* decision. That decision, said the court, contained a lengthy discussion of likelihood of confusion, an issue which would not even have been reached without an implicit threshold determination that keyword-triggered (pop-up) advertising amounts to a "use in commerce." The court reached this conclusion notwithstanding the fact that there was no evidence: (1) that Google had failed to properly identify sponsored links as paid ads, in compliance with its stated policy; or (2) that Google permitted purchasers of sponsored links to use trademarked terms in their text or title when the sponsor did not own the trademark.

This decision goes further than *GEICO I*, because it does not require that the trademark appear in the ad text in order for "trademark use" to be found.

With respect to likelihood of confusion, the court concluded that *American Blind* had put forth sufficient evidence to create genuine issues of material fact, including whether a consumer "knows or should know, from the onset" that a sponsored link is not related to the trademark owner. In light of the disputed facts, the court denied Google's motion for summary judgment.

The US District Court for the Northern District of New York recently revisited the "use" issue in the context of a motion to dismiss in *Hamzik v. Zale Corporation/Delaware*, No. 3:06-cv-1300, 2007 WL 11748643 (N.D.N.Y. April 19, 2007). The plaintiff in that case, who owned a federal registration for *THE DATING RING*, alleged that he received over 500 results when he typed his mark into the search feature on the defendant's web site, *Zales.com*. The plaintiff further alleged that the defendant had purchased "dating ring" as a keyword phrase from Google, Yahoo, and other search engines.

The court dismissed the plaintiff's claims with respect to the defendant's web site, reasoning that none of the links displayed in the website search results contained or displayed the plaintiff's mark, and that "merely displaying alternative products in response to a computer search on a trademark is not Lanham Act use."

The court concluded, however, that the plaintiff did state a claim with respect to the purchase of keywords from the third-party search engines because, in those instances, the search results displayed the phrase "DATING RING-ZALES." In reaching a result which was contrary to that of his Northern District of New York colleague in the *Rescuecom*



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Corp. case (and other cases in the Second Circuit, discussed *infra*), this judge drew a distinction based on whether or not the text of the link or ad visibly features the plaintiff's trademark. Citing *J.G. Wentworth*, the court held that *Zale's* use of the plaintiff's mark could be considered a "display associated with the goods" and, thus, Lanham Act "use."

Other courts have specifically allowed the use of the plaintiff's mark in ad text when the text makes it apparent that the keyword-triggered ad will link to a comparative ad. See *Nautilus Group, Inc. v. Icon Health & Fitness, Inc.*, No. C-02-2420RSM, 2006 WL 3761367 (W.D. Wash. Dec. 21, 2006), discussed *infra*. Here, however, even though both parties' marks were used in the text of the ad/link, they were not used in a manner which made it apparent that it was intended as comparative advertising.

Finally, a recent decision by the federal district court in Arizona is instructive of the current uncertain state of the law. In *Rhino Sports, Inc. v. Sport Court, Inc.*, Nos. CV-02-1815-PHX-JAT(L), CV-06-3066-PHX-JAT(Cons), 2007 WL 1302745 (D. Ariz. May 2, 2007), *Rhino Sports* had been subjected to a permanent injunction against buying *Sport Court's* mark *SPORT COURT* as a keyword in the Google AdWords program. It sought to have the injunction modified to permit such a keyword purchase, citing a number of recent cases and arguing that there had been a change in the law since the injunction was originally entered in early 2003. The court denied *Rhino Sports'* request, indicating that, although no US court had yet held anyone liable for trademark infringement for the use of AdWords, that was also the state of the law when the injunction was entered. Further, the court noted the Ninth Circuit's holdings in *Brookfield* and *Playboy Enterprises* still control the threshold "use" and initial interest confusion questions in that circuit. With regard to decision from the courts of other circuits, the court acknowledged that other courts had, indeed, ruled in several different ways. All this proves, however, stated the court, is that the state of the law is just as uncertain now as it was when the injunction was originally issued (in early 2003).¹

Purchase of Another's Mark is Not "Use"

In 2006-2007, district courts in the Second Circuit came out squarely against considering use of another's mark as a keyword to trigger an ad which does not itself display the trademark to be "use" for Lanham Act purposes.

The US District Court for the Southern District of New York, in *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp.2d 402 (S.D.N.Y. 2006), reconsideration denied, 431 F. Supp. 2d 425 (S.D.N.Y. 2006), held that merely purchasing another's mark as a search engine keyword does not constitute "use" of that mark under the Lanham Act. In that case, online pharmacies had purchased keyword ads for the plaintiff's federally registered mark *ZOCOR*. Several of the defendants legitimately offered generic versions of the *ZOCOR* drug on their sites. The defendants filed a motion to dismiss, claiming that their purchase of keywords did not constitute commercial use of the mark and their display of the mark in advertisements and on their sites constituted a



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nominative (fair) use because they needed to refer to the plaintiff's product to describe their own generic versions of that product.

Even though the *Merck* court considered the same Section 45 Lanham Act provision cited in the *Edina Realty* decision ten days earlier (and not Section 32(1)), it held that because the purchase of keywords does not involve the public display of a mark on containers or advertisements, but rather is purely an "internal" computer use of a mark not encountered by consumers, it is not "use in commerce." The court supported this holding by citing, among other cases, the Second Circuit's decision in *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d. Cir. 2005), which upheld the use of trademarks to trigger competitive pop-up ads, stating that "[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." In other words, the *Merck* court held that because the plaintiff's mark is not actually displayed to consumers and third parties, the defendants cannot be deemed to have "used" the mark for purposes of triggering a Lanham Act claim. As such, the plaintiff's claim of trademark infringement in *Merck* could not be based on the keyword purchase.

Even though the *Merck* court dismissed the trademark infringement claim based on the purchase of keywords, it recognized that other courts have held that Internet search engine providers (as opposed to the keyword purchasers involved in the *Edina* and *Merck* litigation) are deemed to have used a trademark by virtue of having sold that mark to a third party. See 425 F. Supp.2d 402, 415-416 (FN 9)(citing *GEICO I* and *American Blind I.*, and referencing *Playboy Enterprises, Inc. v. Netscape Comm. Corp.*, *supra*). The court also found for the defendants on the issue of fair use, and held that they should be allowed to use the *ZOCOR* mark when advertising that they offer a generic version of the *ZOCOR* drug.

In the next case to be decided by a trial court in the Second Circuit, the United States District Court for the Northern District of New York granted *Google, Inc.'*s motion to dismiss all counts of a complaint by *Syracuse-based* computer services franchise *Rescuecom Corporation* for trademark infringement, false designation of origin and trademark dilution based on *Google's* keyword-triggered advertising program. The court found that *Google's* alleged sale of *Rescuecom's* mark as a keyword to trigger competitors' ads was not actionable because it did not satisfy the threshold requirement of "trademark use." See *Rescuecom Corp. v. Google, Inc.*, 456 F.Supp.2d. 393 (N.D.N.Y. 2006).

The court relied heavily on the Second Circuit's decision in *1-800 Contacts.*, and reiterated that, to prevail on a trademark infringement or a false designation of origin claim under the Lanham Act, a plaintiff must establish, as threshold matter, that the defendant has "used" the mark in commerce. In this case, the court held that even if *Rescuecom* could prove that (1) *Google* had capitalized on the goodwill associated with



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the RESCUECOM mark by marketing it to Rescucom's competitors as a keyword to generate advertising revenues for Google; (2) Rescucom's competitors believed that Google was authorized to sell the RESCUECOM mark; and (3) internet users viewing competitors' sponsored links were confused regarding whether the sponsored links belonged to or emanated from Rescucom, "none of these facts, alone or together, establish trademark use." In discussing the Lanham Act's trademark use requirement, the court cited Section 32(1) (as had the Second Circuit in 1-800-Contacts), and not Section 45.

Significantly, the court noted that Rescucom's complaint did not allege that the keyword ads in question contained the RESCUECOM mark in their visible text. The court used this fact to distinguish this case from the result in GEICO I. The GEICO I decision, which did find Google's sale of trademarks as keywords to constitute a use in commerce, noted that the complaint in that case had alleged that the plaintiff's mark appeared in the visible ad text. Interestingly, this notation in GEICO I was made almost in passing with regard to its ruling on trademark use. It was the court's later ruling in that case, on the issue of likelihood of confusion, that discussed at length the differences between instances where the mark appeared in triggered ad text and where it did not, holding that the evidence failed to establish a likelihood of confusion when the ads did not feature the mark, but did establish a likelihood of confusion with regard to ads that did use the mark in their headings or text. *Government Employees Ins. Co. v. Google, Inc.*, 77 U.S.P.Q.2d 1841 (E.D.Va. 2005) ("GEICO II").

As noted above, the later *Hamzik v. Zale Corp.* decision, by the same court, seized upon the fact that the ads in that case did display the plaintiff's mark in visible text. That decision distinguished the Rescucom decision and did find trademark use.

Rescucom also argued that Google's use of the RESCUECOM mark prevents Internet users from reaching its website because Internet users searching for Rescucom cannot click on a sponsored link and access Rescucom's website simultaneously. Rescucom further claimed that Google's sale of RESCUECOM as a keyword to Rescucom's competitors diverts and misdirects Internet users away from Rescucom's website. The court rejected these arguments, highlighting the fact that the so-called "natural," non-paid, results were the only results that displayed the RESCUECOM mark in text, and these results all linked to Rescucom's site. Similarly, the court held that Rescucom failed to allege that Google's activities affect "the appearance or functionality" of Rescucom's website, and that Internet users could still go to Rescucom's website by clicking on the appropriate link on the search results page – even though they may have other choices. This case has been appealed to the US Court of Appeals for the Second Circuit.

A subsequent case from the US District Court for the Western District of Washington (located in the Ninth Circuit) concluded, in the context of a trademark dilution action,



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that a competitor's purchase of a keyword incorporating the plaintiff's trademark did not amount to "use" of the mark. In *Nautilus Group, Inc. v. Icon Health & Fitness, Inc.*, supra, the defendant, who manufactured CROSSBOW exercise machines that competed with plaintiff's BOWFLEX machines, purchased the keyword phrase "Bowflex Information" so that it would appear as a sponsored link on users' search results pages when they searched for that term. The title of the sponsored link appeared as "Compare CrossBow to Bowflex," and included a description asking users to compare the two machines and then summarized the benefits of the CROSSBOW machines. The associated URL was listed as crossbow.com. The defendant moved for summary judgment on the basis that, as a matter of law, CROSSBOW and BOWFLEX were not identical or nearly identical under the dilution statute and that plaintiff had failed to show actual confusion.

In granting defendant's motion for summary judgment, the court decided that the plaintiff had failed to proffer evidence that defendant had actually "used" the mark. Specifically, the court stated that defendant's use of the plaintiff's mark in a clearly marked comparative ad context was "excepted from the reach of the statute," citing the Ninth Circuit Court of Appeals' decision in *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796 (9th Cir. 2002), which held that the nominative use of a trademark for the purposes of truthful comparative advertising was not actionable under the federal dilution statute. Accordingly, the plaintiff's federal dilution claims were dismissed. In this case, the fact that the plaintiff's mark was used in the ad text (along with the defendant's mark in a comparative manner) actually saved the day for the defendant (in contrast to other cases, where use of the mark in the ad text spelled doom for the defendant).

Finally, on May 9, 2007, the US District court for the Eastern District of New York joined other Second Circuit trial courts in holding that a competitor's purchase of the plaintiff's mark as keyword to trigger ads that did not display the mark was not trademark use. *SitePro-1, Inc. v. Better Metal, LLC*, 2007 WL 1385730, 82 U.S.P.Q.2d 1697 (E.D.N.Y. 2007). In this case, the defendant admitted that it had "purchased a 'sponsored search' from Yahoo! that caused the bettermetal.com site to be included among the listings when a Yahoo! search engine user searched for some combination of keywords 'I,' 'pro' and site.'" However, Plaintiff's mark, SITE PRO 1, was not displayed in the text of the sponsored search result. Citing 1-800 Contacts, Merck & Co. and Rescucom, the court held that the defendant's actions did not constitute trademark use and dismissed the complaint. The court also found that the defendant's use of the plaintiff's mark in metatags in the defendant's website was not trademark use, under 1-800 Contacts. Finally, the court distinguished the Northern District of New York's decision in *Hamzik v. Zale Corp.*, noting that, in that case, the plaintiff's mark was used in the text of the keyword ad.

The Utah State Legislature Acts



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On March 19, 2007, the State of Utah enacted the Trademark Protection Act, S.B. 236, which creates a new class of state-registered trademarks known as "electronic registration marks." The statute prohibits the use of electronic registration marks for the purposes of keyword advertising. Trademark owners may, for a fee, register electronic registration marks with the state for a term of one year, renewable upon payment of additional fees. While such marks are only recognized in Utah, the statute's potential effect is more expansive, given that, under the statute, it is a violation to use another's electronic registration mark for keyword advertising if the advertisement "is at any time displayed in the state." An out of state advertiser could conceivably be held liable under the statute even if it otherwise had no connection to the state. It remains to be seen whether this law will survive judicial scrutiny under the Commerce Clause of the United States Constitution.

Conclusion

It appears doubtful that a consensus will be reached among the federal trial and appeals courts concerning the threshold question of whether the sale and purchase of a trademark as a search engine keyword constitutes a "use" of that mark under trademark law. Of course, once a complainant has overcome the "use" issue, likelihood of confusion must still be proved. Here, too, some federal courts, and particularly the appellate courts of the Seventh,² Ninth and Tenth Circuits, recognize the applicability of the "initial interest confusion" doctrine to cases involving the use of trademarks in metadata, while others do not.

The question of whether the mark appears in the text of the link or ad seems to be a relevant factor in many (but not all) decisions on the "trademark use" question and/or the likelihood confusion question. Google picked up on this issue after GEICO I, changing its policy in North America whereby it will cancel a trademark keyword upon complaint by the trademark owner, but only if the mark appears in the link or ad text, even if the use might be defensible as fair use, e.g., comparative advertising. On the other hand, in the rest of the world, Google will act on a trademark complaint even if the mark does not appear in the link or ad text, and Yahoo! will block trademark keywords in North America as well as other countries. Both search engines have litigated the issue in Europe, with mixed results.

It remains advisable for trademark owners to routinely monitor the internet to ascertain if and how third parties may be utilizing the owner's marks in advertisements, web sites, search engine results, and other media. In certain instances, protective action may be warranted. In that case, careful consideration should be given to the forum in which the action will be initiated.

For questions or additional information, please contact the authors of this article:*



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1. Two other decisions, both from early 2006, are relevant in that they both appear to presume that use of another's trademark in metadata qualifies as "trademark use." Both cases also adopt the 9th Circuit's Brookfield holding applying the initial interest confusion doctrine to metatagging. See *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir. 2006)(paid placement in search engine results and metatagging) and *Tdata Inc. v. Aircraft Technical Publishers*, 411 F.Supp.2d 901 (S.D. Ohio 2006) (calling metatagging "nefarious conduct").

2. See *Promatek Industries, Ltd. v. Equitrac Corporation*, 300 F.3d 808 (7th Cir. 2002).

Source: Arent Fox publications; www.arentfox.com

- [Google AdWords May Infringe Intellectual Property](#)

On April 18, 2007, Judge Jeremy Fogel of the U.S. District Court for the Northern District of California called into question the legality of Google's core advertising technology: the "AdWords" program. Until now, cases in the 9th Circuit had only assumed that the use of keywords to trigger advertising is a "use in commerce" actionable under the Trademark Act. In denying Google's motion for summary judgment against *American Blind & Wallpaper Factory, Inc. ("ABWF")*, the court made the "use in commerce" determination explicit.

Setting the stage for a jury trial on the issue of trademark infringement, the court further held that ABWF had shown it could potentially prevail if the facts of the case show a "likelihood of confusion." The upshot of today's ruling is that, unless and until the 9th Circuit rules otherwise, the sale of trademarks to competitors to trigger advertisements poses substantial risks in the 9th Circuit (Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon and Washington).



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Judge Vogel summarized the underlying dispute as pertaining to "the sale by Google . . . of trademarked terms belonging to ABWF as keywords that trigger 'Sponsored Links' on Google's search results pages. ABWF alleges that Google sells these terms to ABWF's competitors. Google acknowledges that it does this...." Order, p.3. Thus, "[t]he crux of this dispute is whether Google infringes ABWF's trademarks by refusing to disable trademarked keywords." Id.

In deciding the threshold issue whether AdWords are a "use in commerce" under the Act, Judge Vogel recognized a nationwide split of authority. He noted that district courts in New York, for example, have held that keyword advertising programs do not constitute use in commerce. Whereas, district courts in New Jersey, Minnesota and Delaware have reached the opposite result. In the face of this split, Judge Vogel turned to an analogous case in the 9th Circuit Court of Appeals: *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004).

That case dealt with the practice of "keying" sponsored banner ads to Playboy's trademarks "playboy" and "playmate." The Playboy case differed, however, in that "Google identifies sponsored links as such, while Playboy involved banner ads that were 'confusingly labeled or not labeled at all.'" Order, p.8.

Judge Vogel observed that the 9th Circuit in Playboy had implicitly ruled that use of the PLAYBOY mark to trigger sponsored banner ads was a use in commerce. Judge Vogel then rejected Google's claim that ABWF, as a matter of law, would be unable to prove a likelihood of confusion. Judge Vogel instead ruled that ABWF might indeed be able to prove a likelihood of confusion, under the doctrine of "initial interest confusion" established by *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999). Among the likelihood of confusion factors singled out by Judge Vogel were:

- Evidence of actual confusion by customers. ABWF presented a consumer survey conducted by a consumer opinion expert.
- Similarity of the marks. The AdWord terms sold by Google were identical to ABWF's asserted trademarks.
- Low degree of consumer care. Internet consumers exercise a low degree of selectivity and many cannot discern which search results are sponsored.
- Intent. Google used ABWF's trademarks in its AdWords program in order to maximize Google's profits. Judge Vogel's order clears the way for further litigation between these parties, and perhaps a jury trial. We will be following this closely. If you have any questions about this alert, or if you



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would like a copy of Judge Vogel's April 18 order, please do not hesitate to contact one of the lawyers below.

Source: [Newstand](#) by K&L Gates (Apr. 20, 2007) (Marc C. Levy, +1.206.370.7593, marc.levy@klgates.com)

- [Federal Court Finds that CAN-SPAM Act Does Not Preempt Utah Child Protection Registry](#)

On March 23, 2007, the federal District Court in Salt Lake City rejected arguments that the Utah Child Protection Registry ("CPR"), Utah Code Ann. §§ 13-39-101-13-39-304, violated the U.S. Constitution and found that the CPR is not preempted by the CAN-SPAM Act. The court's decision was part of its disposition of *Free Speech Coalition, Inc. v. Shurtleff*, No. 2:05CV949DAK (D. Utah Mar. 23, 2007) (denying motion for preliminary injunction). The Free Speech Coalition, a trade association representing members of the adult entertainment industry, had filed a motion for preliminary injunction, arguing that the Utah law: 1) is expressly preempted by the federal CAN-SPAM Act of 2003, 15 U.S.C. §§ 7701-7713 and 18 U.S.C. § 1037; 2) violates the dormant Commerce Clause of the U.S. Constitution; and 3) violates the First Amendment of the U.S. Constitution and Article I, Section 15 of the Utah Constitution. The court denied the motion, holding that the CANSPAM Act did not preempt the CPR.

The CPR allows parents or guardians of minor children "contact points" for minors with the Utah Consumer certain unwanted commercial communications that minors or an offering that minors are prohibited from includes e-mail address, instant message identity, facsimile number, or other electronic address. In deciding the issue of preemption, the court ruled CAN-SPAM Act's exception for computer crimes, express acknowledgment by Congress that criminal are within the province of the state's police powers, exercise of Utah's police powers. The court pointed specify certain versions of computer crimes for exemption. However, according to the court, the exception for broad to allow states to define their own "computer powers. The court stated that the express exceptions to preemption demonstrate that Congress did not attempt to occupy intended to completely displace all state regulation done so in the CAN-SPAM Act. The court also rejected federal opt-out registry provisions in the CAN-SPAM design to regulate commercial e-mail exclusively at was no evidence of this intent in the statute.

Source: [The Download](#) from Venable LLP (Vol. 2, No. 3, Apr. 13, 2007) (Stuart P. Ingis (202)-344-4613)



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- [Internet marketer settles with FTC for messages sent by affiliates](#)

Under the CAN-SPAM Act, companies that send e-mail messages that contain sexually explicit material must put the phrase "SEXUALLY EXPLICIT" in the subject line, and must also ensure that the message area that is immediately viewable contains no sexually graphic images. TJ Web Productions, an operator of adult Web sites, promotes its sites through an affiliate program that pays other sites to direct traffic to TJ Web. Many of TJ Web's affiliates send blast messages that include sexually explicit pictures that link to TJ Web's sites. According to the FTC complaint, TJ Web induced its affiliates to send these messages, through both monetary and other consideration. As a result, the FTC viewed TJ Web as an "initiator" of the messages, as well as a sender, since the messages included advertising for TJ Web's sites. As part of its settlement with the FTC, TJ Web agreed to pay a civil penalty of \$465,000.

This case helps define when a company will be viewed as the "sender" of an e-mail message. In particular, when, as in this case, the company is offering third-party incentives to send the message, and the message includes company advertising, the company will be viewed as a sender. Companies should thus ensure that third parties who send advertising messages on their behalf conform to the CAN-SPAM Act requirements.

Source: [Advertising & Promotion Law News](#) of Winston & Strawn LLP (Feb. 22, 2007) (Stephen P. Durchslag 312-558-5288).

- [Click Fraud case against Yahoo settled](#)

The \$5 million settlement agreement in a California case releases Yahoo from all similar click fraud claims against it.

A federal judge in San Jose, Calif., has given final approval to a settlement in a class action lawsuit over click fraud that requires Yahoo to pay nearly \$5 million in attorney fees and give full credits to advertisers dating back to 2004.

The judge's action on Monday settles claims by Checkmate Strategic Group that Yahoo charged advertisers for clicks on online ads that were fraudulent or done in bad faith.

The settlement agreement was given preliminary approval by the court last summer. However, attorneys involved in a class action suit over click fraud in Arkansas contested



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the settlement arguing that Yahoo was not responding to the Arkansas lawsuit in good faith when it was settling the case in California. The California settlement releases Yahoo from all similar click fraud claims against it in other actions, including the Arkansas litigation.

The "final approval of the settlement validates the strength of Yahoo's click-through protection systems, and our commitment to delivering a quality experience to both our advertisers and our consumers," said Reggie Davis, Yahoo's new vice president of marketplace quality. "Our commitment does not stop here. Quality is a top priority for Yahoo, and we have a clear road map for how we're going to create the highest-quality search-advertising network in the industry."

An Arkansas judge gave final approval last July to a \$90 million settlement Google reached with lawyers for Lane's Gifts & Collectibles and Caulfield Investigations. In that settlement, Google is to pay \$30 million for lawyer fees and \$60 million in ad credits to affected advertisers. Opposing attorneys also challenged that settlement as being inadequate compensation.

Click fraud typically occurs when ads are clicked on by humans or automated software to either boost the revenue to the Web sites they appear on or to deplete the ad budget of the marketer by rivals who may want to acquire the keywords themselves.

Source: From article by Elinor Mills, Staff Writer, CNET News.com (March 27, 2007).

- [Are Your Online Marketing Strategies Infringing?](#)

In light of a recent federal court decision, some popular Internet marketing techniques may expose businesses to unintended legal liability. The first technique is the use of someone else's trademark as a search engine metatag, or hidden HTML code, on pages of a website. The second technique is to purchase a 'sponsored link' from a search engine for a keyword that is someone else's trademark. Both of these practices can result in the website coming up prominently in the results of a search of the trademarked term. J.G. Wentworth, a leading structured settlement provider, filed a lawsuit against its competitor, Settlement Funding, alleging trademark infringement under federal and Pennsylvania law. Settlement Funding had placed the Wentworth's trademarks as search



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engine metatags on several pages of Settlement Funding's website. Settlement Funding had also purchased the keywords "J.G. Wentworth" and "JG Wentworth" through Google's AdWords program, so that Settlement Funding's website would be highlighted and displayed as a sponsored link when a user performed a Google search for either of the keywords. Settlement Funding argued that its use of the trademarks was not a "use in commerce", a required element for a trademark infringement suit under the federal Lanham Act. The court disagreed, holding that Settlement Funding's use of Wentworth's trademarks was used "in connection with the sale, offering for sale, distribution, or advertising of any goods or services" in violation of the Lanham Act. The ramifications of this decision are far-reaching and will impact the current practices of search engines and web marketers whose focus is high placement of their website in search engine results. Companies should review their current online marketing strategies and remove any third party trademarks from their site's search engine metatags. The review is particularly important for businesses that have delegated Internet marketing strategies to a web host or developer.

Source: [Hot Points](#) by Miller Canfield (Feb. 2007) (www.millercanfield.com)

- [Court finds some "click fraud" may violate implicit covenant of good faith](#)

"Click fraud" involves employing individuals or programs (known as "bots") to click on online advertising for the sole purpose of running up the advertiser's pay-per-click charges. Click fraud is often used to artificially increase the costs of a competitor. But, in *Payday Advance Plus, Inc., v. Findwhat.com, Inc.*, Payday contended that its contractual partners, search engine Findwhat and co-defendant Advertising.com, used click fraud to line their own pockets. A federal court in New York found that even if the terms of the contract between Payday and Findwhat did not limit advertising charges to clicks from "actual customers," click fraud would violate a "covenant of good faith and fair dealing in the course of contract performance," which New York recognizes as implicit in every contract.

Source: [E-Commerce Law Week](#), Issue 452, Steptoe & Johnson LLP (April 21 2007)

- [Consideration of Private Party Standing to Bring CAN-SPAM Suit / Consideration of Misleading Header Information](#)

A private party not seeking actual damages and not sustaining substantial actual damages from commercial email transmitted through its network does not have standing to bring



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suit under CAN-SPAM. Email addresses ending with a domain that facilitates an accurate identification of a party cannot in any sense be found "false" or "deceptive" under the CAN-SPAM Act or the Washington Commercial Electronic Mail Act.

Source: [Gordon v. Virtumundo et al.](#), slip op. 06-0204-JCC (Western Dist. Wash. May 15, 2007).



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**Information Technology & eCommerce:
Internet Advertising: Getting it Right!**

Session Number/Code: 510
Chicago Annual Meeting
October 30, 2007
Questions: Michael R. Geroe, mgeroe@adknowledge.com

LEGAL UPDATE

An incomplete but topical collection of recent legal activity relevant to Internet advertising.

- Split Decisions: The Issue of "Use" in the Context of Search Engine Keyword-Triggered Advertising

Keyword-triggered search engine advertising continues to be highly profitable for the major internet search engines. Many trademark owners, however, regard the sale of their trademarks as keywords, and the resulting placement of third-party ads on search result pages, as trademark infringement, unfair competition and, in some cases, trademark dilution. Search engines and advertisers contend that the practice is permissible because the trademark is not being used as a source-identifying designation in connection with the sale of goods or services in commerce. They further contend that even if this can be considered trademark use, it is either use that is not likely to cause confusion or else fair use.

US court decisions to date reflect an inconsistency of approach and reasoning. One critical area of disagreement is the threshold question of whether the sale and purchase of another's trademark as a keyword constitutes "use" of that mark as a mark, which is necessary to assess liability for infringement under the US Trademark Act, also known as the Lanham Act, and state law. This paper will review key decisions handed down from January 2006 through mid-May 2007 involving actions by trademark owners against search engines or keyword advertisers that highlight the differences in how the courts have considered and ruled on the issue of trademark "use" in the context of search engine keyword-triggered advertising. A fairly clear split on the issue between federal trial courts in Ninth Circuit (the "use" requirement is satisfied) and the Second Circuit (the "use requirement is not satisfied except, perhaps, if the mark appears in the ad text) seems to be developing, although it is not uniform in either circuit. Courts in other circuits have also weighed in (most agreeing with the Ninth Circuit's position). Key



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factors influencing the decisions of several courts are whether the mark appears in the visible ad title or text, and whether the ad clearly constitutes comparative advertising.

Sale or Purchase of Another's Mark is "Use"

The first court to squarely hold that facilitating the display of advertisements triggered by third-party trademarks as keywords constitutes use of the mark for purposes of the Lanham Act was the US District Court for the Eastern District of Virginia, in *Government Employees Insurance Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004) ("GEICO I"). In 2005, the US District Court for the Northern District of California noted the unsettled state of the law regarding the use requirement in the context of keyword-triggered ads in denying Google's motion to dismiss the trademark owner's claim. *Google, Inc. v. American Blind & Wallpaper Factory, Inc.*, No. 03-05340, 2005 WL 832398, 74 U.S.P.Q.2d 1385 (N.D. Cal. March 30, 2005) ("American Blind I"). While a number of courts (particularly in the Second Circuit) have since disagreed that the "use" requirement is satisfied in the context of keyword-triggered ads, a majority of the decisions from 2006 to the present have held that the "use" requirement can be satisfied, particularly (but not always necessarily), when the trademark /keyword appears in the title or text of the ad.

In *Edina Realty, Inc. v. TheMLSOnline.com*, No. Civ.04-4371-JRT/FLN, 2006 WL 737064, 80 U.S.P.Q.2d 1039 (D. Minn. March 20, 2006), reconsideration denied, 2006 WL 1314303 (D. Minn. May 11, 2006), the court held that purchasing another's mark for use as a search engine keyword to generate a sponsored link advertisement constitutes "use" of the mark under the Lanham Act. The case involved the federally registered mark EDINA REALTY, owned by the largest real estate brokerage firm in the Midwest. The defendant was a competing real estate brokerage firm that purchased the mark as a keyword on both Google and Yahoo! and used the mark in the text of its sponsored link ads and in hidden links and hidden text on its Web site.

The defendant first argued that purchasing keywords is not "use in commerce" as that term is defined in Section 45 of the Lanham Act. The Lanham Act deems a mark to be used in commerce when it is "used or displayed in the sale or advertising of services." The court, however, noted that while purchasing search engine keywords is not a "conventional" use of a mark, it nonetheless is use in commerce contemplated under the Lanham Act. The court supported its decision by drawing a parallel with the often-cited case *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999), which held that incorporating a trademark in a Web site metatag constitutes use of that mark under the Lanham Act, even though the trademark is not visible to consumers and third parties.

The defendant also argued that, because it offered actual EDINA REALTY real estate listings on its site (among other listings), its purchase of the keywords was "nominative fair use" (i.e., using a party's mark to describe or refer to that party's services, rather



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than to describe the user's own services). However, the court noted that one of the requirements for claiming nominative fair use is that the party can use "only so much of the plaintiff's mark as is necessary to describe plaintiff's product." The court found that the defendant could not claim fair use in this instance because the EDINA REALTY mark was not necessary to describe the defendant's listings, (e.g., it could have purchased keyword ads for "Twin Cities Real Estate," which would have covered listings by Edina Realty). As questions of fact still existed with regard to the likelihood of consumer confusion, the court denied the parties' motions for summary judgment on the issue of trademark infringement.

The US District Court for the District of New Jersey ruled similarly in July 2006, in *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp.2d 273 (D.N.J. 2006). In that case, the court held that, as a matter of law, search engine GoTo.com made trademark use of JR Cigar's marks (1) by accepting bids from JR Cigar's competitors that paid for prominence in search results; (2) by ranking its paid advertisers before any "natural" listings in a search results list, thus injecting itself into the marketplace and acting as a conduit to steer potential customers from JR Cigar to JR Cigar's competitors; and (3) through its "search term suggestion tool," which identified JR Cigar's marks as effective search terms and marketed them to JR Cigar's competitors. In this case, the court looked to Section 32(1) of the Lanham Act (which defines infringing conduct and provides remedies), rather than Section 45 (the definition section), for guidance on the "use as a trademark" question. The parties settled after this decision issued.

The same New Jersey federal court ruled consistently in another decision considering the issue of trademark "use" in the context of search engine keyword-triggered advertising. In *Buying for the Home, LLC v. Humble Abode, LLC*, 459 F. Supp.2d 310 (D.N.J. 2006), online furniture retailer Buying for the Home, which operates a website at totalbedroom.com, sued competitor online furniture retailer Humble Abode, which operates a website at humbleabode.com. Buying for the Home asserted that Humble Abode misappropriated its common law mark TOTAL BEDROOM by causing a sponsored ad to appear next to the natural results on the Google search engine when a computer user entered the search phrase "total bedroom." The ad did not display the TOTAL BEDROOM mark in text.

Defendant Humble Abode moved for summary judgment. First, it disputed the allegation that it had actually purchased "total bedroom" as a keyword phrase, but the court found a genuine issue of material fact on this point. Next, the court examined the "use" issue in light of the Edina Realty, Merck, 800-JR Cigar, and Rescucom cases (discussed supra and infra). The court stated that it was "mindful of the challenges that sometime arise in applying existing legal principles in the context of new technologies." Ultimately, it agreed with the reasoning set forth in Edina Realty, and found that Buying for the Home had satisfied the "use" requirement of the Lanham Act, citing Sections 43(a) and 45, in that Humble Abode's alleged use was "in commerce" and was "in connection with any



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goods or services." Interestingly, this decision did not cite Section 32(1) of the Lanham Act, even though the 800-JR Cigar decision in the same court (different judge) did so. More significantly, the court noted that the ads in question included a link and access to Defendant Humble Abode's website, through which the user could purchase goods that were directly competitive with Plaintiff's goods. This factor, stated the court, contributed to its view that the alleged purchase of the keyword was a commercial transaction that occurred "in commerce." The fact that the TOTAL BEDROOM mark did not appear in the ad text was not significant for the court, unlike in the Rescucom case, discussed infra.

In another nod to the "challenges of applying existing law to new technologies," the court granted Plaintiff Buying for the Home's motion to strike Defendant Humble Abode's demand for attorneys' fees on its counterclaim. The Lanham Act provides for such an award only in "exceptional cases" so, given the fact that this case "presents novel issues of Internet advertising rather than flagrant violations of well-settled trademark law," and the fact that Buying for the Home had consulted counsel with regard to its use of Humble Abode's marks and had included trademark disclaimers on its website, an "exceptional case" involving intentional infringement had not been established. The parties to this case settled after the court's ruling.

The US District Court for the Northern District of Illinois has also ruled that the purchase of another's trademark as a keyword from an online search engine constituted a "use in commerce" under the Lanham Act. In *International Profit Associates, Inc. v. Paisola*, 461 F.Supp.2d 672 (N.D. Ill. 2006), the court granted a temporary restraining order against a defendant who purchased IPA's trademark INTERNATIONAL PROFIT ASSOCIATES through Google's AdWords program. The defendants were not competitors of IPA, but, rather, had become aware of disputes between IPA and some of its former customers, and created two web sites to post commentary and other information about IPA. The INTERNATIONAL PROFIT ASSOCIATES mark did not appear in the text of the sponsored links; however, one of the links did include the text "National Profit Ripoff," and directed the user to the defendant's web site. The defendants had also used IPA's trademarks on their web site.

In evaluating IPA's Lanham Act claims, the court concluded that IPA had sufficiently demonstrated that defendants were "using terms trademarked by IPA as search terms in Google's Adwords program in a manner likely to cause confusion." The court did not undergo a lengthy analysis of what factors may have influenced its decision, for example, the use of the term "National Profit Ripoff" or the use of IPA's marks on defendants' web sites. Rather, the court merely explained in a footnote that although the Seventh Circuit Court of Appeals had been silent on the issue of whether purchasing a trademarked term as a keyword through an online search engine was "use" under the Lanham Act, other courts had so held, citing the Buying for the Home decision. Given that IPA had shown a



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likelihood of success on its Lanham Act claim, the court found that IPA was entitled to a temporary restraining order.

In *J.G. Wentworth, S.S.C. Limited Partnership v. Settlement Funding LLC*, No. C.A. No. 06-0597, 2007 WL 30115 (E.D. Pa. Jan. 4, 2007), the court held that a competitor's purchase of a trademarked keyword for the purpose of triggering internet advertising constituted "use in commerce" as contemplated by the Lanham Act. The court went on to conclude, however, that such use did not result in any actionable likelihood of confusion in this case.

The plaintiff, a leader in the structured settlement industry, alleged that the defendant, a key competitor, used its trademarks as keywords through Google's AdWords program and as a metatag on its web site. The defendant moved to dismiss the complaint, claiming that it had not made "use" of the mark and that no likelihood of confusion could exist as a matter of law.

With respect to the use issue, the defendant argued that its use of the plaintiff's marks could not identify the source of goods and services because it was confined to source code that was invisible to consumers -- akin to an individual's private, internal thoughts about a trademark. The court rejected this argument. Citing the decision and reasoning in *Buying for the Home*, the court explained that, in the context of this new technology, such acts constitute "use" because the purchase of the keyword (1) was a commercial transaction that occurred "in commerce" and traded on the value of the plaintiff's mark; and (2) was "in connection with any goods and services" insofar as the mark was used to trigger commercial advertising which included a link to the defendant's web site. The court stated 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."

Turning to the likelihood of confusion issue, the court acknowledged that initial interest confusion may generally be actionable under the Lanham Act. However, the court declined to follow *Brookfield*, and rejected the application of the doctrine in the context of keyword-triggered advertising and metatags. As explained by the court, nothing in the operation of internet search engines automatically takes potential purchasers to the defendant's web site. Instead, a link to the defendant's web site appears on the search results page as one of many possible choices the consumer could investigate. Given the separate and distinct nature of the links disclosed on a search results page, "potential consumers have no opportunity to confuse defendant's services, goods, advertisements, links or websites for those of plaintiff."

Interestingly, the court observed that the "plaintiff [did] not allege that defendant's advertisements and links incorporate plaintiff's marks in any way discernable to internet users and potential customer." Although the court did not elaborate on this point, it does



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raise the question of whether the court might have reached a different result on the likelihood of confusion issue had the defendant used the marks in the visible text of the link.

Because the court concluded that no reasonable factfinder could find a likelihood of confusion under the alleged facts of the case, it granted the defendant's motion and dismissed the action. This case has been appealed to the US Court of Appeals for the Third Circuit.

In another key (but not unexpected) recent decision, *Google Inc. v. American Blind & Wallpaper Factory, Inc.*, No. C 03-5340 JF(RS), 2007 WL 1159950, (N.D. Cal. April 18, 2007) (labeled "not for citation") ("American Blind II"), the US District Court for the Northern District of California denied summary judgment to Google on its claim seeking declaratory relief that its AdWords advertising program does not infringe American Blind's trademarks.

After an extensive review of the relevant case law, including the decisions in *GEICO I*, *Merck*, *Rescuecom*, *800-JR Cigar*, *Buying for the Home*, *International Profit Associates*, *J.G. Wentworth and Edina Realty*, and relying heavily on the Ninth Circuit's decision in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004), and on *Brookfield*, the court concluded that the sale of trademarked terms in the AdWords program constituted a "use in commerce" under the Lanham Act, going much further than it had in its 2005 decision in *American Blind I*. The court stated its belief that such a conclusion had been implicit in, and was, indeed, required by, the Ninth Circuit's *Playboy Enterprises* decision. That decision, said the court, contained a lengthy discussion of likelihood of confusion, an issue which would not even have been reached without an implicit threshold determination that keyword-triggered (pop-up) advertising amounts to a "use in commerce." The court reached this conclusion notwithstanding the fact that there was no evidence: (1) that Google had failed to properly identify sponsored links as paid ads, in compliance with its stated policy; or (2) that Google permitted purchasers of sponsored links to use trademarked terms in their text or title when the sponsor did not own the trademark.

This decision goes further than *GEICO I*, because it does not require that the trademark appear in the ad text in order for "trademark use" to be found.

With respect to likelihood of confusion, the court concluded that *American Blind* had put forth sufficient evidence to create genuine issues of material fact, including whether a consumer "knows or should know, from the onset" that a sponsored link is not related to the trademark owner. In light of the disputed facts, the court denied Google's motion for summary judgment.



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The US District Court for the Northern District of New York recently revisited the “use” issue in the context of a motion to dismiss in *Hamzik v. Zale Corporation/Delaware*, No. 3:06-cv-1300, 2007 WL 11748643 (N.D.N.Y. April 19, 2007). The plaintiff in that case, who owned a federal registration for THE DATING RING, alleged that he received over 500 results when he typed his mark into the search feature on the defendant’s web site, Zales.com. The plaintiff further alleged that the defendant had purchased “dating ring” as a keyword phrase from Google, Yahoo, and other search engines.

The court dismissed the plaintiff’s claims with respect to the defendant’s web site, reasoning that none of the links displayed in the website search results contained or displayed the plaintiff’s mark, and that “merely displaying alternative products in response to a computer search on a trademark is not Lanham Act use.”

The court concluded, however, that the plaintiff did state a claim with respect to the purchase of keywords from the third-party search engines because, in those instances, the search results displayed the phrase “DATING RING-ZALES.” In reaching a result which was contrary to that of his Northern District of New York colleague in the *Rescuecom Corp.* case (and other cases in the Second Circuit, discussed *infra*), this judge drew a distinction based on whether or not the text of the link or ad visibly features the plaintiff’s trademark. Citing *J.G. Wentworth*, the court held that *Zale’s* use of the plaintiff’s mark could be considered a “display associated with the goods” and, thus, Lanham Act “use.”

Other courts have specifically allowed the use of the plaintiff’s mark in ad text when the text makes it apparent that the keyword-triggered ad will link to a comparative ad. See *Nautilus Group, Inc. v. Icon Health & Fitness, Inc.*, No. C-02-2420RSM, 2006 WL 3761367 (W.D. Wash. Dec. 21, 2006), discussed *infra*. Here, however, even though both parties’ marks were used in the text of the ad/link, they were not used in a manner which made it apparent that it was intended as comparative advertising.

Finally, a recent decision by the federal district court in Arizona is instructive of the current uncertain state of the law. In *Rhino Sports, Inc. v. Sport Court, Inc.*, Nos. CV-02-1815-PHX-JAT(L), CV-06-3066-PHX-JAT(Cons), 2007 WL 1302745 (D. Ariz. May 2, 2007), *Rhino Sports* had been subjected to a permanent injunction against buying *Sport Court’s* mark SPORT COURT as a keyword in the Google AdWords program. It sought to have the injunction modified to permit such a keyword purchase, citing a number of recent cases and arguing that there had been a change in the law since the injunction was originally entered in early 2003. The court denied *Rhino Sports’* request, indicating that, although no US court had yet held anyone liable for trademark infringement for the use of AdWords, that was also the state of the law when the injunction was entered. Further, the court noted the Ninth Circuit’s holdings in *Brookfield* and *Playboy Enterprises* still control the threshold “use” and initial interest confusion questions in that circuit. With regard to decision from the courts of other circuits, the court acknowledged that other courts had, indeed, ruled in several different ways. All this proves, however, stated the



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court, is that the state of the law is just as uncertain now as it was when the injunction was originally issued (in early 2003).¹

Purchase of Another’s Mark is Not “Use”

In 2006-2007, district courts in the Second Circuit came out squarely against considering use of another’s mark as a keyword to trigger an ad which does not itself display the trademark to be “use” for Lanham Act purposes.

The US District Court for the Southern District of New York, in *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp.2d 402 (S.D.N.Y. 2006), reconsideration denied, 431 F. Supp. 2d 425 (S.D.N.Y. 2006), held that merely purchasing another’s mark as a search engine keyword does not constitute “use” of that mark under the Lanham Act. In that case, online pharmacies had purchased keyword ads for the plaintiff’s federally registered mark ZOCOR. Several of the defendants legitimately offered generic versions of the ZOCOR drug on their sites. The defendants filed a motion to dismiss, claiming that their purchase of keywords did not constitute commercial use of the mark and their display of the mark in advertisements and on their sites constituted a nominative (fair) use because they needed to refer to the plaintiff’s product to describe their own generic versions of that product.

Even though the Merck court considered the same Section 45 Lanham Act provision cited in the *Edina Realty* decision ten days earlier (and not Section 32(1)), it held that because the purchase of keywords does not involve the public display of a mark on containers or advertisements, but rather is purely an “internal” computer use of a mark not encountered by consumers, it is not “use in commerce.” The court supported this holding by citing, among other cases, the Second Circuit’s decision in *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d. Cir. 2005), which upheld the use of trademarks to trigger competitive pop-up ads, stating that “[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.” In other words, the Merck court held that because the plaintiff’s mark is not actually displayed to consumers and third parties, the defendants cannot be deemed to have “used” the mark for purposes of triggering a Lanham Act claim. As such, the plaintiff’s claim of trademark infringement in Merck could not be based on the keyword purchase.

Even though the Merck court dismissed the trademark infringement claim based on the purchase of keywords, it recognized that other courts have held that Internet search engine providers (as opposed to the keyword purchasers involved in the *Edina* and Merck litigation) are deemed to have used a trademark by virtue of having sold that mark to a third party. See 425 F. Supp.2d 402, 415-416 (FN 9)(citing *GEICO I* and *American Blind I.*, and referencing *Playboy Enterprises., Inc. v. Netscape Comm. Corp.*, *supra*). The court also found for the defendants on the issue of fair use, and held that they should be



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allowed to use the ZOCOR mark when advertising that they offer a generic version of the ZOCOR drug.

In the next case to be decided by a trial court in the Second Circuit, the United States District Court for the Northern District of New York granted Google, Inc.'s motion to dismiss all counts of a complaint by Syracuse-based computer services franchise Rescuecom Corporation for trademark infringement, false designation of origin and trademark dilution based on Google's keyword-triggered advertising program. The court found that Google's alleged sale of Rescuecom's mark as a keyword to trigger competitors' ads was not actionable because it did not satisfy the threshold requirement of "trademark use." See *Rescuecom Corp. v. Google, Inc.*, 456 F.Supp.2d 393 (N.D.N.Y. 2006).

The court relied heavily on the Second Circuit's decision in *1-800 Contacts.*, and reiterated that, to prevail on a trademark infringement or a false designation of origin claim under the Lanham Act, a plaintiff must establish, as threshold matter, that the defendant has "used" the mark in commerce. In this case, the court held that even if Rescuecom could prove that (1) Google had capitalized on the goodwill associated with the RESCUECOM mark by marketing it to Rescuecom's competitors as a keyword to generate advertising revenues for Google; (2) Rescuecom's competitors believed that Google was authorized to sell the RESCUECOM mark; and (3) internet users viewing competitors' sponsored links were confused regarding whether the sponsored links belonged to or emanated from Rescuecom, "none of these facts, alone or together, establish trademark use." In discussing the Lanham Act's trademark use requirement, the court cited Section 32(1) (as had the Second Circuit in *1-800-Contacts*), and not Section 45.

Significantly, the court noted that Rescuecom's complaint did not allege that the keyword ads in question contained the RESCUECOM mark in their visible text. The court used this fact to distinguish this case from the result in *GEICO I*. The *GEICO I* decision, which did find Google's sale of trademarks as keywords to constitute a use in commerce, noted that the complaint in that case had alleged that the plaintiff's mark appeared in the visible ad text. Interestingly, this notation in *GEICO I* was made almost in passing with regard to its ruling on trademark use. It was the court's later ruling in that case, on the issue of likelihood of confusion, that discussed at length the differences between instances where the mark appeared in triggered ad text and where it did not, holding that the evidence failed to establish a likelihood of confusion when the ads did not feature the mark, but did establish a likelihood of confusion with regard to ads that did use the mark in their headings or text. *Government Employees Ins. Co. v. Google, Inc.*, 77 U.S.P.Q.2d 1841 (E.D.Va. 2005) ("*GEICO II*").



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As noted above, the later *Hamzik v. Zale Corp.* decision, by the same court, seized upon the fact that the ads in that case did display the plaintiff's mark in visible text. That decision distinguished the *Rescuecom* decision and did find trademark use.

Rescuecom also argued that Google's use of the RESCUECOM mark prevents Internet users from reaching its website because Internet users searching for *Rescuecom* cannot click on a sponsored link and access *Rescuecom*'s website simultaneously. *Rescuecom* further claimed that Google's sale of RESCUECOM as a keyword to *Rescuecom*'s competitors diverts and misdirects Internet users away from *Rescuecom*'s website. The court rejected these arguments, highlighting the fact that the so-called "natural," non-paid, results were the only results that displayed the RESCUECOM mark in text, and these results all linked to *Rescuecom*'s site. Similarly, the court held that *Rescuecom* failed to allege that Google's activities affect "the appearance or functionality" of *Rescuecom*'s website, and that Internet users could still go to *Rescuecom*'s website by clicking on the appropriate link on the search results page – even though they may have other choices. This case has been appealed to the US Court of Appeals for the Second Circuit.

A subsequent case from the US District Court for the Western District of Washington (located in the Ninth Circuit) concluded, in the context of a trademark dilution action, that a competitor's purchase of a keyword incorporating the plaintiff's trademark did not amount to "use" of the mark. In *Nautilus Group, Inc. v. Icon Health & Fitness, Inc.*, supra, the defendant, who manufactured CROSSBOW exercise machines that competed with plaintiff's BOWFLEX machines, purchased the keyword phrase "Bowflex Information" so that it would appear as a sponsored link on users' search results pages when they searched for that term. The title of the sponsored link appeared as "Compare CrossBow to Bowflex," and included a description asking users to compare the two machines and then summarized the benefits of the CROSSBOW machines. The associated URL was listed as *crossbow.com*. The defendant moved for summary judgment on the basis that, as a matter of law, CROSSBOW and BOWFLEX were not identical or nearly identical under the dilution statute and that plaintiff had failed to show actual confusion.

In granting defendant's motion for summary judgment, the court decided that the plaintiff had failed to proffer evidence that defendant had actually "used" the mark. Specifically, the court stated that defendant's use of the plaintiff's mark in a clearly marked comparative ad context was "excepted from the reach of the statute," citing the Ninth Circuit Court of Appeals' decision in *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796 (9th Cir. 2002), which held that the nominative use of a trademark for the purposes of truthful comparative advertising was not actionable under the federal dilution statute. Accordingly, the plaintiff's federal dilution claims were dismissed. In this case, the fact that the plaintiff's mark was used in the ad text (along with the defendant's mark in a



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comparative manner) actually saved the day for the defendant (in contrast to other cases, where use of the mark in the ad text spelled doom for the defendant).

Finally, on May 9, 2007, the US District court for the Eastern District of New York joined other Second Circuit trial courts in holding that a competitor's purchase of the plaintiff's mark as keyword to trigger ads that did not display the mark was not trademark use. *SitePro-1, Inc. v. Better Metal, LLC*, 2007 WL 1385730, 82 U.S.P.Q.2d 1697 (E.D.N.Y. 2007). In this case, the defendant admitted that it had "purchased a 'sponsored search' from Yahoo! that caused the bettermetal.com site to be included among the listings when a Yahoo! search engine user searched for some combination of keywords 'L,' 'pro' and site.'" However, Plaintiff's mark, SITE PRO 1, was not displayed in the text of the sponsored search result. Citing *1-800 Contacts, Merck & Co. and Rescuecom*, the court held that the defendant's actions did not constitute trademark use and dismissed the complaint. The court also found that the defendant's use of the plaintiff's mark in metatags in the defendant's website was not trademark use, under *1-800 Contacts*. Finally, the court distinguished the Northern District of New York's decision in *Hamzik v. Zale Corp.*, noting that, in that case, the plaintiff's mark was used in the text of the keyword ad.

The Utah State Legislature Acts

On March 19, 2007, the State of Utah enacted the Trademark Protection Act, S.B. 236, which creates a new class of state-registered trademarks known as "electronic registration marks." The statute prohibits the use of electronic registration marks for the purposes of keyword advertising. Trademark owners may, for a fee, register electronic registration marks with the state for a term of one year, renewable upon payment of additional fees. While such marks are only recognized in Utah, the statute's potential effect is more expansive, given that, under the statute, it is a violation to use another's electronic registration mark for keyword advertising if the advertisement "is at any time displayed in the state." An out of state advertiser could conceivably be held liable under the statute even if it otherwise had no connection to the state. It remains to be seen whether this law will survive judicial scrutiny under the Commerce Clause of the United States Constitution.

Conclusion

It appears doubtful that a consensus will be reached among the federal trial and appeals courts concerning the threshold question of whether the sale and purchase of a trademark as a search engine keyword constitutes a "use" of that mark under trademark law. Of course, once a complainant has overcome the "use" issue, likelihood of confusion must still be proved. Here, too, some federal courts, and particularly the appellate courts of the Seventh, Ninth and Tenth Circuits, recognize the applicability of the "initial interest confusion" doctrine to cases involving the use of trademarks in metadata, while others do not.



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The question of whether the mark appears in the text of the link or ad seems to be a relevant factor in many (but not all) decisions on the "trademark use" question and/or the likelihood confusion question. Google picked up on this issue after *GEICO I*, changing its policy in North America whereby it will cancel a trademark keyword upon complaint by the trademark owner, but only if the mark appears in the link or ad text, even if the use might be defensible as fair use, e.g., comparative advertising. On the other hand, in the rest of the world, Google will act on a trademark complaint even if the mark does not appear in the link or ad text, and Yahoo! will block trademark keywords in North America as well as other countries. Both search engines have litigated the issue in Europe, with mixed results.

It remains advisable for trademark owners to routinely monitor the internet to ascertain if and how third parties may be utilizing the owner's marks in advertisements, web sites, search engine results, and other media. In certain instances, protective action may be warranted. In that case, careful consideration should be given to the forum in which the action will be initiated.

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1. Two other decisions, both from early 2006, are relevant in that they both appear to presume that use of another's trademark in metadata qualifies as "trademark use." Both cases also adopt the 9th Circuit's *Brookfield* holding applying the initial interest confusion doctrine to metatagging. See *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir. 2006)(paid placement in search engine results and metatagging) and *Tdata Inc. v. Aircraft Technical Publishers*, 411 F.Supp.2d 901 (S.D. Ohio 2006) (calling metatagging "nefarious conduct").

2. See *Promatek Industries, Ltd. v. Equitrac Corporation*, 300 F.3d 808 (7th Cir. 2002).

Source: Arent Fox publications; www.arentfox.com



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- Google AdWords May Infringe Intellectual Property

On April 18, 2007, Judge Jeremy Fogel of the U.S. District Court for the Northern District of California called into question the legality of Google's core advertising technology: the "AdWords" program. Until now, cases in the 9th Circuit had only assumed that the use of keywords to trigger advertising is a "use in commerce" actionable under the Trademark Act. In denying Google's motion for summary judgment against American Blind & Wallpaper Factory, Inc. ("ABWF"), the court made the "use in commerce" determination explicit.

Setting the stage for a jury trial on the issue of trademark infringement, the court further held that ABWF had shown it could potentially prevail if the facts of the case show a "likelihood of confusion." The upshot of today's ruling is that, unless and until the 9th Circuit rules otherwise, the sale of trademarks to competitors to trigger advertisements poses substantial risks in the 9th Circuit (Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon and Washington).

Judge Vogel summarized the underlying dispute as pertaining to "the sale by Google . . . of trademarked terms belonging to ABWF as keywords that trigger 'Sponsored Links' on Google's search results pages. ABWF alleges that Google sells these terms to ABWF's competitors. Google acknowledges that it does this...." Order, p.3. Thus, "[t]he crux of this dispute is whether Google infringes ABWF's trademarks by refusing to disable trademarked keywords." Id.

In deciding the threshold issue whether AdWords are a "use in commerce" under the Act, Judge Vogel recognized a nationwide split of authority. He noted that district courts in New York, for example, have held that keyword advertising programs do not constitute use in commerce. Whereas, district courts in New Jersey, Minnesota and Delaware have reached the opposite result. In the face of this split, Judge Vogel turned to an analogous case in the 9th Circuit Court of Appeals: *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004).

That case dealt with the practice of "keying" sponsored banner ads to Playboy's trademarks "playboy" and "playmate." The Playboy case differed, however, in that "Google identifies sponsored links as such, while Playboy involved banner ads that were 'confusingly labeled or not labeled at all.'" Order, p.8.

Judge Vogel observed that the 9th Circuit in *Playboy* had implicitly ruled that use of the PLAYBOY mark to trigger sponsored banner ads was a use in commerce. Judge Vogel then rejected Google's claim that ABWF, as a matter of law, would be unable to prove a likelihood of confusion. Judge Vogel instead ruled that ABWF might indeed be able to prove a likelihood of confusion, under the doctrine of "initial interest confusion" established by *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174



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F.3d 1036 (9th Cir. 1999). Among the likelihood of confusion factors singled out by Judge Vogel were:

- Evidence of actual confusion by customers. ABWF presented a consumer survey conducted by a consumer opinion expert.
- Similarity of the marks. The AdWord terms sold by Google were identical to ABWF's asserted trademarks.
- Low degree of consumer care. Internet consumers exercise a low degree of selectivity and many cannot discern which search results are sponsored.
- Intent. Google used ABWF's trademarks in its AdWords program in order to maximize Google's profits. Judge Vogel's order clears the way for further litigation between these parties, and perhaps a jury trial. We will be following this closely. If you have any questions about this alert, or if you would like a copy of Judge Vogel's April 18 order, please do not hesitate to contact one of the lawyers below.

Source: Newstand by K&L Gates (Apr. 20, 2007) (Marc C. Levy, +1.206.370.7593, marc.levy@klgates.com)

- Federal Court Finds that CAN-SPAM Act Does Not Preempt Utah Child Protection Registry

On March 23, 2007, the federal District Court in Salt Lake City rejected arguments that the Utah Child Protection Registry ("CPR"), Utah Code Ann. §§ 13-39-101-13-39-304, violated the U.S. Constitution and found that the CPR is not preempted by the CAN-SPAM Act. The court's decision was part of its disposition of *Free Speech Coalition, Inc. v. Shurtleff*, No. 2:05CV949DAK (D. Utah Mar. 23, 2007) (denying motion for preliminary injunction). The Free Speech Coalition, a trade association representing members of the adult entertainment industry, had filed a motion for preliminary injunction, arguing that the Utah law: 1) is expressly preempted by the federal CAN-SPAM Act of 2003, 15 U.S.C. §§ 7701-7713 and 18 U.S.C. § 1037; 2) violates the dormant Commerce Clause of the U.S. Constitution; and 3) violates the First Amendment of the U.S. Constitution and Article I, Section 15 of the Utah Constitution. The court denied the motion, holding that the CANSPAM Act did not preempt the CPR.



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The CPR allows parents or guardians of minor children "contact points" for minors with the Utah Consumer certain unwanted commercial communications that minors or an offering that minors are prohibited from includes e-mail address, instant message identity, facsimile number, or other electronic address. In deciding the issue of preemption, the court ruled CAN-SPAM Act's exception for computer crimes, express acknowledgment by Congress that criminal are within the province of the state's police powers, exercise of Utah's police powers. The court pointed specify certain versions of computer crimes for exemption. However, according to the court, the exception for broad to allow states to define their own "computer powers. The court stated that the express exceptions to preemption demonstrate that Congress did not attempt to occupy intended to completely displace all state regulation done so in the CAN-SPAM Act. The court also rejected federal opt-out registry provisions in the CAN-SPAM design to regulate commercial e-mail exclusively at was no evidence of this intent in the statute.

Source: [The Download](#) from Venable LLP (Vol. 2, No. 3, Apr. 13, 2007) (Stuart P. Ingis (202)-344-4613)

- [Internet marketer settles with FTC for messages sent by affiliates](#)

Under the CAN-SPAM Act, companies that send e-mail messages that contain sexually explicit material must put the phrase "SEXUALLY EXPLICIT" in the subject line, and must also ensure that the message area that is immediately viewable contains no sexually graphic images. TJ Web Productions, an operator of adult Web sites, promotes its sites through an affiliate program that pays other sites to direct traffic to TJ Web. Many of TJ Web's affiliates send blast messages that include sexually explicit pictures that link to TJ Web's sites. According to the FTC complaint, TJ Web induced its affiliates to send these messages, through both monetary and other consideration. As a result, the FTC viewed TJ Web as an "initiator" of the messages, as well as a sender, since the messages included advertising for TJ Web's sites. As part of its settlement with the FTC, TJ Web agreed to pay a civil penalty of \$465,000.

This case helps define when a company will be viewed as the "sender" of an e-mail message. In particular, when, as in this case, the company is offering third-party incentives to send the message, and the message includes company advertising, the company will be viewed as a sender. Companies should thus ensure that third parties who send advertising messages on their behalf conform to the CAN-SPAM Act requirements.

Source: [Advertising & Promotion Law News](#) of Winston & Strawn LLP (Feb. 22, 2007) (Stephen P. Durchslag 312-558-5288).



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- [Click Fraud case against Yahoo settled](#)

The \$5 million settlement agreement in a California case releases Yahoo from all similar click fraud claims against it.

A federal judge in San Jose, Calif., has given final approval to a settlement in a class action lawsuit over click fraud that requires Yahoo to pay nearly \$5 million in attorney fees and give full credits to advertisers dating back to 2004.

The judge's action on Monday settles claims by Checkmate Strategic Group that Yahoo charged advertisers for clicks on online ads that were fraudulent or done in bad faith.

The settlement agreement was given preliminary approval by the court last summer. However, attorneys involved in a class action suit over click fraud in Arkansas contested the settlement arguing that Yahoo was not responding to the Arkansas lawsuit in good faith when it was settling the case in California. The California settlement releases Yahoo from all similar click fraud claims against it in other actions, including the Arkansas litigation.

The "final approval of the settlement validates the strength of Yahoo's click-through protection systems, and our commitment to delivering a quality experience to both our advertisers and our consumers," said Reggie Davis, Yahoo's new vice president of marketplace quality. "Our commitment does not stop here. Quality is a top priority for Yahoo, and we have a clear road map for how we're going to create the highest-quality search-advertising network in the industry."

An Arkansas judge gave final approval last July to a \$90 million settlement Google reached with lawyers for Lane's Gifts & Collectibles and Caulfield Investigations. In that settlement, Google is to pay \$30 million for lawyer fees and \$60 million in ad credits to affected advertisers. Opposing attorneys also challenged that settlement as being inadequate compensation.

Click fraud typically occurs when ads are clicked on by humans or automated software to either boost the revenue to the Web sites they appear on or to deplete the ad budget of the marketer by rivals who may want to acquire the keywords themselves.



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Source: From article by Elinor Mills, Staff Writer, CNET News.com (March 27, 2007).

- Are Your Online Marketing Strategies Infringing?

In light of a recent federal court decision, some popular Internet marketing techniques may expose businesses to unintended legal liability. The first technique is the use of someone else's trademark as a search engine metatag, or hidden HTML code, on pages of a website. The second technique is to purchase a 'sponsored link' from a search engine for a keyword that is someone else's trademark. Both of these practices can result in the website coming up prominently in the results of a search of the trademarked term. J.G. Wentworth, a leading structured settlement provider, filed a lawsuit against its competitor, Settlement Funding, alleging trademark infringement under federal and Pennsylvania law. Settlement Funding had placed the Wentworth's trademarks as search engine metatags on several pages of Settlement Funding's website. Settlement Funding had also purchased the keywords "J.G. Wentworth" and "JG Wentworth" through Google's AdWords program, so that Settlement Funding's website would be highlighted and displayed as a sponsored link when a user performed a Google search for either of the keywords. Settlement Funding argued that its use of the trademarks was not a "use in commerce", a required element for a trademark infringement suit under the federal Lanham Act. The court disagreed, holding that Settlement Funding's use of Wentworth's trademarks was used "in connection with the sale, offering for sale, distribution, or advertising of any goods or services" in violation of the Lanham Act. The ramifications of this decision are far-reaching and will impact the current practices of search engines and web marketers whose focus is high placement of their website in search engine results. Companies should review their current online marketing strategies and remove any third party trademarks from their site's search engine metatags. The review is particularly important for businesses that have delegated Internet marketing strategies to a web host or developer.

Source: Hot Points by Miller Canfield (Feb. 2007) (www.millercanfield.com)

- Court finds some "click fraud" may violate implicit covenant of good faith

"Click fraud" involves employing individuals or programs (known as "bots") to click on online advertising for the sole purpose of running up the advertiser's pay-per-click charges. Click fraud is often used to artificially increase the costs of a competitor. But, in *Payday Advance Plus, Inc., v. Findwhat.com, Inc.*, Payday contended that its contractual



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partners, search engine Findwhat and co-defendant Advertising.com, used click fraud to line their own pockets. A federal court in New York found that even if the terms of the contract between Payday and Findwhat did not limit advertising charges to clicks from "actual customers," click fraud would violate a "covenant of good faith and fair dealing in the course of contract performance," which New York recognizes as implicit in every contract.

Source: E-Commerce Law Week, Issue 452, Steptoe & Johnson LLP (April 21 2007)

- Consideration of Private Party Standing to Bring CAN-SPAM Suit / Consideration of Misleading Header Information

A private party not seeking actual damages and not sustaining substantial actual damages from commercial email transmitted through its network does not have standing to bring suit under CAN-SPAM. Email addresses ending with a domain that facilitates an accurate identification of a party cannot in any sense be found "false" or "deceptive" under the CAN-SPAM Act or the Washington Commercial Electronic Mail Act.

Source: Gordon v. Virtumundo et al., slip op. 06-0204-JCC (Western Dist. Wash. May 15, 2007).

INTERNET ADVERTISING: GETTING IT RIGHT!

SELECTED GLOSSARY OF INTERNET ADVERTISING INDUSTRY TERMS

- **Anchor Text , Link Text or Listing:** The clickable – text – part of a webpage. Anchor text is usually underlined.
- **Behavioral Targeting:** A method of Internet advertising in which consumer behavior, such as the act of clicking or not clicking on a specific category of advertising, is taken into consideration in determining what type of advertisement to display at any given time.
- **Channel:** A network or service advertisers use to create online advertisements to be displayed on search engines or other webpages. Channels generally include email, web/banners and search.
- **Contextual Targeting:** A method of Internet advertising in which an advertisement is related to the context of the page content on which it is displayed. For example, a web page dealing with sports would have advertisements displayed which related to sports.
- **CPM:** Cost Per Thousand impressions, or the price paid by an advertiser for 1,000 advertisement views. See Effective CPM. The *M* in the acronym is a roman numeral.
- **Effective CPM (or ECPM):** The approximate CPM value of advertisements that are not per-impression. It is often used to compare revenue or advertising effectiveness across different channels or payment models. As an example, if a website serves 30,000 ad impressions and earns \$45, then the effective CPM is $(\$1.50/30,000)*1000 = \1.50 .
- **Clickthrough Rate:** Clickthrough rate is the number of clicks an advertisement receives divided by the number of times the advertisement is shown (impressions).

$$CTR = \frac{\text{clicks}}{\text{impressions}}$$
- **Conversion:** When a user completes a desired action, such as buying something or requesting more information.
- **Conversion Rate:** The number of conversions divided by the number of ad clicks.
- **Keyword:** A keyword is a word or a phrase and is typically used to determine search or advertising results. Individual words in a keyword are usually separated by plus signs.

Examples

```
vacation
europe+vacation
las+vegas+vacation
```
- **Organic/Natural Listings:** Listings that search engines do not sell (that is, not paid listings). They are listings which appear solely because a search engine has them relevant in response to a search or inquiry.
- **Pay Per Click:** An advertising model, also known as Cost Per Click (or CPC), where an advertiser pays whenever an end user clicks on an advertisement. The price is typically determined by competitive bidding. Generally, PPC data for a particular business is treated as proprietary information, however there are some publicly available websites purporting to provide PPC data for keywords. See, e.g., www.spyfu.com (based on data made available by Google, Inc. and other sources).
- **PPC Provider:** A PPC provider serves advertisement listings, typically from a large group of internal advertisers. PPC providers include: Yahoo (Overture), MIVA (formerly FindWhat), MSN, LookSmart, Adknowledge's BidSystem.
- **SEM:** Search Engine Marketing. Utilizing Search Engine Optimization and paid advertising for improved search engine results.
- **SEO:** Search Engine Optimization. It is a process of optimizing a website in order to gain top positions on search engines for various keywords, and drive more traffic to the site.



Links to glossaries of relevant terms:

- <https://www.google.com/adsense/glossary>
- <https://adwords.google.com/support/bin/topic.py?topic=29>
- <http://www.patrickgavin.com/SEO-Glossary.htm>
- http://www.activemedia.com/online_marketing_glossary.shtml
- http://www.studio6.ca/seo_glossary.html
- <http://www.anvilmediainc.com/search-engine-marketing-glossary.html>
- <http://www.pro-seo.com/glossary.html>
- <http://www.gotimewebstrategies.com/glossary.html>

Glossary of Terms

- **Ad blocker** – Software on a user's browser which prevents advertisements from being displayed
- **Ad network** – Aggregator or broker of advertising inventory for many sites
- **Adware** – Advertiser-supported software; typically downloaded with other applications such as peer-to-peer file sharing
- **Affinity marketing** – Selling products or services to customers on the basis of their established buying patterns
- **Affiliate marketing** – Marketing solution through which publishers (affiliates) earn revenue by featuring advertiser (merchant) offers on their websites; publishers receive a commission for each advertiser transaction, e.g., a lead or sale, that originated from the publisher's website
- **Banner** – Graphic image displayed on an HTML page used as an ad
- **Behavioral targeting** – Ads served based on user behavior, e.g., web surfing habits, response to advertisements, etc.
- **Beyond the banner** – Any advertisement that is not a banner, e.g., an interstitial, streaming video ads, etc.
- **Buttons** – Clickable graphic that contains certain functionality, such as taking one someplace or executing a program; can also be ads
- **CAN-SPAM Act** – Federal regulations on the use of commercial email that imposes limitations and penalties on the transmission of unsolicited commercial email via the Internet
- **Cookie** – File that uniquely identifies the user's browser
- **Contextual advertising** – Ads served based a web page's content
- **Co-registration** – Cooperative marketing technique through which consumers register to receive multiple offers via one integrated registration form
- **Cost per action/CPA** – Advertisers pay a fee based on the number of specified consumer responses, such as registrations, requests for information or sales that its advertisements produce
- **Cost per click/CPC** – Advertisers pay a fee based on the number of clicks its advertisements generate
- **Cost-per-thousand impressions/CPM** – Advertisers pay a fee based on the number of times its advertisements are shown, referred to as impressions
- **Click-through rate/CTR** – Number of clicks an ad receives divided by the number of impressions served, multiplied by 100 to obtain a percentage
- **Confirmed opt-in** – Email marketing technique in which, after a consumer initially requests to receive emails, an email is sent requesting confirmation of this request; also known as double opt-in
- **Conversion rate/CVR** – Number of conversions an ad receives divided by the number of clicks, multiplied by 100 to obtain a percentage

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- **Cost plus** – Search engine services pricing model for which the advertiser pays search engine costs (or media costs), plus a management fee of x%
- **Customer relationship management/CRM** – Marketing specifically targeted to increasing brand loyalty
- **Creatives** – Advertisements, e.g., banners, text links, skyscrapers, buttons, badges, email copy, pop ups, etc.
- **Daughter window** – Ad that runs in a separate ad window associated with a concurrently displayed banner
- **Double opt-in** – Email marketing technique in which, after a consumer initially requests to receive emails, an email is sent requesting confirmation of this request; also known as confirmed opt-in
- **Dynamic ad placement** – Process by which an ad is inserted into a page in response to a user's request; dynamic ad placement allows alteration of specific ads placed on a page based on any data available to the placement program
- **Dynamic keyword bidding** – Process by which keyword bids are varied per term according to user behavior, competitor activity, hour, day, etc.
- **Expandable banner** – Banner ad which can expand to as large as 468x240 after a user clicks on it or after a user moves his/her cursor over the banner
- **Fold** – Ad or content that is viewable as soon as the web page arrives such that one does not have to scroll down (or sideways) to see it
- **Floating ad** – Ad that appears within the main browser window on top of the web page's normal content, thereby appearing to "float" over the top of the page
- **Frequency capping** – Limiting the number of times an advertisement is delivered to a user within a specific time frame
- **Heuristic** – A way to measure a user's unique identity; this measure uses deduction or inference based on a rule or algorithm which is valid for that server
- **House ad** – Ad for a product or service from the same company
- **Impressions** – A measurement of responses from a web server to a page request from the user browser, which is filtered from robotic activity and error codes, and is recorded at a point as close as possible to opportunity to see the page by the user
- **Interstitial** – Ad that appears between two content pages; also known as transition ad, intercommercial ad, splash page and Flash page
- **Inventory contribution** – Revenue earned minus inventory costs as measured in dollars
- **Margin** – Revenue earned minus inventory costs measured as a percent
- **Microsite** – Multi-page ads (or registration form) accessed via click-through from initial ad
- **Mouseover** – Process by which a user places his/her mouse over a media object, without clicking

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Advertising.com

- **Optimization** – Marketing technology through which the best possible ad placement is automatically determined based on advertiser and publisher objectives and varied according to observed performance
- **Opt-in** – Refers to an individual giving a company permission to use data collected from or about the individual for a particular reason, such as to market the company's products and services
- **Opt-out** – When a company states that it plans to market its products and services to an individual unless the individual asks to be removed from the company's mailing list
- **Organic listings** – Listings that appear solely because a search engine has deemed it editorially important for them to be included, regardless of payment
- **Paid inclusion** – Search listings are guaranteed to appear in response to a search query in exchange for payment; no guarantee of ranking
- **Paid placement** – Advertising program where listings are guaranteed to appear in response to particular search terms, with higher ranking typically obtained by paying more than other advertisers
- **Parameter passing** – Advertising.com's performance measurement tool through which advertisers can track when a conversion occurs after a consumer clicks on an advertisement by placing a unique identifier to the end of the advertiser's URL and tracking this URL throughout the entire conversion process
- **Performance-based advertising** – Advertising model in which the advertiser pays based on results achieved
- **Performance pricing** – Includes cost-per-click, cost-per-lead and cost-per-acquisition models
- **Pixel** – Single line of HTML coding, which appears as an invisible 1x1 GIF, that is placed on a website to track anonymous consumer activity
- **Pop-up ad** – Ad that appears in a separate window on top of content already on-screen
- **Pop-under ad** – Ad that appears in a separate window beneath an open window
- **Pop-up transitional** – Initiates play in a separate ad window during the transition between content pages; continues while content is simultaneously being rendered
- **Return on investment** – Percentage of profit or revenue generated from a specific activity
- **Revenue share** – Advertisers pay publishers a percentage of the revenue earned from sales originating from ads placed on the publisher's website
- **Rich media** – Method of communication that incorporates animation, sound, video, and/or interactivity; can be used either singularly or in combination with the following technologies: streaming media, sound, Flash, and with programming languages such as Java, Javascript, and DHTML
- **RPM** – Revenue earned per thousands impressions served

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Advertising.com

- **Run of network** – Scheduling of Internet advertising whereby an ad network positions ads across the sites it represents at its own discretion, according to available inventory
- **Run of site** – Scheduling of Internet advertising whereby ads run across an entire site, often at a lower cost to the advertiser than the purchase of specific site sub-sections
- **Search engine marketing** – Act of marketing a website via search engines, whether this be improving rank in organic listings, purchasing paid listings or a combination of these and other search engine-related activities
- **Search engine optimization** – Act of altering a website so that it does well in the organic, crawler-based listings of search engines
- **Spam** – Slang term describing unsolicited email
- **Spider** – Program that automatically fetches web pages; spiders are used to feed pages to search
- **Site stickiness** – Measure used to gauge the effectiveness of a site in retaining individual users; measured by the duration of the visit
- **Sponsorships** – Association with a website in some way that gives an advertiser some particular visibility and advantage above that of run-of-site advertising
- **Static ad placement** – Ad-serving approach through which ad placement is not altered based on performance factors, i.e., ad placement does not vary according to resulting clicks or conversions, time of day, etc.; commonly employed for sponsorships
- **Static keyword bidding** – Bidding approach through which term bids are not altered based on performance factors, i.e., bidding does not vary according to resulting clicks or conversions, time of day, etc.
- **Superstitial** – Interstitial format developed by Unicast which is fully pre-cached before playing; specs are 550 x 480 pixels (2/3 of screen), up to 100K file size and up to 20 seconds in length
- **Transitional ad** – Ad that is displayed between web pages; also known as an interstitial
- **Unique visitors** – Number of unique individuals who visit a site
- **Unsolicited commercial email** – Email that is delivered without the recipient having requested it; also known as spam
- **View-through tracking** – Ad tracking technology that measures conversions occurring in the days or weeks following the initial impression
- **Viral marketing** – Marketing techniques that "spread" like a virus by getting passed on from consumer to consumer and market to market
- **Web beacon** – Single line of code which is used by a website or third-party ad server to track a user's activity, such as a registration or conversion
- **Yield management** – Process through which publisher return is maximized by adjusting payout based on the observed value of each inventory placement

Motions, Pleadings and Filings

United States District Court,
D. New Jersey.
BUYING FOR THE HOME, LLC, Plaintiff,
v.
HUMBLE ABODE, LLC, et al., Defendants.
Civil Action No. 03-cv-2783 (JAP).

Oct. 20, 2006.

Background: Online retailer of bedroom furniture brought action against competitor alleging infringement under Lanham Act, violation of New Jersey's Fair Trade Act, common law trademark infringement and unfair competition, and defamation and trade disparagement under Lanham Act and state law. Competitor counterclaimed alleging infringement, unfair competition, and false advertising. Competitor brought motion for summary judgment on trademark holder's claims and its counterclaims.

Holdings: The District Court, Pisano, J., held that:

- (1) fact issue existed as to whether phrase TOTAL BEDROOM was valid and protectable under trademark law;
 - (2) fact issue existed as to whether competitor purchased sponsored advertisement that was triggered by search phrase "total bedroom";
 - (3) email from third party was hearsay;
 - (4) Lanham Act's "use" requirement was satisfied;
 - (5) competitor did not make defamatory statements of fact;
 - (6) fact issue existed as to whether comparative advertising was "fair use" of trademark;
 - (7) fact issue existed as to whether competitor made false and misleading statements that were likely to confuse and deceive potential customers; and
 - (8) alleged infringement of trademark did not support award of attorney fees under Lanham Act.
- Motion granted in part and denied in part.

West Headnotes

[1] Trademarks 1420

382Tk1420 Most Cited Cases

The elements of a claim of unfair competition under the Lanham Act are the same as for claims of unfair competition and trademark infringement under New Jersey statutory and common law. Lanham Trade-mark Act, § 43(a), 15 U.S.C.A. § 1125(a); N.J.S.A. 56:4-1.

[2] Trademarks 1354

382Tk1354 Most Cited Cases

Under the Lanham Act, a trademark becomes incontestable after the owner files affidavits stating that the mark has been registered, it has been in continuous use for five consecutive years, and there is no pending proceeding and there has been no adverse decision concerning the registrant's ownership or right to registration. Lanham Trade-Mark Act, § 1 et seq., 15 U.S.C.A. § 1051 et seq.

[3] Federal Civil Procedure 2493

170Ak2493 Most Cited Cases

Genuine issue of material fact existed as to whether phrase "TOTAL BEDROOM" was valid and protectable under trademark law, precluding summary judgment on trademark holder's infringement claim under Lanham Act. Lanham Trade-mark Act, § 43(a), 15 U.S.C.A. § 1125(a); Fed.Rules Civ.Proc.Rule 56, 28 U.S.C.A.

[4] Trademarks 1031

382Tk1031 Most Cited Cases

[4] Trademarks 1032[382Tk1032 Most Cited Cases](#)

Under the Lanham Act, where a mark has not been federally registered, or, if registered, has not achieved incontestability, validity depends on proof of secondary meaning, unless the unregistered mark is inherently distinctive. Lanham Trade-mark Act, § 43(a), [15 U.S.C.A. § 1125\(a\)](#).

[5] Trademarks 1038[382Tk1038 Most Cited Cases](#)**[5] Trademarks 1039**[382Tk1039 Most Cited Cases](#)

Marks that are suggestive, arbitrary, or fanciful are considered inherently distinctive and are entitled to protection under the Lanham Act. Lanham Trade-mark Act, § 43(a), [15 U.S.C.A. § 1125\(a\)](#).

[6] Trademarks 1032[382Tk1032 Most Cited Cases](#)

A mark that is not inherently distinctive is not entitled to protection under the Lanham Act unless it has attained a secondary meaning; a secondary meaning is said to exist when the mark is interpreted by the consuming public to be not only an identification of the product or services, but also a representation of the origin of those products or services. Lanham Trade-mark Act, § 43(a), [15 U.S.C.A. § 1125\(a\)](#).

[7] Trademarks 1036[382Tk1036 Most Cited Cases](#)

Under the Lanham Act, a mark is considered to be descriptive if it describes the purpose, function or use of the product or service, a desirable characteristic of the product or service, or the nature of the product or service; this is a mark that conveys an immediate idea of the ingredients, qualities or characteristics of the goods or services. Lanham Trade-Mark Act, § 1 et seq., [15 U.S.C.A. § 1051](#) et seq.

[8] Trademarks 1038[382Tk1038 Most Cited Cases](#)

For the purpose of an infringement claim under the Lanham Act, a suggestive mark suggests rather than describes the characteristics of the goods; it requires consumer imagination, thought, or perception to determine what the product is. Lanham Trade-Mark Act, § 1 et seq., [15 U.S.C.A. § 1051](#) et seq.

[9] Evidence 48[157k48 Most Cited Cases](#)

A court may take judicial notice of trademark registrations under the Lanham Act. Lanham Trade-Mark Act, § 1 et seq., [15 U.S.C.A. § 1051](#) et seq.

[10] Federal Civil Procedure 2493[170Ak2493 Most Cited Cases](#)

Competitor's statement of undisputed material facts, stating that website was "owned or operated" by online retailer of bedroom furniture, and exhibits submitted by competitor showing screen shots of website using "TOTAL BEDROOM" mark, created fact question as to ownership, precluding summary judgment in lawsuit alleging infringement under Lanham Act. Lanham Trade-mark Act, § 43(a), [15 U.S.C.A. § 1125\(a\)](#); [Fed.Rules Civ.Proc.Rule 56, 28 U.S.C.A.](#)

[11] Federal Civil Procedure 2493[170Ak2493 Most Cited Cases](#)

Genuine issue of material fact existed as to whether competitor purchased sponsored advertisement that was triggered by search phrase "total bedroom," precluding summary judgment on trademark holder's infringement claim under Lanham Act. Lanham Trade-mark Act, § 43(a), [15 U.S.C.A. § 1125\(a\)](#); [Fed.Rules Civ.Proc.Rule 56, 28 U.S.C.A.](#)

[12] Federal Civil Procedure 2545[170Ak2545 Most Cited Cases](#)

Email from "Frankie and the [particular Internet search engine] AdWords Team," which stated that competitor had

not purchased term "total bedroom" from search engine as keyword, and that it was possible that competitor's advertisement appeared during search of phrase "total bedroom" because "bedroom" was keyword that had been purchased by competitor, was hearsay, and could not be considered on motion for summary judgment, in lawsuit brought by online retailer of bedroom furniture alleging infringement under Lanham Act. Lanham Trade-mark Act, § 43(a), [15 U.S.C.A. § 1125\(a\)](#); [Fed.Rules Civ.Proc.Rule 56, 28 U.S.C.A.](#)

[13] Trademarks 1435[382Tk1435 Most Cited Cases](#)

Lanham Act's "use" requirement was satisfied on allegations that competitor purchased protected trademark of online retailer of bedroom furniture as keyword on Internet search engine and competitor used that keyword to trigger commercial advertising which included hypertext link to competitor's furniture retailing website; purchase of keyword was commercial transaction that occurred "in commerce," and traded on value of mark of online retailer, and competitor's use was both "in commerce" and "in connection with any goods or services." Lanham Trade-mark Act, § 43(a), [15 U.S.C.A. § 1125\(a\)](#).

[14] Libel and Slander 1[237k1 Most Cited Cases](#)

To succeed on a claim of defamation under New Jersey law, a plaintiff must show: (1) that defendant made a defamatory statement of fact; (2) concerning the plaintiff; (3) which was false; (4) which was communicated to persons other than the plaintiff; and (5) fault.

[15] Libel and Slander 123(2)[237k123\(2\) Most Cited Cases](#)

Whether the meaning of a statement is susceptible of a defamatory meaning under New Jersey law is a question of law for the court.

[16] Libel and Slander 6(1)[237k6\(1\) Most Cited Cases](#)

Generally, a statement that is communicated to third parties is defamatory under New Jersey law if it is false and tends to lower the subject's reputation in the estimation of the community or to deter third persons from associating with him.

[17] Libel and Slander 6(1)[237k6\(1\) Most Cited Cases](#)

Whether a particular statement is defamatory under New Jersey law depends on its content, verifiability, and context.

[18] Libel and Slander 19[237k19 Most Cited Cases](#)

An evaluation of "content" for the purpose of a defamation claim under New Jersey law, includes consideration of the statement's literal meaning as well as the fair and natural meaning that reasonable people of ordinary intelligence would give to it.

[19] Libel and Slander 6(1)[237k6\(1\) Most Cited Cases](#)

For the purpose of a defamation claim under New Jersey law, verifiability refers to whether a statement can be proven true or false, and statements that are not verifiable, such as insults and name-calling, even if offensive, are not defamatory; similarly, opinions are not actionable unless they imply false underlying facts.

[20] Libel and Slander 19[237k19 Most Cited Cases](#)

Context is examined on a defamation claim under New Jersey law because it bears upon the fair and natural meaning of a statement.

[21] Libel and Slander 9(7)[237k9\(7\) Most Cited Cases](#)**[21] Libel and Slander 21**

[237k21 Most Cited Cases](#)

Competitor did not make defamatory statements of fact, for purpose of retailer's defamation claim under New Jersey law, where actual statement or its context could not be discerned, and to extent that statement was discernable, it was not defamatory or did not refer to retailer.

[\[22\] Libel and Slander 21](#)[237k21 Most Cited Cases](#)

Actual naming of the plaintiff is not a necessary element in a defamation action under New Jersey law so long as there is such reference to him that those who read or hear the libel reasonably understand the plaintiff to be the person intended.

[\[23\] Libel and Slander 130](#)[237k130 Most Cited Cases](#)

The elements of trade libel under New Jersey law are: (1) publication; (2) with malice; (3) of false allegations concerning its property, product or business; and (4) special damages, i.e. pecuniary harm.

[\[24\] Trademarks 1023](#)[382Tk1023 Most Cited Cases](#)

Under the Lanham Act, a mark provides protection not only for the product or service to which it is originally applied but also to related items or services. Lanham Trade-Mark Act, § 1 et seq., [15 U.S.C.A. § 1051](#) et seq.

[\[25\] Trademarks 1136\(1\)](#)[382Tk1136\(1\) Most Cited Cases](#)

Common law trademark rights can be acquired when a mark is actually used; such use occurs when the mark is displayed or otherwise made known to prospective purchasers in the ordinary course of business in a manner that associates the designation with the goods, services, or business of the user. [Restatement \(Third\) of Unfair Competition § 18](#).

[\[26\] Federal Civil Procedure 2493](#)[170Ak2493 Most Cited Cases](#)

Genuine issue of material fact existed as to whether comparative advertising was "fair use" of trademark, precluding summary judgment on infringement and unfair competition claims under Lanham Act. Lanham Trade-mark Act, § 33(a), [15 U.S.C.A. § 1115\(a\)](#); [Fed.Rules Civ.Proc.Rule 56, 28 U.S.C.A.](#)

[\[27\] Trademarks 1523\(3\)](#)[382Tk1523\(3\) Most Cited Cases](#)

Nominative fair use under the Lanham Act occurs when: (1) the alleged infringer uses the trademark holder's mark to describe the trademark holder's product, even if the goal of the accused infringer is to describe his own product; or (2) if the only practical way to refer to something is to use the trademarked term. Lanham Trade-mark Act, § 33(a), [15 U.S.C.A. § 1115\(a\)](#).

[\[28\] Trademarks 1612](#)[382Tk1612 Most Cited Cases](#)

In a nominative fair use case under the Lanham Act, the plaintiff first must prove that confusion is likely due to the defendant's use of the mark; once the plaintiff has met its burden of showing a likelihood of confusion, the burden then shifts to defendant to show that its nominative use of plaintiff's mark is nonetheless fair. Lanham Trade-mark Act, § 33(a), [15 U.S.C.A. § 1115\(a\)](#).

[\[29\] Trademarks 1081](#)[382Tk1081 Most Cited Cases](#)[\[29\] Trademarks 1092](#)[382Tk1092 Most Cited Cases](#)[\[29\] Trademarks 1095](#)[382Tk1095 Most Cited Cases](#)[\[29\] Trademarks 1523\(3\)](#)[382Tk1523\(3\) Most Cited Cases](#)

All of the factors used to consider likelihood of confusion in a traditional trademark infringement case, except for degree of similarity and strength of the mark, may be used in the likelihood of confusion test in a nominative fair use case under the Lanham Act, but it will be up to the district court in each case to determine which factors are appropriate to use under the individual factual circumstances presented; in determining which factors to use, the court should be guided by its ultimate goal of assessing whether consumers are likely to be confused by the use not because of its nominative nature, but rather because of the manner in which the mark is being nominatively employed. Lanham Trade-mark Act, § 33(a), [15 U.S.C.A. § 1115\(a\)](#).

[\[30\] Antitrust and Trade Regulation 22](#)[29Tk22 Most Cited Cases](#)

To prevail on a claim of false advertising under the Lanham Act, a party must prove: (1) the defendant has made false or misleading statements as to his own product or another person's; (2) there is actual deception or at least a tendency to deceive a substantial portion of the intended audience; (3) the deception is material in that it is likely to influence purchasing decisions; (4) the advertised goods traveled in interstate commerce; and (5) there is a likelihood of injury to the plaintiff in terms of declining sales, loss of good will, et cetera. Lanham Trade-Mark Act, § 1 et seq., [15 U.S.C.A. § 1051](#) et seq.

[\[31\] Federal Civil Procedure 2493](#)[170Ak2493 Most Cited Cases](#)

Genuine issue of material fact existed as to whether competitor made false and misleading statements that were likely to confuse and deceive potential customers, precluding summary judgment on trademark holder's false advertising claim under Lanham Act. Lanham Trade-Mark Act, § 1 et seq., [15 U.S.C.A. § 1051](#) et seq.; [Fed.Rules Civ.Proc.Rule 56, 28 U.S.C.A.](#)

[\[32\] Antitrust and Trade Regulation 48](#)[29Tk48 Most Cited Cases](#)

The Lanham Act does not contemplate a claim that the filing of a lawsuit constitutes unfair competition. Lanham Trade-mark Act, § 43(a), [15 U.S.C.A. § 1125\(a\)](#).

[\[33\] Trademarks 1754\(2\)](#)[382Tk1754\(2\) Most Cited Cases](#)

Alleged infringement of trademark did not support award of attorney fees under Lanham Act on basis that case was exceptional, where various issues precluded summary judgment in favor of trademark holder, case presented novel issues of Internet advertising rather than flagrant violations of well-settled trademark law, and competitor had consulted counsel with regard to its use of trademarks at issue and included trademark disclaimers on its website. Trademark Act of 1946, § 35(a), [15 U.S.C.A. § 1117\(a\)](#).

[\[34\] Trademarks 1754\(2\)](#)[382Tk1754\(2\) Most Cited Cases](#)

On a claim for an award reasonable attorney fees under the Lanham Act, a district court must make a finding of culpable conduct on the part of the losing party, such as bad faith, fraud, malice, or knowing infringement, before a case qualifies as "exceptional." Trademark Act of 1946, § 35(a), [15 U.S.C.A. § 1117\(a\)](#).

[Trademarks 1800](#)[382Tk1800 Most Cited Cases](#)

HUMBLE ABODE.

[Trademarks 1800](#)[382Tk1800 Most Cited Cases](#)

TOTAL BEDROOM.

*315 [Richard F. Collier, Jr.](#), Collier & Basil, P.C., Princeton, NJ, for Plaintiff.

[Ronald D. Coleman](#), Bragar, Wexler & Eigel, PC, New York City, for Defendants.

OPINION

[PISANO](#), District Judge.

Before the Court is Defendants' motion for summary judgment as to all counts in Plaintiff's complaint and as to Counts Two (Trademark Infringement), Three (Unfair Competition) and Four (False Advertising) of defendant Humble Abode, Inc.'s ("Humble") counterclaims and third party claims. Also before the Court is Plaintiff's request that the Court strike Humble's request for attorney fees with respect to Humble's Lanham Act claims. The Court decides these matters without oral argument pursuant to [Fed.R.Civ.P. 78](#). For the reasons discussed below, Defendants' motion for summary judgment is granted in part and denied in part, and Plaintiff's motion to strike Humble's request for attorney fees is granted.

I. Background

A. Plaintiff's Claims

The parties in this case are competitors in the business of online furniture retailing. Plaintiff/Counterclaim defendant Buying for the Home, Inc. [\[FN1\]](#) ("Buying" or "Plaintiff") is a New Jersey corporation that operates through its website "totalbedroom.com." Defendant Humble is also an online furniture retailer and does business through its website "humbleabode.com." Defendants James Wickersham and Kris Kitterman are the founders and principals of Humble.

[FN1](#). Plaintiff states that its designation of Buying as an "LLC" in the caption of this case was inadvertent.

Plaintiff brings this action alleging violations of Section 43(a) of the Lanham Act, [15 U.S.C. § 1125\(a\)](#), and New Jersey's Fair Trade Act, [N.J.S.A. 56:4-1](#), as well as common law trademark infringement, common law unfair competition, defamation and trade disparagement. Specifically, Plaintiff asserts that (1) by causing a sponsored ad to appear next to the results on the Google search engine when a computer *316 user enters the search phrase "total bedroom," defendant Humble misappropriated Plaintiff's mark "TOTAL BEDROOM" in connection with the sale of goods and violated Section 43(a) of the Lanham Act in that such use was likely to communicate a false designation of origin of those goods; and (2) Defendants have "made false statements to [Buying's] vendors, suppliers and other third parties with whom [Buying] does business regarding [Buying's] allegedly improper business practices, including ... [Buying's] failure to comply with copyright laws and the Internet policies of third parties." Compl. at ¶ 12. Defendants have moved for summary judgment and seek dismissal of all of these claims. Plaintiff has not cross-moved for summary judgment.

B. Humble's Counterclaims and Third Party Claims

Humble has also moved for summary judgment on its counterclaims and third party claims, which allege trademark infringement, unfair competition and false advertising in violation of the Lanham Act and state law against Buying and third party defendant Steve Ross. Humble alleges that Buying undertook aggressive "attacks" against Humble through its various furniture-related websites, including [totalbedroom.com](#), and that in doing so, the third party defendants improperly used the mark HUMBLE ABODE as well as the Humble's unique product names, in which Humble claims it has trademark rights. Although not entirely clear from Humble's papers, it appears that Humble's trademark infringement, unfair competition and false advertising claims under both federal and state law are based upon the following allegations: (1) [totalbedroom.com](#) offered a "Price Comparison" page that used the mark HUMBLE ABODE as well as Humble's product names and allowed online customers to compare Total Bedroom's prices with Humble Abode's prices; (2) [totalbedroom.com](#) users could search the [totalbedroom.com](#) website using Humble Abode product names; (3) [directlyhome.com](#) uses Humble Abode product names to reference products on their website; (4) [buyingfurniture.com](#), a website on which consumers purportedly can share information about "hot deals" on furniture, uses HUMBLE ABODE as well as Humble's product names on its site; (5) [totalbedroom.com](#) has caused its sponsored advertisement to appear when users of the search engine Google conducted a search for the terms HUMBLE ABODE FURNITURE as well as Humble's product names; (6) when a user of the Yahoo! search engine conducts a search for HUMBLE ABODE SAVINGS or HUMBLE ABODE DISCOUNT, links to [totalbedroom.com](#), [buyingfurniture.com](#) and [buying-furniture.biz](#) (a website that, according to Humble, is identical to [buyingfurniture.com](#)) appear in the top six results returned as a result of the websites' use of the term "humble abode" in their text.

In its request for relief on its claims, Humble seeks, among other things, an award of attorney fees. On an earlier motion by Plaintiff, the Court struck all of Humble's attorney fees requests with the exception of those that relate to

its Lanham Act claims. As to those claims, the Court denied Plaintiff's motion without prejudice. Plaintiff now renews his motion and asks the Court to strike the remaining attorney fee request.

II. Legal Discussion

A. Summary Judgment Standard

A court shall grant summary judgment under [Rule 56\(c\) of the Federal Rules of Civil Procedure](#) "if the pleadings, depositions, answers to interrogatories, and admissions *317 on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." [Fed.R.Civ.P. 56\(c\)](#). The substantive law identifies which facts are critical or "material." [Anderson v. Liberty Lobby, Inc.](#), 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). A material fact raises a "genuine" issue "if the evidence is such that a reasonable jury could return a verdict" for the non-moving party. [Id.](#)

On a summary judgment motion, the moving party must show, first, that no genuine issue of material fact exists. [Celotex Corp. v. Catrett](#), 477 U.S. 317, 323, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). If the moving party makes this showing, the burden shifts to the non-moving party to present evidence that a genuine fact issue compels a trial. [Id.](#) at 324, 106 S.Ct. 2548. In so presenting, the non-moving party may not simply rest on its pleadings, but must offer admissible evidence that establishes a genuine issue of material fact, [id.](#), not just "some metaphysical doubt as to the material facts." [Matsushita Elec. Indus. Co. v. Zenith Radio Corp.](#), 475 U.S. 574, 586, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986).

The Court must consider all facts and their logical inferences in the light most favorable to the non-moving party. [Bailey v. United Airlines](#), 279 F.3d 194, 198 (3d Cir.2002). The Court shall not "weigh the evidence and determine the truth of the matter," but need determine only whether a genuine issue necessitates a trial. [Anderson](#), 477 U.S. at 249, 106 S.Ct. 2505. If the non-moving party fails to demonstrate proof beyond a "mere scintilla" of evidence that a genuine issue of material fact exists, then the Court must grant summary judgment. [Country Floors, Inc. v. Gepmer](#), 930 F.2d 1056, 1061-62 (3d Cir.1991).

B. Defendants' Motion for Summary Judgment on Plaintiff's Claims

1. Trademark Claims

[\[1\]](#) Plaintiff has alleged that Defendants' use of the mark TOTAL BEDROOM violated (1) Section 43(a) of the Lanham Act, which prohibits unfair competition through "[f]alse designations of origin," [see 15 U.S.C. 1125\(a\); \[FN2\]](#) and (2) New Jersey statutory and common law prohibiting trademark infringement and unfair competition. Because the elements of a claim of unfair competition under the Lanham Act are the same as for claims of unfair competition and trademark infringement under New Jersey statutory and common law, the Court's analysis below extends to Plaintiff's state law claims as well. [See J & J Snack Foods, Corp. v. Earthgrains Co.](#), 220 F.Supp.2d 358, 374 (D.N.J.2002) ("[T]he elements for a claim for trademark infringement under the Lanham Act are the same as the elements for a claim of unfair competition under the Lanham Act and for claims of trademark infringement and unfair competition under New Jersey statutory and common *318 law...."); [Harlem Wizards Entertainment Basketball, Inc. v. NBA Properties, Inc.](#), 952 F.Supp. 1084, 1091 (D.N.J.1997) ("N.J.S.A. 56:4-1 is the statutory equivalent of Section 43(a)(1) of the Lanham Act").

[FN2](#). Section 43(a) of the Lanham Act states in the relevant part:

(1) Any 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-

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person....

[15 U.S.C. § 1125.](#)

To prove unfair competition under the Lanham Act, a plaintiff must show that: (1) the mark at issue is valid and legally protectable; (2) the mark is owned by the plaintiff; (3) the defendant used the mark in commerce on or in connection with any goods or services or container for goods; and (4) this "use" was in a manner likely to create confusion concerning the origin of the goods or services. [15 U.S.C. § 1125\(a\); 800-JR Cigar, Inc. v. GoTo.com](#),

[Inc.](#), 437 F.Supp.2d 273, 281-82 (D.N.J.2006) (citing [Eisons Horticulture, Inc. v. Vigoro Industries, Inc.](#), 30 F.3d 466, 472 (3d Cir.1994)). Defendants argue that Plaintiff's trademark claims must be dismissed because (1) TOTAL BEDROOM is not an protectable trademark; and (2) there is no factual support for Plaintiff's claim of "infringement by search engine."

a. Validity and Protectability of Trademark

[2][3][4] The threshold issue is whether the phrase TOTAL BEDROOM is valid and protectable under trademark law. Where, as here, a mark has not been federally registered (or, if registered, has not achieved incontestability [FN3]) "validity depends on proof of secondary meaning, unless the unregistered mark is inherently distinctive." [Fisons Horticulture](#), 30 F.3d at 472.

[FN3]. A trademark becomes incontestable "after the owner files affidavits stating that the mark has been registered, that it has been in continuous use for five consecutive years, and that there is no pending proceeding and there has been no adverse decision concerning the registrant's ownership or right to registration." [Fisons](#), 30 F.3d at 472 n.7.

[5][6] In evaluating the distinctiveness of a mark, the following categories (in ascending order of distinctiveness) are used: (1) generic; (2) descriptive; (3) suggestive; (4) arbitrary; or (5) fanciful. [Two Pesos, Inc. v. Taco Cabana, Inc.](#), 505 U.S. 763, 768, 112 S.Ct. 2753, 120 L.Ed.2d 615 (1992). Marks that are suggestive, arbitrary, or fanciful are considered inherently distinctive and are entitled to protection. [Jews for Jesus v. Brodsky](#), 993 F.Supp. 282, 296 (D.N.J.1998). A mark that is not inherently distinctive is not entitled to protection unless it has attained a secondary meaning. *Id.* A secondary meaning is said to exist when the mark "is interpreted by the consuming public to be not only an identification of the product or services, but also a representation of the origin of those products or services." [Commerce Nat'l Ins. Serv., Inc. v. Commerce Ins. Agency, Inc.](#), 214 F.3d 432, 438 (2000) (quoting [Scott Paper Co. v. Scott's Liquid Gold, Inc.](#), 589 F.2d 1225, 1228 (3d Cir.1978)).

[7] Defendants argue that TOTAL BEDROOM is not a valid and protectable mark because it is merely descriptive and has not acquired a secondary meaning. A mark is considered to be descriptive if it "describe[s] the purpose, function or use of the product [or service], a desirable characteristic of the product [or service], or the nature of the product [or service]." [J & J Snack](#), 220 F.Supp.2d at 370. This is a mark that "conveys an immediate idea of the ingredients, qualities or characteristics of the goods [or services]." [Jews for Jesus](#), 993 F.Supp. at 297 (alteration in original). In support of their argument that TOTAL BEDROOM is descriptive, Defendants point to the case of [Leejay v. Bed, Bath & Beyond, Inc.](#), 942 F.Supp. 699 (D.Mass.1996), in which the court found on an application for injunctive relief that the *319 phrase BED & BATH was descriptive for a store that sells items for the bedroom and bathroom.

[8][9] Plaintiff counters that (1) TOTAL BEDROOM is not descriptive as applied to furniture products and Defendants have not cited to one example where the term is used to describe furniture; (2) TOTAL BEDROOM was once registered by a third party [FN4] so it cannot be a descriptive mark; (3) TOTAL BEDROOM is an inherently distinctive suggestive [FN5] mark and, consequently, proof of a secondary meaning is not necessary; [FN6] and (4) in any event, Defendants are not entitled to summary judgment because the characterization of a mark is a factual issue for the jury. In support of its argument that TOTAL BEDROOM is inherently distinctive, Plaintiff has pointed to the fact that the Trademark & Patent Office has registered other marks that include the word "total"--TOTAL WELLNESS, TOTAL HOME SERVICES, TOTAL FITNESS YVES SAINT LAURENT, TOTAL EFFECTS BEAUTIFUL SKIN & WELLNESS, as well as to the prior registration of TOTAL BEDROOM. [FN7] Although not cited to expressly by Plaintiff, it appears that Plaintiff is arguing that because a mark that is merely descriptive will be refused registration under § 2(e)(1) of the Lanham Act, TOTAL BEDROOM cannot be descriptive.

[FN4]. Plaintiff points out that TOTAL BEDROOM was registered as a service mark in 1994 by a third party, which registration was subsequently cancelled for failure to file a certification of continued use.

[FN5]. A suggestive mark "suggest[s] rather than describe[s] the characteristics of the goods." [A.J. Canfield v. Honickman](#), 808 F.2d 291, 296 (3d Cir.1986). It requires "consumer 'imagination, thought, or perception' to determine what the product is." [J & J Snack](#), 149 F.Supp.2d at 147 (quoting [A & H Sportswear, Inc. v. Victoria's Secret Stores, Inc.](#), 237 F.3d 198, 222 (3d Cir.2000)).

[FN6]. Indeed, Plaintiff has failed to provide any proofs on this issue.

[FN7]. The court may take judicial notice of the registrations. [Island Software & Computer Serv., Inc. v. Microsoft Corp.](#), 413 F.3d 257, 261 (2d Cir.2005).

The Third Circuit has expressly stated that "the characterization of a mark is a factual issue for the jury." [Ford Motor Co. v. Summit Motor Prods.](#), 930 F.2d 277, 292 n. 18 (3d Cir.1991). Because the characterization TOTAL BEDROOM is a fact that is material to this case, the Court's role on this motion is to determine whether a genuine issue exists as to this fact. Said another way, the Court must determine "if the evidence is such that a reasonable jury could return a verdict" for the non-moving party on this particular issue. [Anderson](#), 477 U.S. at 248, 106 S.Ct. 2505. The court may not "engage in any weighing of the evidence; instead, the non-moving party's evidence 'is to be believed and all justifiable inferences are to be drawn in his favor.'" [Marino v. Indus. Crating Co.](#), 358 F.3d 241, 247 (3d Cir.2004) (quoting [Anderson](#), 477 U.S. at 255, 106 S.Ct. 2505).

As stated above, on a motion for summary judgment the moving party bears the initial burden of showing that no genuine issues of material fact exist. [Celotex Corp.](#), 477 U.S. at 323, 106 S.Ct. 2548. "[W]ith respect to an issue on which the nonmoving party bears the burden of proof ... the burden on the moving party may be discharged by 'showing'--that is, pointing out to the district court--that there is an absence of evidence to support the nonmoving party's case." [Celotex Corp.](#), 477 U.S. at 325, 106 S.Ct. 2548. In Defendants' brief, after discussion of the applicable trademark law, the entirety of Defendants argument with respect to the *320 distinctiveness issue is set forth in the following two sentences:

For example, BED & BATH was found to be descriptive for a store that sells items for the bedroom and bathroom in [Leejay v. Bed, Bath & Beyond, Inc.](#), 942 F.Supp. 699 (D.Mass.1996). TOTAL BEDROOM describes what plaintiff sells, just as BED & BATH describes [what] the store using that mark sells. Pl. Brief at 13.

In those two sentences Defendants have not met their burden of showing an absence of a genuine issue as to the validity or protectability of Plaintiff's mark. Unlike in the present case, the Defendant in [Leejay](#), the case relied upon by Defendants, submitted "a number of examples of retail stores' advertisements where the phrase 'bed and bath' or 'bed & bath' [had been] used to refer to bedroom and bathroom items." 942 F.Supp. at 701. Defendants here have pointed to no evidence whatsoever in support of their statement that "total bedroom" describes what Plaintiff sells, and, as Plaintiff points out, certainly nothing showing that "total bedroom" has been used or is generally understood to refer to furniture.

Although it is true that a factual issue may be resolved by a court on summary judgment where there is no more than a mere "scintilla of evidence" supporting a non-moving party's claim, see [Country Floors, Inc. v. Gepner](#), 930 F.2d 1056, 1061-62 (3d Cir.1991), the Court finds that the dearth of evidence supporting Defendant's argument on this motion combined with the limited evidence presented by Plaintiff makes it inappropriate resolve the issue of the characterization of Plaintiff's mark on summary judgment. The Court finds that there exists a genuine issue of material fact as to the validity and protectability of Plaintiff's mark.

b. Ownership of the Mark

[10] There appears to be little dispute regarding Plaintiff's ownership of the mark, although a single sentence in Defendants' brief baldly states that "[t]here is little support for plaintiff's assertion that it owns a trademark." Pl. Brf. at 15. In its statement of undisputed material facts, however, Defendants state that the website [totalbedroom.com](#) is "owned or operated" by Plaintiff. Exhibits submitted by Defendants show screen shots of this website using the mark TOTAL BEDROOM. Consequently, there is sufficient evidence pursuant to which a jury may find that plaintiff is the owner of the mark. See [McCarthy on Trademarks § 16:35](#) (4th ed.) ("Trademark ownership inures to the legal entity who is in fact using the mark as a symbol of origin.").

c. Use of the Mark

[11] Plaintiff claims that Defendants misappropriated the mark TOTAL BEDROOM by causing an advertisement and a link for Humble's website to appear on the Google search engine when the search phrase "total bedroom" was entered by a user. Defendant argues that this claim should be dismissed because "there is simply no proof that defendants ever actually purchased plaintiff's ... business name as a search term." Pl. Brf. at 15. However, considering the applicable standard on summary judgment, the Court finds that a genuine issue of fact exists in this

regard.

According to the deposition testimony of third-party defendant Steve Ross and as shown in certain web page screens shots submitted by Defendant, the sponsored advertisement for Humble Abode did not appear when Ross performed Google searches using the term "total" or the term "bedroom," but the advertisement did appear when he used the phrase "total bedroom" as a search term. Thus, taking *321 into account the fact that the Court must consider all facts and logical inferences in favor of the non-moving party, a fair inference may be drawn that Humble purchased the sponsored advertisement to be triggered by the search phrase "total bedroom."

[12] Defendants point to an email from "Frankie and the Google AdWords Team" that states that Defendants have never purchased from Google the term "total bedroom" as a keyword and it was possible that Humble's ad appeared during a search of the phrase "total bedroom" because "bedroom" was a keyword that had been purchased by Humble. However, Plaintiff correctly points out this email is hearsay, and generally may not be considered on a motion for summary judgment. See *Philbin v. Trans. Union Corp.*, 101 F.3d 957, 961 n. 1 (3d Cir.1996) (noting that a hearsay statement that is not capable of being admissible at trial should not be considered on a summary judgment motion); *Blackburn v. United Parcel Serv.*, 179 F.3d 81, 95 (3d Cir.1999) (same). Nevertheless, even if the Court were to consider the contents of the email, the Court finds that the letter only creates a genuine issue of material fact and does not itself entitle Defendant to summary judgment.

[13] This does not entirely resolve the issue of Plaintiff's "search engine" claims, however, because as both the Plaintiff and Defendant candidly point out, the law is unsettled regarding whether the purchase of another's protected mark as a search engine keyword can constitute unfair competition or infringement. The Court, therefore, must examine the validity of Plaintiff's legal theory of "infringement by search engine" and whether the facts alleged, if proven, state a claim against Defendants. [FN8]

[FN8. As discussed further below, Defendant has asserted similar counterclaims against Plaintiff based on Plaintiff's alleged purchase of Humble's mark as an Internet advertising keyword. The analysis, therefore, extends accordingly.

Plaintiff alleges Defendants purchased advertising linked to the search term TOTAL BEDROOM from the search engine company Google. Google, as well as other search engines, "sell[s] advertising linked to search terms, so that when a consumer enters a particular search term, the results page displays not only a list of Websites generated by the search engine program using neutral and objective criteria, but also links to Websites of paid advertisers (listed as 'Sponsored Links')." *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F.Supp.2d 700, 702 (E.D.Va.2004). The advertisement and link to Humble Abode's website appeared on the far right of the screen, separate and apart from the search results list, under the heading "Sponsored Links." Humble's advertisement does not display the mark TOTAL BEDROOM.

To be actionable under § 43(a) of the Lanham Act, a defendant's "use" of a plaintiff's mark must be "in commerce" and "on or in connection with any goods or services, or any container for goods." [FN9] 15 U.S.C. 1125(a). In this regard, courts presented with claims similar to those in the present case involving the purchase or sale of trademarks as search engine keywords generally have examined whether the defendant's alleged "use" of the mark constituted a "trademark use" generally, i.e., commercial use of the mark as a trademark, e.g., *800-JR Cigar, Inc., v. GoTo.com, Inc.*, 437 F.Supp.2d 273, 282-85 (D.N.J.2006), or have examined "use" by *322 looking more specifically at the definition of "use in commerce" under the Lanham Act, [FN10] e.g., *Merck & Co. v. Mediplan Health Consulting*, 425 F.Supp.2d 402, 415-16 (S.D.N.Y.2006). The Third Circuit has not spoken on the issue of whether the purchase and/or sale of keywords that trigger advertising constitutes the type of "use" contemplated by the Lanham Act, and decisions from other courts that have addressed the issue are conflicting. In a recent decision in the Southern District of New York, *Merck & Co. v. Mediplan Health Consulting*, plaintiff drug company brought an action against various Canadian entities that operated online pharmacies alleging, *inter alia*, unfair competition and trademark infringement under federal and state law. The Canadian entities had purchased from the Internet search engine companies Google and Yahoo! the right to have links to their website displayed as "Sponsored Links" when a computer user conducted a search using plaintiff's mark ZOCOR. The court, in granting defendant's motion to dismiss, found that

[FN9. The relevant portion of Section 43(a) of the Lanham Act: "Any 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...." 15 U.S.C. 1125(a) (emphasis supplied).

[FN10. Under the Lanham Act, [t]he term "use in commerce" means the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this Act, a mark shall be deemed to be in use in commerce--

(1) on goods when--

(A) 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 if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and

(B) the goods are sold or transported in commerce, and

(2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services.

15 U.S.C. § 1127.

in the search engine context, defendants to 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 the computer user's search of the keyword "Zocor" will trigger the display of the sponsored links to 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.

Merck & Co., 425 F.Supp.2d at 415.

Another district court addressing similar claims on similar facts found differently. In *Edina Realty, Inc. v. TheMLSonline.com*, Civ. 04-4371JRTFLN, 2006 WL 737064 (D.Minn. March 20, 2006), the defendant, a direct competitor of plaintiff, had purchased from Google and Yahoo! search terms that were identical or similar to plaintiff's EDINA REALTY trademark. In denying the defendant's motion for summary judgment, the Court found defendants use of the mark constituted a "use in commerce" under the Lanham Act, holding:

"While 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. See *Brookfield Commun., Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1064 (9th Cir.1999) (finding Internet metatags to be a use in commerce). Based on the plain meaning of the Lanham Act, the purchase of search terms is a use in commerce.

Edina Realty, 2006 WL 737064 at *3.

Similar actions brought against defendants who engage in the sale of the search *323 terms, as opposed to the purchasers of those terms, have likewise reached differing conclusions concerning "use." Compare *Rescuecom Corp. v. Google, Inc.*, 456 F.Supp.2d 393 (2006) (granting Google's motion to dismiss finding that "in the absence of allegations that defendant placed 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") with *800-JR Cigar, Inc., v. GoTo.com, Inc.*, 437 F.Supp.2d 273, 284-85 (D.N.J.2006) (denying summary judgment and finding sufficient evidence to support claim that defendant made "trademark use" of plaintiff's mark where defendant (1) accepted bids on the plaintiff's trademark from the plaintiff's competitors, thereby trading on the value of the marks; (2) ranked paid advertisers before "natural" listings among the search results, thereby acting as a conduit to steer competitors away from plaintiff; and (3) suggested search terms including the plaintiff's trademarks to the plaintiff's competitors); *Google v. American Blind & Wallpaper Factory, Inc.*, No. 03- 05340, 2005 WL 832398 (N.D.Cal. Mar. 30, 2005) (denying motion to dismiss in light of the unsettled state of the law with respect to actionable "use" of a trademark in the search engine context); *GEICO v. Google, Inc.*, 330 F.Supp.2d 700 (E.D.Va.2004) (denying motion to dismiss finding allegations that defendant allowed advertisers to bid on trademarks as search terms and to pay for advertising linked to trademarks were sufficient to establish trademark use).

The Court is mindful of the challenges that sometime arise in applying existing legal principles in the context of newer technologies. As expressed by the *Edina Realty* court, *supra*, Defendants' alleged use of Plaintiff's mark is certainly not a traditional "use in commerce." 2006 WL 737064 at * 3. Nonetheless, the Court finds Plaintiff has satisfied the "use" requirement of the Lanham Act in that Defendants' alleged use was "in commerce" and was "in connection with any goods or services." 15 U.S.C. 1125(a)(1). First, the alleged purchase of the keyword was a commercial transaction that occurred "in commerce," trading on the value of Plaintiff's mark. Second, Defendants'

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 Defendants' furniture retailing website. Therefore, not only was the alleged use of Plaintiff's mark tied to the promotion of Defendants' goods and retail services, but the mark was used to provide a computer user with direct access (*i.e.*, a link) to Defendants' website through which the user could make furniture purchases. The Court finds that these allegations clearly satisfy the Lanham Act's "use" requirement.

The Court stresses that this finding does not in any way bear upon whether Defendants' alleged use of Plaintiff's mark was unlawful. That can only be determined upon an examination of all of the elements of Plaintiff's claims, including whether the use of the mark was likely to confuse or deceive consumers about the affiliation of Defendants' goods and service with Plaintiff. See *Gov't Emples. Ins. Co. v. Google, Inc.*, 330 F.Supp.2d 700, 704 (E.D.Va.2004) ("Where keyword placement of ... advertising is being sold, the portals and search engines are taking advantage of the drawing power and goodwill of these famous marks. The question is whether this activity is fair competition or whether it is a form of unfair free riding on the fame of well-known marks.") (alteration in original) (quoting J. Thomas McCarthy, McCarthy on Trademarks & Unfair Competition *324 § 25:70.1 (2004)). As Defendants have not challenged the "likelihood of confusion" element of Plaintiff's claims on this motion, neither party has presented arguments or evidence on the issue. For this reason as well as others discussed above, the Court must deny Defendants' motion as it relates to Plaintiff's unfair competition and infringement claims.

2. Defamation and Trade Disparagement Claims

Defendant also seeks summary judgment as to Plaintiff's defamation and trade disparagement claims, arguing that Plaintiff cannot establish all of the necessary elements of its claims. Plaintiff alleges with respect to its defamation claim that "Defendants, including Wickersham and Kitterman, have made multiple misrepresentations and false statements to various third parties about Buying's business practices." Compl. at 45. With respect to its trade disparagement claim, Plaintiff alleges that these same Defendants "have made multiple, disparaging misrepresentations regarding Buying's business operations to Buy[ing]'s suppliers and vendors with whom it deals in the furniture business." *Id.* at ¶ 51. Specifically, Plaintiff points to the following communications as testified to by Wickersham as his deposition:

i) Wickersham sent an email to Google that stated as follows:

Hi. I'm with Humble Abode, LLC. We spend a significant amount on advertising with Google. Recently, a competitor of ours started bidding on our company name through AdWords in order to steal customers. What is Google's advertising policy regarding competition and allowing bidding on trademarked company names as phrases? Thank you. (Certification of Richard Collier at 19a)

ii) Wickersham communicated with Yahoo by email, fax or phone (he did not remember which) asking "what their policy is with regard to trademark infringement." Collier Cert. at 25a. Specifically, he asked about "where competitors might be able to use trademarks to be able to be found or for search purposes or ranking purposes." *Id.* at 26a. Wickersham mentioned the Total Bedroom website in the communication in that he "encouraged [Yahoo] to take a look at it." *Id.* at 27a. He also "let them know that [he] believe [d] we have a situation here, where one of [Yahoo's] advertisers, Steve Ross, is infringing on [Humble's] trademarks." *Id.* at 28a.

iii) Wickersham made a phone call to an unnamed person at a company called Couristan, for whom Bella Ross and Dan Ross (alleged to be third party defendant Steve Ross' mother and brother, respectively) were Humble's account representatives. Wickersham spoke to "Bella's boss" and advised him that "we have a conflict of interest here, and would like new account reps." *Id.* at 29a.

iv) When asked whether he "complain[ed] to anyone at Leggett & Platt about Total Bedroom, Directly Home, essentially, the plaintiff in this case," Wickersham answered in the affirmative. *Id.* at 30a.

v) Wickersham spoke to Humble's new account representative at Leggett & Platt about "who Bella Ross is. If she is an employee of Leggett & Platt or if she's a contractor or, you know, how ... this triangle could happen ... without me knowing that my own supplier's son is competing against me." *Id.* at 34a.

iv) In a conversation with an unnamed person from a company called Elegant Abode, Wickersham "mention[ed] that we have a conflict of interest with [Total Bedroom's] website."

vii) When asked whether he ever spoke to anyone at "San Francisco Market" *325 about Buying for the Home, Wickersham testified that "the name may have come up where we felt we had a conflict of interest here, and the we had asked Leggett & Platt multiple times to get us a new account rep. And we were not at all happy with Bella Ross and Dan Ross seeing our proprietary information with their son and brother being Steve Ross." *Id.* at 66a. He further stated that he "just expressed [his] frustration that [Humble's] account rep's son is competing and appears to be targeting our business."

The above deposition testimony is the only evidence presented by Plaintiff in response to Defendants' motion. As an initial matter, this evidence shows that Wickersham is the only defendant to whom any alleged defamatory statements have been attributed. Therefore, Plaintiff's defamation and disparagement claims shall be dismissed as to all other defendants.

With respect to Wickersham, the Court will first address Plaintiff's defamation claim. In response to Defendants' motion, Plaintiff asserts that "merely by introducing Humble's deposition testimony admitting publication of the statements in question, Buying has established a prima facie case of defamation ... [and] Humble's motion seeking dismissal of this claim must be denied." Pl. Brf. at 8. In so arguing, it appears that Plaintiff misapprehends his burden on a summary judgment motion.

[14][15] To succeed on a claim of defamation, a plaintiff must show "(1) that Defendant made a defamatory statement of fact; (2) concerning the Plaintiff; (3) which was false; (4) which was communicated to persons other than the Plaintiff; and (5) fault." *Mayflower Transit, L.L.C. v. Prince*, 314 F.Supp.2d 362, 372 (D.N.J.2004) (citing *Taj Mahal Travel, Inc. v. Delta Airlines, Inc.*, 164 F.3d 186 (3d Cir.1998)). As to the first element, "[w] hether the meaning of a statement is susceptible of a defamatory meaning is a question of law for the court." *Higgins v. Pascack Valley Hosp.*, 158 N.J. 404, 426, 730 A.2d 327 (1999) (quoting *Ward v. Zelikovsky*, 136 N.J. 516, 529, 643 A.2d 972 (1994)). Therefore, the Court must first determine whether the statements described by the deposition testimony above can be considered defamatory statements of fact.

[16][17][18][19][20] Generally, a statement that is communicated to third parties is defamatory if it is false and "tends to lower the subject's reputation in the estimation of the community or to deter third persons from associating with him." *Lynch v. New Jersey Educ. Ass'n*, 161 N.J. 152, 164-65, 735 A.2d 1129 (1999). Whether a particular statement is defamatory depends on its "content, verifiability, and context." *Id.* at 167, 735 A.2d 1129. An evaluation of "content" includes consideration of the statement's literal meaning as well as "the fair and natural meaning that reasonable people of ordinary intelligence would give to it." *Id.* Verifiability refers to whether a statement can be proven true or false, and statements that are not verifiable, such as insults and name-calling, even if offensive, are not defamatory. *Id.* Similarly, opinions are not actionable unless they imply false underlying facts. *Id.* The last component, context, is examined because it bears upon the "fair and natural meaning" of a statement. *Id.* at 168, 735 A.2d 1129.

[21] Examining Wickersham's deposition testimony excerpts listed above, the Court finds that all but the first one require very little discussion. Plaintiff has simply not established that the communications described in excerpts numbered ii through vii above are "defamatory statements of fact." In many cases the deposition testimony pointed to by Plaintiff is not specific enough to discern the actual statement or its context. To the extent that a *326 statement may discernable, it is not defamatory and/or does not refer to Plaintiff.

[22] The first excerpt listed requires just slightly more discussion. It describes an email sent to Google in which Wickersham refers to "a competitor" who is attempting to "steal customers" by bidding on Humble's company name through Adwords. On its face, this email does not refer by name to Plaintiff or its website. It is true, as Plaintiff argues, that the actual naming of Plaintiff is not a necessary element in a defamation action, so long as "there is such reference to him that those who read or hear the libel reasonably understand the plaintiff to be the person intended." *Dijkstra v. Westerink*, 168 N.J. Super. 128, 401 A.2d 1118 (App.Div.1979). However, Plaintiff has produced no evidence from which the Court can conclude that the person who received this message reasonably understood it to refer to Plaintiff. First, Plaintiff does not establish who the actual recipient is. [FN11] The most that can be inferred from the deposition testimony is that the email was sent to "Google." Second, although Plaintiff argues that "Google" can identify Plaintiff by checking its Adwords records of recent bidding, Plaintiff has not established that it was the only party bidding on the phrase "humble abode" through Adwords.

[FN11] A copy of the email is not part of the record on this motion.

Additionally, Plaintiff has not even attempted to provide any evidence to establish that any of the statements by Wickersham were false. Having failed to make a sufficient showing as to all of the elements of its claim, Plaintiff cannot defeat Defendant's motion for summary judgment. As the Supreme Court has stated

[T]he plain language of [Rule 56\(c\)](#) mandates the entry of summary judgment, after adequate time for discovery and upon motion, against a party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial. In such a situation, there can be "no genuine issue as to any material fact," since a complete failure of proof concerning an essential element of the nonmoving party's case necessarily renders all other facts immaterial. The moving party is "entitled to a judgment as a matter of law" because the nonmoving party has failed to make a sufficient showing on an essential element of her case with respect to which she has the burden of proof.

[Celotex Corp. v. Catrett](#), 477 U.S. 317, 322-23, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986).

[23] Plaintiff's trade disparagement claim fails as well. The elements of trade libel are: (1) publication; (2) with malice; (3) of false allegations concerning its property, product or business, and (4) special damages, *i.e.* pecuniary harm. [Mayflower Transit](#), 314 F.Supp.2d at 378. See also [Patel v. Soriano](#), 369 N.J.Super. 192, 247, 848 A.2d 803 (App.Div.2004) (proof of damages is essential in an action for trade libel). Plaintiff has made no attempt to provide any evidence of malice, falsity or damages. Accordingly, Defendants' motion shall be granted with respect to Plaintiff's defamation and trade disparagement claims.

C. Humble's Motion for Summary Judgment on Its Counterclaims and Third Party Claims a. Infringement and Unfair Competition

In its pleading, Humble asserts that Buying and third party defendant Ross [\[FN12\]](#) *327 engaged in unfair competition under the Lanham Act, and unfair competition, including trademark infringement under state law. As discussed earlier, the threshold issue on a claim for trademark infringement or unfair competition is whether there exists a valid and protectable mark. HUMBLE ABODE is registered as a service mark and is entitled to a presumption of validity. [15 U.S.C. 1115\(a\)](#). Buying has not pointed to evidence overcoming this presumption, but argues that Humble's registration is irrelevant to the present case because this case "involves the sale of goods, not services." Pl. Brf. at 22.

[FN12](#). While Humble has asserted these claims against Steve Ross in its pleading, its summary judgment motion appears to be directed solely to Buying's conduct. The motion makes no attempt to explain the role of Ross with respect to the alleged acts or the basis upon which he may be liable. Therefore, Humble's motion is denied as to Ross, and the remainder of this Opinion will address Humble's motion as if directed at Buying only.

[24] While a service mark and a trademark are separate designations, they are similar in many ways. The purpose of a trademark is to distinguish one party's goods from those made by another, and a service mark is used to distinguish services in the same manner. In either case the marks are used to indicate the distinctive source of the goods or services. The services involved in this case involve the online retailing of bedroom furniture. Moreover, a mark provides protection not only for the product or service to which it is originally applied but also to related items or services. See [Boston Athletic Ass'n v. Sullivan](#), 867 F.2d 22, 27 (1st Cir.1989). Consequently, the Court is persuaded by Buying's argument with respect to the validity of Humble's mark.

[25] Humble also claims to have trademark rights in over 90 "unique, proprietary and arbitrary product names." Buying argues that the marks are not valid trademarks because they have not been physically affixed to any goods. However, in establishing common law trademark rights, the old rule requiring physical affixation has given way to a more open-ended approach. See [2 McCarthy on Trademarks and Unfair Competition § 16:24](#) (4th ed.). Under the modern rule as set forth in Restatement (Third) of Unfair Competition, common law trademark rights can be acquired when a mark is "actually used." Restatement [§ 18](#). Such use occurs when the mark "is displayed or otherwise made known to prospective purchasers in the ordinary course of business in a manner that associates the designation with the goods, services, or business of the user." *Id.*

With the limited evidence presented by Humble, the Court is unable to conclude that Humble has established that its unregistered product names are valid and protectable marks. Particularly as to the test articulated above, the evidence in this case is unclear as to how Humble actually used its product names. The only evidence in the record regarding these product names is from the Certification of James Wickersham, which states that "as a result of its investment in the development and promotion of its website, Humble Abode also has trademark rights in numerous

product names for its bedroom furniture including but not limited to the following trademarks for furniture items: ACCOLADE, ALABASTER, ... [listing product names]." [\[FN13\]](#) Wickersham Cert. at ¶ 5 (incorporating by reference ¶ 16 of Humble's Counterclaims and Cross-Claims). Also, Humble's Rule 56.1 statement, in a point undisputed by Buying, *328 states that "[a]t the time this suit was filed, Humble Abode utilized various product names for the bedroom furniture it sells, including but not limited to the following name for furniture items: ACCOLADE, ALABASTER, ... [listing product names]." Statement of Material Facts at ¶ 3. Of course, Wickersham stating that Humble "has trademark rights" in its product names does not make it so, but the certification does, at a minimum, establish that Humble used certain product names. However, nowhere does Humble provide evidence of how the product names are used, where they appeared, if and how they were communicated to prospective purchasers, or even to what kinds of items they refer. Without this information, the Court is unable to perform any analysis as to the protectability of Humble's furniture names and, even more generally, cannot conduct an analysis of Humble's claims as to these product names. This precludes summary judgment in favor of Humble on any of Humble's claims with respect to these product names. The remainder of the Court's discussion, therefore, will focus on the HUMBLE ABODE mark.

[FN13](#). For the purposes of this opinion, it is not necessary to set forth the entire list of product names.

i. Buying's Use of Humble's Mark HUMBLE ABODE

Humble provides several screenshots of Buying's web pages that use the mark HUMBLE ABODE. For example, a page from [totalbedroom.com](#) states:

In addition to offering the lowest prices anywhere, we have begun to educate our visitors as to how retailers like Humble Abode sell the same product for much more under a different name. After doing a thorough evaluation of every coupon code and sale ever offered at [Humbleabode.com](#) it is clear that the Total Bedroom price is always significantly cheaper. For comparison we have listed the Humble Abode product names, to learn more or order, click the product picture below.

Answer at Ex. A and B. Directly below this paragraph is a disclaimer: "Humble Abode and product names are trademarks of HumbleAbode.com LLC. All other trademarks are the property of the respective trademark owners." *Id.*

Also from [totalbedroom.com](#), as found on a page providing product detail for one of their beds, is the following: "Total Bedroom has found the same bed renamed. In an effort to clarify the market for furniture shoppers, we decided to include a comparison to [humbleabode.com](#) who sells this as the Montana Wood and Iron Bed." *Id.* at Ex. C.

The following appeared on [buyingfurniture.com](#): "If you are considering a purchase at Humble Abode ([humbleabode.com](#)) please read the below bed deal to see how to save \$100's on: [listing product names] To see what these beds are called by Fashion Bed Group (the manufacturer) simply Price Compare Humble Abode by clicking on this link." *Id.* at Ex. H.

A screen shot shows that a search run on the Google search engine for the terms "humble abode furniture" resulted in the appearance of a sponsored advertisement for [totalbedroom.com](#). The advertisement states: "Save on Humble Abode. Find many of the Humble Abode.com beds at a significant discount." It also provides a link to [totalbedroom.com](#). *Id.* at Ex. I.

Humble also provides several screen shots of searches apparently performed on the Yahoo! search engine using various search phrases that included the words "Humble Abode." Appearing at or near the top of the natural results list (*i.e.*, apparently unsponsored) are websites purportedly affiliated with Buying. The summaries shown on the search engine show *329 that the term "Humble Abode" appears on these websites.

ii. Fair Use

[26] Buying argues that Humble's Lanham Act and state law claims are barred by the affirmative defense of "fair use" in the form of comparative advertising. "In general, the law is that it is neither trademark infringement nor unfair competition to truthfully compare competing products in advertising, and in doing so, to identify by trademark, the competitor's goods." [4 McCarthy on Trademarks and Unfair Competition § 25:52](#) (4th ed.). As noted by the Third Circuit, "[t]he use of a competitor's trademark for purposes of comparative advertising is not trademark infringement 'so long as it does not contain misrepresentations or create a reasonable likelihood that

purchasers will be confused as to the source, identity, or sponsorship of the advertiser's product." *G.D. Searle & Co. v. Hudson Pharmaceutical Corp.*, 715 F.2d 837, 841 (3d Cir.1983), (quoting *SSP Agricultural, Etc. v. Orchard-Rite Ltd.*, 592 F.2d 1096, 1103 (9th Cir.1979)).

In fact, comparative advertising has been recognized as a useful tool for consumers in making purchasing decisions. See, e.g., *August Storck K.G. v. Nabisco, Inc.*, 59 F.3d 616 (1995) ("A use of a rival's mark that does not engender confusion about origin or quality is therefore permissible. The use is not just permissible in the sense that one firm is entitled to do everything within legal bounds to undermine a rival; it is beneficial to consumers. They learn at a glance what kind of product is for sale and how it differs from a known benchmark."). Indeed, the Federal Trade Commission encourages the use of comparative advertising and has expressly recognized its benefits:

Comparative advertising, when truthful and nondeceptive, is a source of important information to consumers and assists them in making rational purchase decisions. Comparative advertising encourages product improvement and innovation, and can lead to lower prices in the marketplace.
[16 C.F.R. § 14.15\(c\)](#).

[27] In the context of a trademark infringement claim, the comparative advertising defense raised by Buying falls under the umbrella of "nominative fair use." Nominative fair use occurs when (1) the alleged infringer uses the trademark holder's mark to describe the trademark holder's product, even if the goal of the accused infringer is to describe his own product; or (2) "if the only practical way to refer to something is to use the trademarked term." *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 214 (3d Cir.2005). Consequently, "[i]t must be recognized at the outset that 'fair use' presents a fact pattern different from that of a normal infringement suit." *Id.* at 217.

[28] In *Century 21 Real Estate Corp. v. Lendingtree*, Third Circuit adopted a two-part approach for nominative fair use cases. First, the plaintiff must prove that "confusion is likely due to the defendant's use of the mark." [425 F.3d at 222](#). Once the plaintiff has met its burden of showing a likelihood of confusion, "the burden then shifts to defendant to show that its nominative use of plaintiff's mark is nonetheless fair." *Id.*

The "likelihood of confusion" test in the nominative fair use context is a variation of the multi-factor test used in traditional trademark infringement cases that assesses what have become known as the "[Lapp](#)" factors." See *Scott Paper Co. v. Scott's Liquid Gold, Inc.*, 589 F.2d 1225 (3d Cir.1978); *[330](#) *Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460, 463 (3d Cir.1983). These factors are as follows:

- (1) degree of similarity between the owner's mark and the alleged infringing mark;
- (2) strength of the owner's mark;
- (3) price of the goods and other factors indicative of the care and attention expected of consumers when making a purchase;
- (4) length of time the defendant has used the mark without evidence of actual confusion;
- (5) intent of the defendant in adopting the mark;
- (6) evidence of actual confusion;
- (7) whether the goods, though not competing, are marketed through the same channels of trade and advertised through the same media;
- (8) the extent to which the targets of the parties' sales efforts are the same;
- (9) the relationship of the goods in the minds of consumers because of the similarity of function; and
- (10) other facts suggesting that the consuming public might expect the prior owner to manufacture a product in the defendant's market or that he is likely to expand into that market.

[Century 21 Real Estate](#), 425 F.3d at 224.

[29] Not all of these factors are to be applied in a nominative fair use case. *Id.* ("In the context of a nominative use of a mark ... certain [Lapp](#) factors are either unworkable or not suited or helpful as indicators of confusion."). Specifically, the Third Circuit has stated that the first two factors--the degree of similarity and the strength of the mark--are not useful or appropriate in a nominative fair use case. *Id.* at 225. All of the other [Lapp](#) factors may be used, but it will be up to the district court in each case to determine which factors are appropriate to use under the individual factual circumstances presented. *Id.* In determining which factors to use, the court should be guided by its ultimate goal of "assess[ing] whether consumers are likely to be confused by the use *not* because of its nominative nature, but rather because of the manner in which the mark is being nominatively employed." *Id.* at 226 (emphasis in original).

With this in mind, the Court finds the following factors to be relevant in the present case: (1) price of the goods

and other factors indicative of the care and attention expected of consumers when making a purchase; (2) length of time the defendant has used the mark without evidence of actual confusion; (3) intent of the defendant in adopting the mark; and (4) evidence of actual confusion. However, despite the fact that consumer confusion (or the prevention thereof) is at the heart of any infringement or unfair competition claim, Humble has not addressed this issue or any of the [Lapp](#) factors on this motion.

As to the first factor, Buying argues that Internet consumers tend to be fairly sophisticated and therefore less likely to become confused. As to the second and fourth factors, Buying claims to have used Humble's mark for three years and Humble has provided no evidence of actual confusion. Last, the parties do not dispute that Buying consulted counsel with respect to using Humble's mark and, as a result, *totalbedroom.com* contains a trademark acknowledgement drafted by counsel. This relates to the third factor and tends to negate any intent on the part of Buying to confuse consumers. Given this evidence, and the lack of any evidence from Humble regarding the likelihood of consumer confusion, the Court cannot conclude that Humble is entitled to judgment as a matter of law on its infringement and unfair competition claims.

*[331](#) b. False Advertising

[30][31] To prevail on a claim of false advertising under the Lanham Act, a party must prove: "1) that the defendant has made false or misleading statements as to his own product [or another's]; 2) that there is actual deception or at least a tendency to deceive a substantial portion of the intended audience; 3) that the deception is material in that it is likely to influence purchasing decisions; 4) that the advertised goods traveled in interstate commerce; and 5) that there is a likelihood of injury to the plaintiff in terms of declining sales, loss of good will, etc." *Ditri v. Coldwell Banker Residential Affiliates, Inc.*, 954 F.2d 869, 872 (3d Cir.1992) (alteration in original). Humble argues that "the entire enterprise of *Totalbedroom.com* and its affiliated websites amounted to false and misleading statements likely to confuse and deceive potential customers as to the source of the furniture they were purchasing." Def. Brf. at 28. Humble's two paragraph argument with respect to its false advertising claim gets no more specific as to exactly what statements were false and misleading or why. The limited evidence presented on this motion certainly does not lead the Court to conclude as a matter of law that the "entire enterprise" of *totalbedroom.com* and its affiliates were false and misleading, particularly in light of the un rebutted defense of fair use raised by Buying.

Moreover, Humble has adduced no evidence of actual deception or confusion or even evidence of the "tendency" that consumers may be misled. Accordingly, the Court cannot find Humble is entitled to judgment as a matter of law on its false advertising claim.

c. Unfair Competition by Filing Lawsuit

[32] Humble argues that Plaintiff's filing of this lawsuit constitutes unfair competition under the Lanham Act and state law. Although some states have recognized this legal theory, see, e.g., *Microsoft Corp. v. Action Software*, 136 F.Supp.2d 735, 739 (N.D. Ohio 2001) ("Ohio is one of the first states to recognize that lawsuits implemented with the design to gain an unfair advantage over a competing business are a basis for a common law suit for unfair competition"), Humble points to no decision that would indicate that it is a viable theory under New Jersey law. As to federal law, the Lanham Act prohibits false designations of origin or misleading descriptions of goods or services which are likely to cause confusion, and therefore does not contemplate such a claim. [15 U.S.C. 1125\(a\)](#). See also *IMCS, Inc. v. D.P. Tech. Corp.*, 264 F.Supp.2d 193, 197 (E.D.Pa.2003) (noting that, with respect to a related patent infringement suit, "a lawsuit that alleges unfair competition must be based on marketplace statements or misconduct and cannot be based merely on the filing of a lawsuit to enforce a presumptively valid patent"). To the extent Humble seeks to state a Lanham Act claim based upon the filing of the lawsuit, that claim fails.

Moreover, even if Humble's legal theory were valid, the Court finds it would not be entitled to summary judgment. Humble simply has not made a showing that, as a matter of law, Buying brought the suit in bad faith or for an improper purpose. Additionally, in response to Humble's arguments Buying has raised the defense of reliance on counsel, which raises an issue of fact precluding summary judgment.

D. Request to Strike Humble's Demand for Attorney Fees

[33] In its Letter Order dated February 14, 2006, the Court granted in part Buying's motion to strike Humble's demands *[332](#) for attorney fees but denied without prejudice Buying's motion to the extent Humble's demands were

based on the Lanham Act. Now that Humble has presented its case in seeking summary judgment, Buying has renewed its motion. [FN14](#) See Pl. Brf. at 34. The Court will grant the motion and strike Humble's demand for attorney fees.

[FN14](#). Humble has not submitted opposition to Plaintiff's request to strike.

[\[34\]](#) Section 35(a) of the Lanham Act, which sets forth the available remedies for trademark violations, provides in relevant part that "the court in exceptional cases may award reasonable attorney fees to the prevailing party." [15 U.S.C. § 1117\(a\)](#). The Third Circuit has held that an "exceptional" case under § 35(a) must involve culpable conduct on the part of the losing party. See [Securacomm Consulting, Inc. v. Securacom Inc.](#), [224 F.3d 273, 280 \(3d Cir.2000\)](#). Specifically, "a district court must make a finding of culpable conduct on the part of the losing party, such as bad faith, fraud, malice, or knowing infringement, before a case qualifies as 'exceptional.'" *Id.* (quoting [Ferrero U.S.A., Inc. v. Ozak Trading, Inc.](#), [952 F.2d 44, 47 \(3d Cir.1991\)](#)).

Humble has taken the opportunity to present its case to the Court through its summary judgment motion. Various issues discussed herein preclude summary judgment in favor of Humble with respect to the Lanham Act claims raised by either party. However, even if Humble ultimately prevails on the Lanham Act claims in this case (*i.e.*, defeats Plaintiff's claims and/or prevails on its own), nothing in the facts presented to the Court would warrant a finding that Buying's conduct rose to the level of bad faith, fraud, malice, knowing infringement or the like. First, the case presents novel issues of Internet advertising rather than flagrant violations of well-settled trademark law. Indeed, the law in this area has continued to evolve from the day this case was filed. Second, there is no dispute that Buying consulted counsel with regard to its use of Humble's marks and included trademark disclaimers on its website, which would tend to negate a finding on intentional infringement or bad faith. In short, Humble has not established that this is an exceptional case under § 35. Buying's motion to strike shall be granted.

III. Conclusion

For the reasons set forth above, Defendants' motion for summary judgment is granted in part and denied in part. Buying's motion to strike Humble's request for attorney fees is granted. An appropriate order accompanies this Opinion.

459 F.Supp.2d 310

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- [2006 WL 3890271](#) (Trial Motion, Memorandum and Affidavit) Brief in Support of Motion to Strike all Demands for Attorneys' Fees and Disbursements from the Answer, Counterclaim and Cross-Claims (Jan. 6, 2006)

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Misplaced Trust.....



By Michael R. Geroe and J. Wylie Donald

Chances are your client is among the advertisers who collectively spent \$12.5 billion in 2005 and over \$16 billion last year, according to PriceWaterhouseCoopers and eMarketer, to reach consumers through the internet. Even if it is not, it is likely your client uses the internet to sell or provide goods or services to existing customers. The underbelly of this activity, crime and other undesirable behavior accompanying electronic commerce, is a growing concern to both businesses and legislators. From corporate investigations relying on so-called pretexting and, among other things, using email to plant false information, to outright identity theft by high-tech burglars, to the safety of minors from predators, businesses and lawmakers grapple with a head-spinning array of electronic commerce-based legal and policy issues. You should have some familiarity with these issues because your clients, who likely consider some or most of them far removed from their daily concerns, do not.

This article is a selective, though not necessarily impartial, survey of specific identity theft issues and internet regulation with respect to minors, from the standpoint of businesses directly affected by them. This article will be useful for decision-makers considering how to effectively enforce privacy protection while minimizing burdens on the regulated community. It will also help in-house counsel to understand and apply practical compliance techniques to minimize risks in internet-based advertising activities. Finally, the article hopes to assist businesses and lawmakers in finding a balance between internet email advertising enforcement burdens, and the expressed intent of Congress set forth in the CAN-SPAM Act,¹ to protect and stimulate commerce.

and

STOLEN IDENTITIES: PROTECTING CONSUMERS AND MINORS AS THEY USE THE INTERNET

Identity Theft

The crime of identity theft pre-dates the internet and may still be accomplished via "traditional" methods; nonetheless, the internet has proven to be a perfect vehicle for numerous new and disturbingly effective forms of identity theft. Spyware, viruses, and computer hacking have been used to gain access to personal information, account numbers, passwords, and transactional data from consumers' computers and online transactions; "phishing" scams are used by thieves to collect personal information from unsuspecting consumers through fraudulent email and websites disguised to appear legitimate. Identity theft may also be caused by corporate security breaches, such as the well-publicized February 2005 incident in which *USA Today* reported that numerous illegitimate companies accessed the personal data of approximately 145,000 people, which was stored in the records of a Georgia-based information broker.

To put the magnitude of the problem into context, the Federal Trade Commission's Division of Privacy and Identity Protection recently reported to the U.S. House of Representative's Committee on Ways and Means that nearly 10 million American consumers are the victims of identity theft each year.² Once an individual's data has been stolen, it can be used to enable additional crimes, including financial fraud, drug trafficking, and terrorism. The problem is exacerbated by the internet's characteristics, which permit smart identity thieves to remain anonymous while reaching across state and national borders with relatively little effort.

Federal Identity Theft Laws

Federal legislation currently addresses discrete identity theft issues, but remains too piecemeal to be truly effective or to provide businesses with a consistent set of practical standards. Federal identity theft laws can be roughly categorized as pertaining to either (1) the crime of identity theft and its effect on consumer credit, or (2) identity theft prevention.

Laws Focusing on the Crime and its After-Effects

The Identity Theft and Assumption Deterrence Act of 1998, Pub. L. No. 105-318, defines and criminalizes certain forms of identity theft. It also requires the establishment of a centralized procedure for logging and tracking victims' complaints, and referring those complaints to the major credit reporting agencies and the appropriate law



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The opinions expressed in this article are solely those of the authors and do not necessarily represent the views of their employers or customers.

enforcement entities. The Identity Theft Penalty Enhancement Act, Pub. L. No. 108-275, was enacted in 2004 and, as its name suggests, increased the criminal penalties associated with certain forms of identity theft and for terrorism carried out through identity theft.

In contrast, the Fair and Accurate Credit Transactions Act of 2003 (FACT), Pub. L. No. 108-159, which amended the Fair Credit Reporting Act, 15 U.S.C. §§ 1681 *et seq.*, is generally concerned with the effect of identity theft on the victim. It sets up a scheme that governs the relationship between identity theft victims, creditors, and credit reporting agencies so that victims are able to identify and report thefts, stave off further damage to their credit ratings, and ultimately restore their credit. This is accomplished through several means, including entitling all consumers to one free credit report per year, requiring creditors to produce records of fraudulent transactions involving the theft victim's identity, requiring credit reporting agencies to place "fraud alerts" in victims' files when requested to do so, and prohibiting the agencies from reporting credit information identified by the consumer as having resulted from identity theft.

Laws Focusing on Prevention

The Gramm-Leach-Bliley Act (GLB Act), also known as the Financial Modernization Act of 1999, Pub. L. No. 106-102, includes several anti-identity theft provisions intended to protect consumers' private personal information stored by credit bureaus and financial institutions. The privacy requirements, which are administered and enforced by several federal agencies including the Federal Trade Commission (FTC), are broken into three parts: the Financial Privacy Rule, the Safeguards Rule, and the "pretexting" provisions.³ The "pretexting" provisions are intended to protect consumers from individuals and companies that obtain their personal financial data from financial institutions through false pretenses; pretexting itself has become almost a mainstream term following heavy press coverage of a corporate boardroom investigation in which its use has been alleged. The Financial Privacy and Safeguards Rules focus on the financial institution themselves.

The Financial Privacy Rule regulates the collection and disclosure of consumers' and customers' financial information. The rule distinguishes between the two, requiring that a financial institution automatically provide its

Finally, **FACT** provides for **regulations requiring** that any person who maintains or **compiles consumer information** "properly **dispose** of any such information or compilations."

customers (i.e., persons with whom the institution has a continuing relationship) with its privacy notice annually. Consumers, in contrast, are entitled to a privacy notice only when an institution shares their information with another company. The privacy notice explains the institution's privacy procedures in detail, including what personal data is collected, with whom it is shared, and how it is protected. With certain exceptions, both consumers and customers have "opt-out" rights through which they can elect not to have their personal data shared with other companies. The GLB Act also limits how the recipients of consumer and customer data may use or further disclose the information.

The Safeguards Rule, also applicable to financial institutions, requires the institutions to develop and institute a written security plan to protect the privacy and security

of personal financial information. As part of its plan, each institution must designate an employee to coordinate data privacy, evaluate current data security and its risks, and develop and institute a security plan using competent service providers. The institution must also monitor, evaluate, and adjust the plan as necessary after its implementation in order to ensure that data protection continues to be effective.

A number of FACT provisions are also aimed at identity theft prevention. For instance, FACT amended the Fair Credit Reporting Act to require the truncation of credit card numbers on receipts generated during point of sale transactions so that no more than the last five digits of the card number may appear on a receipt. FACT also requires credit reporting agencies to truncate a consumers' social security number on his or her credit report if the consumer so requests. Finally,



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*Outsell, Inc., The Global Copyright Infringement Pandemic, July 29, 2005.

Limiting Identity Theft

Key questions to consider in limiting identity theft risk:

- Laptops and thumbdrives are convenient—and are conveniently lost or stolen. Do you have rules limiting the media on which confidential personal information can be stored? Are passwords required? Have you considered encryption?
- Social Security can be a source of liability. Do you limit access to it? Can you substitute other identifiers?
- If confidential personal information goes missing, do you have a response plan? Will you be able to ascertain what information has been lost? Are you prepared to talk to the media?
- Have you evaluated whether insurance is appropriate for your organization for the identity theft risk?
- What are you doing to monitor the disparate identity theft laws that apply to the jurisdictions in which you do business?

FACT provides for regulations requiring that any person who maintains or compiles consumer information “properly dispose of any such information or compilations.”

Additional provisions addressing privacy and security appear in various statutes and regulations concerned with financial entities and services. Outside of the financial realm, other laws address discrete aspects of information privacy that, whether initially intended to or not, ultimately assist in the prevention of identity theft. Among them is the Health Insurance Portability and Accountability Act of 1996 (HIPAA), Pub. L. No. 104-191, which created an opt-in system to protect consumers’ private medical information. Another example is the Children’s Online Privacy Protection Act of 1998 (COPPA), 15 U.S.C. §§ 6501-6506. Although COPPA focuses on child safety, its prohibition against unfair and deceptive acts in connection with the collection and disclosure of children’s personal information on the Internet has the added benefit of providing an additional control on the kinds of data commonly used in identity theft. Significantly, COPPA identifies a minor as someone under 13, which was relied upon as a cut-off by many advertisers who do not wish to provide or advertise goods or services

Because it is difficult to identify where the user of any given email address is located, businesses advertising by email must scrub their email lists against each state registry monthly.

to minors. As detailed in the second half of this article, however, some states have recently passed criminal statutes affecting advertisers where age is an element of the crime. These laws define a child as someone under 18.

State Identity Theft Laws

No federal statute addresses identity theft and the protection of private personal information comprehensively or entirely preempts the field. As a result, states are filling in the gaps as they see fit. By the late 1990s, approximately one-half of the states had passed identity theft laws.⁴ Now all states recognize and criminalize some form of identity theft. This sometimes results in laws that conflict with one another and creates its own set of gaps, making it less likely to adequately protect consumers and creating confusion and unintended liability for businesses operating in multiple jurisdictions. For example, many states have passed “breach notice” laws in the wake of recent high-profile data security breaches; these laws are not necessarily consistent.

Taking these breach notice laws as an example, the 2005 security breach at ChoicePoint illustrates the uncertainty that conflicting state laws can create when companies do business in more than one jurisdiction. After the ChoicePoint incident occurred, the company sent letters to at least 30,000 consumers notifying them of the breach and suggesting that they monitor their credit reports for the following year.⁵ The notification was precipitated not by federal law, but by a California statute, Cal. Sen. Bill 1586 (2002), requiring disclosure of losses of personal information. The statute requires that notification be provided to California residents only, and then only if the breach involves names, social security numbers, or other identification numbers. In contrast, consider New Jersey’s Identity Theft Protection Act (ITPA), NJSA 56:11-44, *et seq.*, which became effective in 2006. The ITPA requires consumers to be notified of a breach involving “personal information,” which is more broadly defined and encompasses more data than the California statute. If

a company doing business in both states were subject to a breach, its notification requirements would vary depending upon where its customers live and what sort of data was involved. The company could be required to notify New Jersey residents but not California residents of the breach, which may be difficult to later justify to California residents who became the victims of identity theft as well. Harder still would be justifying the choice to a jury. Thus, prudent companies will conform to the most stringent state’s rules and hope that it is possible to do so without violating the law of any other jurisdiction. Given the volume of business that is transacted across state borders, the redundancy and potential conflict of state identity theft laws seems at best, unnecessary and at worst, detrimental to interstate commerce.

Internet Advertising and Minors

As reported by *eMarketer*, spending by US businesses to purchase internet-based advertising has grown from nearly \$10 billion in 2004 to over \$16 billion in 2006; it is expected by some observers to hit nearly \$24 billion by 2008. If your clients advertise on or through the internet, you should be aware of state laws regulating advertisements viewable by minors. Your client’s business may be regulated by these laws even if the business ensures that customers opt in to all email-based advertisements, or even though the goods or services of the business are not directed to minors, or even though you are confident the viewing audience for your promotions is above the age (13) regulated by COPPA. As discussed below, two states have passed strict liability laws defining minors as under 18.

Regulation of promotions viewable by minors over and through the internet, particularly through email, has become a hotly debated issue among state legislators in the last few years. In 2004, the state legislatures of Michigan and Utah each passed bills creating “child protection registries” in an attempt to regulate the content of advertising directed at children. The Utah law prohibits the dissemination to minors of (among other forms of contact) email that advertises “material that is harmful to minors” or which minors are “prohibited by law from purchasing.”⁶ The Michigan law similarly bans email and other forms of contact with minors that “advertises a product or service that a minor is prohibited by law from purchasing, viewing, possessing, participating in, or otherwise receiving.”⁷ The Utah and Michigan laws allow either the state or an individual to bring suit against an allegedly offending advertiser. Several other states, including Connecticut, Georgia, Hawaii, Iowa, Illinois, and Wisconsin have proposed similar measures, although they have not yet been successfully passed into law.

Part of the controversy over the laws stems from the registries’ potential pre-emption by the Controlling As-

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Compliance Under Michigan and Utah Registry Laws

What do you need to think about in your email advertising to comply with the Michigan and Utah child protection registry laws?

- Determine whether you advertise your products or services over the internet, and if so, whether you advertise via email advertising (as opposed, for example, to banner advertising).
- If you advertise over the internet (even if you don't advertise through email) and your products or services are not used by people under 18, consider maintaining a published statement on your website within your Terms of Use, asserting that your product(s)/service(s) are not intended for anyone under age 18.
- If your client advertises via email, determine whether the email marketing team knows or can filter recipients of your client's advertisements by geographic region (e.g., do they have zip code or city/state data?). If the answer is yes, consider filtering out any recipients located in Utah and Michigan. If this is impractical (e.g., you are a local business in Utah or Michigan), visit Michigan's and Utah's sender compliance pages, www.ProtectMChild.com/compliance.html and www.utahkidsregistry.com/compliance.html?vid=0t5i6i825p6k5cmpgb5393t6v2, to determine if you may or must register with those states the list(s) you use to send email advertising.
- Don't assume that the child protection registries will only be used to regulate pornography, Car rental, gambling, hotel room reservations, airline ticket purchases, wine/alcohol or cigar clubs are all examples of businesses intended for use by adults, which may be regulated by the Michigan and Utah child protection registries. The Michigan attorney general, for example, brought suit against a California company and a Florida company on the basis of email solicitations involving alcohol and gambling. See www.nxsecure.org/index.php?ind=news&op=news_show_category&idc=1.

You may outsource your internet-based email advertising to a special services provider and seek indemnification, representations and warranties concerning compliance with applicable state and federal laws. Due diligence about the provider is important, however, because certain violations of the Michigan and Utah laws may result in criminal liability,

sault of Non-Solicited Pornography and Marketing Act, the CAN-SPAM Act, which preempts state laws that "expressly regulate[] the use of electronic mail to send commercial messages," although it contains an exception for "computer crimes." Proponents of the state registries have defined violations of the registry laws as computer crimes. For example, a press release from the Michigan governor's office states that a first violation under the Michigan law is treated as a misdemeanor, while subsequent violations are treated as felonies.⁸ Businesses are understandably concerned over facing potential felonies for sending advertising pursuant to state laws that are not entirely clear.

Advocates of the laws assert that child protection registries are conceptually similar to telephone "do not call" lists. In theory, the process is simple. Parents may provide their child's email address (or any email address, phone number or other contact information to which the child has "access") to the registry in their home state. Businesses advertising to minors in states with registries then pay a fee to "scrub" their email lists against each state's registry. The company that performs the scrubbing process (Unspam, LLC) returns the email list to the business after removing each registered address. The cost, depending on the state, is either \$0.005 (Utah) or \$0.007 (Michigan) per address checked, regardless of whether any registered addresses are identified and removed. Under both the Michigan and Utah laws, after an email address has been listed on a registry for 30 days, internet advertisers may incur liability for sending prohibited email to the address, so businesses must scrub their email lists monthly in order to timely remove registered addresses. Penalties for violating registry statutes include civil and criminal liability, and liability is strict. It is not a defense that a child requested a prohibited email by, for example, signing up to receive a newsletter, or that an adult using the same address requested the email.

Practical Problems for Minors and Businesses

Although sensible in theory, the registry process can, in practice, be disastrous for businesses and dangerous to minors. The registries create what has never before existed: a list of email addresses confirmed to belong to minors. Given this, the FTC advocates against the enactment of child protection registries. In its National Do Not Email Registry, a Report to Congress (2004), the FTC warned that the registries will likely be ineffective at combating offensive email to children and could actually subject children to increased spam through misuse of the compiled addresses by registry personnel or by hacking. Worse yet, the FTC warned of the "truly chilling" possibility that the registries could actually identify children to predators who previously had no way of distinguishing children from adults in the otherwise anonymous internet

email environment. Although during the scrubbing process businesses are never told which addresses on their email lists belong to children, opponents of the registries note that children's addresses can be readily identified by comparing an un-scrubbed list with a scrubbed list and determining which names were removed. Those addresses belong to children in the state to which the list was submitted for scrubbing. In fact, it is conceivable that some email lists will be submitted for scrubbing for the sole purpose of determining which addresses are active and belong to children.

For businesses, the registries present a costly and difficult problem. Because it is difficult to identify where the user of any given email address is located, businesses advertising by email must scrub their email lists against each state registry monthly. The scrubbing fees seem insignificant until you run out the math for the two states that currently have registries. A company sending email to 1,000,000 addresses, which is not an especially large mailing list by Internet advertising industry standards, may not know which of the addressees reside in Utah or Michigan. If the company must "scrub" its entire list against the registries in each state, it must spend \$12,000 per month (\$144,000 annually) to scrub the list against the Michigan and Utah registries. If additional states create registries, costs increase substantially. If every state created a registry and charged between \$0.005 and \$0.007 cents per address checked, the cost of scrubbing 1,000,000 addresses would increase to at least \$250,000 per month. By way of comparison, the FTC reported that private sector scrubbing services in 2005-2006 charged in the range of \$300 to \$1,000 per million addresses scrubbed, depending upon the level of services requested.

Some child registry advocates tell businesses to avoid the need to scrub email (and the costs entailed in scrubbing) by not advertising products or services that the registry laws ban. However, what the laws ban is not always clear. Is advertising a "vacation trip to Las Vegas" harmful to minors? What about a solicitation to rent a car (children are not permitted by law to drive cars)? Is one okay in Utah but not in Michigan, or vice versa? Further, the Utah and Michigan laws ban not only email promoting harmful or forbidden content, but also email containing links to websites advertising the forbidden content. With that in mind, take for instance Michigan's law prohibiting the advertising of materials that are illegal for minors to participate in or purchase. Does that mean that a child in Michigan may not receive an email (or an email linking him or her to a website) that advertises a state lottery? Can a major retail department store send an advertisement that links a child to its online store, which offers hunting rifles for sale?

Internet anonymity, a main catalyst of the problem, is a technical issue that laws cannot themselves solve. Moreover, many phishers and spammers operate outside of the law and are often beyond our borders.

Utah's prohibition against the advertisement of "materials that are harmful to minors" is even less well defined than the Michigan statute. Utah's law could conceivably ban any number of advertisements that would be considered inoffensive by some or many parents. For instance, may a national retail bookseller send a child an email linking to its website, which also offers books such as *Lady Chatterley's Lover* and *The Joy of Sex* for sale? Although Utah currently relies on a statutory definition of "harmful to minors" that relates specifically to sexually explicit material, Utah House Bill 257 (2006) would have amended that definition to include depictions of "inappropriate violence." If Utah were to further expand the definition to include, for instance, the depiction or glorification of alcohol,⁹ would Publisher's Clearinghouse be permitted to send email to children that advertises *Food & Wine Magazine* alongside Ranger Rick? Could Borders advertise the version of *Little Red Riding Hood* that was banned by two California school districts in 1989 because it contained illustrations depicting the heroine bringing food and wine to grandma?¹⁰ Although it is doubtful that a state would pursue an action against an advertiser for something so marginally within the meaning of the statute and attenuated from its purpose, nothing prevents a particularly sensitive parent from initiating a private suit. This is to say nothing of the professional plaintiff, who may rely on the statutes for what amounts to a species of statutory entrapment.

Arguably, national retailers and booksellers are among the best able to afford Utah's and Michigan's high scrubbing fees. But what of a small internet-based "mom and pop" company that sells gift baskets, some of which contain wine? The registry laws could have a material impact on its business. Some businesses have already had to make similar choices. For example, DEMC, an "emagazine" that provides information and advice to small online businesses, reported in its July 2005 newsletter that it was

reducing its subscriber list after the Michigan and Utah laws were passed so that it would cost less to scrub against the registries. To further complicate the matter, nothing prevents the states from creating multiple unique sets of prohibited advertisements which businesses must try to keep track of on pain of criminal liability. Can any business realistically be sure that it will never advertise or link to content prohibited by a state registry law?

Although Illinois tabled its child registry bill after seeking comment from the FTC, and Connecticut called for a study to determine if a registry is viable, legislators in other states appear to have missed or ignored the FTC's strongly-worded warning against the registries, perhaps because the registries have a certain amount of curb appeal for voters. On the other hand, several states' proposed laws have failed to pass or have languished in committee, perhaps indicating that state legislators are

reconsidering their position. They might also be awaiting the outcome of a federal lawsuit challenging Utah's registry law, which was filed in 2005 against the State of Utah by the Free Speech Coalition, Inc., an association representing distributors of sexually explicit materials. The suit claims that the law is preempted by CAN-SPAM and violates both the First Amendment and the dormant commerce clause; amici have lined up on both sides.

The constitutionality of the Utah registry was questioned from the outset of the bill's passage. Utah's bill was one of the only bills passed in its session to be classified as potentially unconstitutional by the general counsel of Utah's legislature. Among other things, the Utah Legislature's Office of Legislative Research and General Counsel concluded that "the significant restrictions placed on constitutionally protected speech suggest that the ... registry has a huge probably [sic] of being held unconstitutional."¹¹

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Program Material

Online Advertising, Contests, & Sweepstakes (2006). This ACC Annual Meeting program material provides an overview

of the legal requirements applicable to online advertising with an emphasis on the regulations involved with running a prize promotion, and including joint promotions with a vendor or affiliate, advertising the promotion in non-internet based media, and generally protecting your brand when advertising online. www.acc.com/resource/v8218

Sample Form

Sample Internet Advertising Agreement Terms and Conditions. www.acc.com/resource/v7972

Webcasts

- *Implications and Pitfalls of US Privacy Laws and Regulations.* This ACC webcast provides a practical view of how in-house counsel can easily spot issues that impact not only their enterprises, but also those of their clients. The discussion highlights areas for potential pitfalls in privacy laws and describe how they can quickly ruin a transaction or position an organization as a prime candidate for regulatory enforcement. www.acc.com/resource/v7570
- *From Data Protection to IP Reform: Protecting Consumers and Preserving Competition in a Dynamic Marketplace.* This ACC webcast covers topics on merger reform, the interface of intellectual property with antitrust laws, data privacy, and spam and spyware. www.acc.com/resource/v7664

The International Association of Privacy Professionals, for example, certifies information privacy experts who work with businesses to design and implement privacy policies.

Subsequently, Representative Chris Cannon (R-Utah) introduced a bill in the U.S. House of Representatives seeking to limit federal courts' jurisdiction over state laws that restrict pornography.¹² The law, if passed, would sound a death knell for the Free Speech Coalition's suit.

A Patchwork of State and Federal Laws

The current uncoordinated patchwork of federal and state internet laws is good for no one. Ineffective or unenforceable laws do not protect consumers, and conflicting laws impose needless and costly constraints on businesses.

Consumer Protection Considerations

Where federal treatment of a national problem is absent or incomplete, as it is with respect to internet regulation, states will fill the void. Unfortunately for those consumers who would like to see more regulation in this area, some state statutes attempting to govern internet activities have proved unconstitutional, ill-conceived or toothless, thus failing to achieve their desired effect as gap-fillers or exercises of fundamental state police power. As noted above, Utah's child protection registry is currently the subject of a constitutional challenge. New York's Internet Decency Law, which criminalized the dissemination of obscenity to minors by computer, was similarly challenged in 1997, and the federal court, in *American Libraries Ass'n. v. Pataki*, granted an injunction against its enforcement.¹³ The district court judge held that the law violated the dormant commerce clause because it regulated transactions that transcended state borders and imposed a burden on interstate commerce that outweighed the local benefit of keeping obscenity from children, assuming any such benefit could even be achieved given the unique nature of the internet. Opponents of the child registry laws hope that the court hearing the Free Speech Coalition's challenge of Utah's registry will take a similar view.

Utah's registry statute, as well as Michigan's, also provide prime examples of state internet laws that may prove ill-conceived and, therefore, be more harmful than helpful to consumers. Congress chose not to create a national child protection registry after the FTC issued a negative report characterizing the dangers of a registry as "truly chilling." Only time will tell if the FTC's predictions and concerns will be realized. If they do, it will be children in Utah and Michigan who suffer the consequences. In the meantime,

critics argue that the registries are unlikely to protect children from offensive or inappropriate spam.¹⁴

It is also unlikely that an uncoordinated patchwork of state laws will be able to deal effectively with the problem of internet-based identity theft. Of course, neither is federal legislation a panacea that would make all internet users suddenly models of law-abiding citizenship. Internet anonymity, a main catalyst of the problem, is a technical issue that laws cannot themselves solve. Moreover, many phishers and spammers operate outside of the law and are often beyond our borders. Congress is no more capable of identifying and punishing these anonymous Internet abusers than are the states. The entities controlling the internet, however, may be able to limit internet abusers' ability to reach consumers, and to help consumers decide whether or not they want to be reached and by whom.

Interstate Commerce Considerations

A patchwork of state and federal legislation encourages the balkanization of interstate commerce. As it stands now, states may and do enact mutually inconsistent laws with which businesses must attempt to comply. For example, a conflict is emerging with respect to social security number privacy. Several states recently passed laws prohibiting certain forms of social security number disclosure.¹⁵ Although these laws are generally consistent with one another, they contain differences that businesses operating in multiple jurisdictions need to understand in detail in order to correctly comply. For instance, California prohibits the public display of social security numbers "in any manner," but New Jersey prohibits the display of "any four or more consecutive numbers" of a social security number. Maryland similarly prohibits the display of social security numbers, but provides an exception for such display as began before January 1, 2006, provided that certain conditions are met. Maryland's statute also differs from California's and New Jersey's in that it prohibits sending facsimiles or unencrypted electronic materials to an individual that contain the individual's social security number. California's statute differs from New Jersey's and Maryland's in that it prohibits the encoding of social security numbers on things such as bar codes and magnetic strips. New Jersey's and Maryland's statutes include exceptions for transmissions of social security numbers made by telecommunication or interactive computer service providers.

California has no such exception.

If you found that difficult to keep track of, imagine a business trying to comply with 50 mutually inconsistent laws. Such conflicting laws sometimes force businesses to choose between either violating one state's law (and risking the consequences) or deciding not to transact business in one or all of the conflicting states, which is virtually impossible on the borderless internet where senders cannot geographically locate their audience. On this issue, in *American Libraries* the federal judge who considered the effect of New York's Internet Decency Law on interstate commerce aptly noted that internet:

"[r]egulation on a local level ... will leave users lost in a welter of inconsistent laws, imposed by different states with different priorities In this sense, the internet user is in a worse position than the truck driver or train engineer who can steer around Illinois or Arizona, or change the mudguard or train configuration at the state line; the internet user has no ability to bypass any particular state."

The problems inherent in conflicting state laws, as well as the unavoidable ineffectiveness of laws in general to address problems arising from the growth and evolution of the internet, have already been recognized by Congress. In passing CAN-SPAM, Congress found that:

"Many States have enacted legislation intended to regulate or reduce unsolicited commercial electronic mail, but these statutes impose different standards and requirements. As a result, they do not appear to have been successful in addressing the problems associated with unsolicited commercial electronic mail, in part because, since an electronic mail address does not specify a geographic location, it can be extremely difficult for law-abiding businesses to know with which of these disparate statutes they are required to comply. The problems associated with the rapid growth and abuse of unsolicited commercial electronic mail cannot be solved by Federal legislation alone. The development and adoption of technological approaches and the pursuit of cooperative efforts with other countries will be necessary as well."

Industry Best Practices and Self-Regulation

Recognizing the gaps and weakness in current laws and the inability of laws to keep pace with evolving technology, the internet industry has been developing and perfecting initiatives capable of fulfilling Congress' dual goals of technological advances and cross-border cooperative efforts. For example, the Email Sender and Provider Coalition, which

was formed by the Network Advertising Initiative specifically to address the growing spam problem, developed "Project Lumos," a blueprint for reputation-based filtering.

Several other organizations have also committed themselves to the development of new solutions and industry best practices. Included among them are the Anti-Phishing Working Group, the Anti-Spyware Coalition, EmailAuthentication.org, the Global Infrastructure Alliance for Internet Safety, the International Association of Privacy Professionals, Messaging AntiAbuse Working Group, the Open Group Messaging Forum, TRUSTe, the U.S. Chamber of Commerce, the Online Privacy Alliance, and the Anti-Spam Technical Alliance (ASTA).¹⁶ ASTA, which was formed by a group of internet and email service providers, has issued a Technology and Policy Proposal (available on Microsoft's website) in which it suggests practices to assist providers in curbing spam. Several of the nation's largest ISPs, including Microsoft, America Online, Comcast, EarthLink, and Yahoo!, have adopted ASTA's proposal. There is evidence that these industry efforts to curb unwanted electronic contact have been successful. The FTC reported in a 2005 report, *Email Address Harvesting and the Effectiveness of Anti-Spam Filters*, that "ISP spam filtering technologies are substantially reducing the burden of spam on consumers."

Like service providers, internet advertisers also voluntarily subject themselves to best practice guidelines such as the Self-Regulatory Guidelines for Children's Advertising promulgated by the Better Business Bureau's Children's Advertising Review Unit, the Network Advertising Initiative's Opt Out Tool and Self-Regulatory Principles, and the Interactive Advertising Bureau's standards and guidelines. Internet businesses, including advertisers, are also working with privacy experts in an attempt to address the same problems with which legislators have been struggling. The International Association of Privacy Professionals, for example, certifies information privacy experts who work with businesses to design and implement privacy policies.

Email Filtering

The Email Sender and Provider Coalition describes Project Lumos as "a registry-based model developed to eliminate spam by holding senders accountable for the mail they send. [It] implements true sender accountability and transparency by requiring that senders fully verify their identity, and adhere to best practices, and then objectively monitoring their performance."¹⁷ The goal is to allow ISPs to overcome sender anonymity by issuing electronic credentials, thus allowing the ISPs to track senders' quality and hold high-volume senders and email service providers accountable for violations

of laws and self-imposed guidelines. Such "reputation-based filtering," which is growing in popularity, scores senders' reputations on several variables, including complaint rates, responsiveness to unsubscribe requests, and volume of mail sent. Senders with bad reputations are identified as likely spam and filtered away from the addressee's inbox.

In addition to reputation-based filtering, keyword filtering is also used, often in conjunction with reputation-based filtering. Keyword filtering simply scans the content of an email, and if it finds a sufficient number and ratio of keywords to non-keywords indicative of an advertisement, it will filter the email message to a different (i.e., junk or bulk) electronic file folder. To avoid such keyword-based filters, an increasing amount of spam intentionally misspells keywords, or includes a sufficient number of other words to fool the filtering software. Thus, "VIAGRA" may be spelled "VIAGRA," and the email message may contain random words of innocuous text.

Sophisticated filtering systems also integrate user feedback. Thus, a user can manually tell the system whether a particular message is or is not spam, and the system will "remember" this feedback, taking into account data such as the sender's domain and IP address. Still other techniques involve the use of "disposable" or "temporary" email addresses. These are addresses which may be provided in lieu of a user's actual email address, but are linked to the actual email address. If the disposable or temporary email address becomes compromised and spam is delivered to the address, the consumer simply deletes it from his or her email account system; the consumer's original or primary email address is not disclosed and may continue to be utilized.

Data Encryption

Encryption is a technology touted to prevent identity theft. An encryption algorithm jumbles the contents of a file, or hard drive, or entire server, so that the information cannot be read unless the contents are decrypted (unjumbled). The algorithm is turned on and off by the user with a "key" (alphanumeric code).

As with email filtering and spam, there are a number of ways to approach encryption's role in preventing identity theft. First, where is the at-risk data? Is it kept on the server, or a desktop or a laptop? Your client can encrypt its relevant server(s), which slows down the responsiveness of the system but may prevent a hacker from stealing data. A different strategy is to rely on system firewalls and anti-intrusion software to prevent hacking and to recognize that many data breaches arise from the loss or theft of backup tapes and disks. Accordingly, backup media can be encrypted. Neither technique works, however, if an employee takes home sensitive data on an unencrypted laptop. Technological solutions to that prob-

lem could range from simply using passwords on individual files, to using encryption programs, to configuring the laptop to be able to enable encryption should the laptop go missing.

None of the options is perfect in all circumstances. Legislators, to their credit, have recognized the utility of encryption, without mandating specific types.¹⁸

Self-regulation as a New Goal

Laws cannot keep pace with or effectively steer the development of technology. The internet industry is in a better position than lawmakers to identify and develop much-needed technological advances, particularly if a cooperative effort by internet service providers, software developers, or other industry interests is required. When considering new technologies and processes, industry experts should adopt a unified goal of developing the technology capable of overcoming the internet's more difficult legal dilemmas (for example, technology that would make it possible to geographically locate and identify email abusers). If industry self-regulation is set as the agreed-upon goal rather than additional legislation, problems stemming from the light-speed expansion of the internet could and should be studied from a broad perspective by those most familiar with the technological and practical problems presented, while taking into account the needs of both consumers and businesses around the country, particularly those engaged in interstate commerce. Any best-practice guidelines being developed should also take into account the steady replacement of the geographic community with the ecommunity, and look ahead to the reality that the internet is global and may eventually be subject to a more global form of regulation with which state and federal laws could eventually find themselves at odds.¹⁹

The concept of voluntary regulatory standards is not unique, nor is it untested. For example, the Consumer Product Safety Commission (CPSC), which is charged with the responsibility of protecting consumers from risks associated with unreasonably dangerous products, relies on and draws from voluntary industry standards developed by such organizations as Underwriters Laboratories, the American National Standards Institute, and the National Fire Protection Association. In fact, Congress requires the CPSC to rely on voluntary safety standards when those standards would adequately address the associated risks and see substantial industry compliance. The CPSC is also required to implement monitoring procedures to ensure compliance with voluntary standards, and it is empowered to impose civil and criminal penalties for non-compliance.²⁰ Congress imposed a similar requirement to rely on voluntary standards on most federal regulatory agencies when it enacted the National Technology Transfer and Advancement Act (NTTAA), Pub. L. No. 104-113, in 1995.

The NTTAA's stated goals are equally applicable to Internet regulation: to eliminate the cost to the government to develop its own standards; to provide incentives to establish voluntary standards serving national needs; to encourage the long-term growth of the US economy while harmonizing US standards with international standards; and to further the national policy of relying on the private sector for services.

Of course, in addition to industry and legislative efforts, consumers can and should do much themselves to prevent electronic invasions of privacy. Anti-virus, anti-spyware and filtering software are available from many sources, as is educational information about internet security. And as for children's privacy and online safety, no law or standard can ever be a complete substitute for parental supervision, no matter how carefully crafted.

Self-regulation Through Best Practices

Given the nationwide impact of internet activities, the constraints on commerce that are inherent when laws are inconsistent or burdensome, the emerging questions regarding the constitutionality of state regulation, and the fact that laws simply cannot evolve at the same pace as internet technology, the appropriate solution to problems of internet privacy appears to be self-regulation through the establishment and implementation of industry best practices. Such best practices, perhaps in conjunction with carefully crafted federal legislation meant to support the industry's efforts and prevent the states from undermining them, would serve the needs of consumers and businesses alike. ■

Have a comment on this article? Email editorinchief@acc.com.

NOTES

1. Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, 15 U.S.C. §§ 7701-15.
2. Prepared Statement of the Federal Trade Commission on Identity Theft and Social Security Numbers before the Subcommittee of Social Security of the House Committee on Ways and Means (March 30, 2006), available at www.ftc.gov/os/2006/03/index.htm (last visited March 3, 2007).
3. www.ftc.gov/privacy/privacyinitiatives/glbac.html (last visited March 3, 2007).
4. See THE COUNCIL OF STATE GOVERNMENTS SUGGESTED STATE LEGISLATION, IDENTITY THEFT-MISUSE OF PERSONAL IDENTIFYING INFORMATION (NOTE), Vol. 59, at 98 (2000), available at <http://ssl.csg.org/volumes/00sst-all.pdf> (last visited March 3, 2007); also www.identity-theft-advisor.com/state-laws.htm (last visited March 3, 2007). For a list of state and federal laws addressing identity theft, visit the Federal Trade Commission's website at www.consumer.gov/idtheft/law_laws.htm (last visited March 3, 2007).
5. *ChoicePoint: More ID theft warnings*, Feb. 14, 2005, at 1, available at <http://money.cnn.com/2005/02/17/technology/personaltech/>

6. *choicepoint* (last visited March 3, 2007).
7. Utah's Child Protection Registry, UTAH CODE ANN. § 13-39-101. "Harmful to minors," as used in the statute, is defined as involving "nudity, sexual conduct, sexual excitement, or sadomasochistic abuse" that is considered by adults to be offensive and inappropriate for minors and has no "literary, artistic, political or scientific value for minors." UTAH CODE ANN. § 76-10-1201.
8. Michigan's Children's Protection Registry Act, MICH. COMP. LAWS § 752.1065.
9. Press Release of Michigan Governor Jennifer Granholm and Chairman of the Michigan Public Service Commission J. Peter Lark (June 30, 2005), available at www.michigan.gov/printerfriendly/0,1687,7-192-121645--00.html (last visited March 3, 2007).
10. Utah already bars advertising alcohol to minors via the statutory provision banning the advertisement to minors of products and services that they are prohibited by law from purchasing. See FRANCINE A. GIANI, UTAH DIVISION OF CONSUMER PROTECTION, POLICY STATEMENT CONCERNING UTAH CODE ANN. § 13-39-202 (1) (July 8, 2005), available at <http://dcp.utah.gov/PolicyStatement.pdf> (last visited March 3, 2007). Utah does not however, interpret the mere depiction of alcohol as being "harmful to minors," as it proposed to do with "inappropriate violence."
11. See <http://onlinebooks.library.upenn.edu/banned-books.html> (last visited March 3, 2007).
12. http://xbiz.com/news_piece.php?id=7566 (last visited March 3, 2007).
13. H.R. 5528, 109th Cong. (2006), introduced as The Pornography Jurisdiction Limitation Act of 2006.
14. 969 F. Supp. 160 (S.D.N.Y. 1997).
15. See, e.g., Email Service Provider Coalition *et al.*, Whitepaper on a Proposed Do Not Email Registry (Apr. 12, 2004), available at www.espcollation.org/dne_white_paper.pdf (last visited March 3, 2007).
16. See, e.g., N.J.S.A. § 56:8-164; Md. Code Ann., Comm. Law § 14-5402; Cal. Civ. Code § 1798.85.
17. See www.microsoft.com/mscorp/safety/industry/alliances.mspx (last visited March 3, 2007) for links to several of these organizations. See also www.privacyalliance.org/mission (last visited March 3, 2007). The Department of Commerce under the Clinton Administration also made suggestions for effective industry self-regulation. See US Department of Commerce, National Telecommunications and Information Administration, Elements of Effective Self-Regulation for Protection of Privacy (draft) (Jan. 1998), available at www.ntia.doc.gov/reports/privacydraft/1988dftprin.htm (last visited March 3, 2007).
18. www.espcollation.org/project_lumos.php (last visited March 3, 2007).
19. See, e.g., Cal. Civ. Code § 1798.85 ; Conn. Gen. Stat. § 42-470; Mont. Code Ann. § 33-19-506; Nev. Rev. Stat. § 597.970; N.D. Cent. Code § 23-01.3-02.
20. Members of the European Union have already recognized that their regulation of electronic privacy issues needs to be a coordinated effort. See Directive 2002/58/EC, OFF. J. EUR. COMMUNITIES L 201/371 (July 12, 2002), available at www.europa.eu.int/eurlex/pr/en/oj/dat/2002/l_201/l_20120020731en00370047.pdf (last visited March 3, 2007).
21. 15 U.S.C. §§ 2056(b), 2058, 2068-69.

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

JAMES S. GORDON, Jr., a married individual,
d/b/a 'GORDONWORKS.COM'; OMNI
INNOVATIONS, LLC., a Washington limited
liability company,

CASE NO. 06-0204-JCC

Plaintiffs,

ORDER

v.

VIRTUMUNDO, INC., a Delaware Corporation,
d/b/a ADKNOWLEDGEMAIL.COM;
ADKNOWLEDGE, INC., a Delaware
Corporation, d/b/a
ADKNOWLEDGEMAIL.COM; SCOTT LYNN,
an individual; and JOHN DOES, I-X,

Defendants.

This matter comes before the Court on the following eleven motions:

(1) Defendants' Motion for Summary Judgment (Dkt. No. 98) and the associated motions by Defendants for Leave to File an Overlength Brief (Dkt. No. 97) and by Plaintiffs for Leave to Seal (Dkt. No. 120) the Declaration of Derek Newman (Dkt. No. 101);

(2) Plaintiffs' Motion for Partial Summary Judgment (Dkt. No. 53);

(3) Defendants' Motion for Bond for an Undertaking (Dkt. No. 38) and the associated motion by

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1 Defendants to Seal their Reply (Dkt. No. 91); and
 2 (4) the discovery motions by Defendants to Compel Discovery (Dkt. No. 69), to Compel
 3 Segregation of Emails (Dkt. No. 71), to Exclude Testimony from Plaintiffs' lately disclosed witnesses
 4 (Dkt. No. 116), and to Compel Further Testimony regarding Prior Settlements (Dkt. No. 87) as well as
 5 the associated Motion to Seal (Dkt. No. 86).

6 This Court, having reviewed the materials submitted by the parties, as well as the complete
 7 record, and determined that oral argument is not necessary, hereby finds and rules as follows.

8 **I. BACKGROUND**

9 Plaintiffs James S. Gordon ("Gordon") and Omni Innovations, LLC ("Omni") have brought this
 10 action for alleged violations of the Federal CAN-SPAM Act of 2003, 15 U.S.C. §§ 7701-7713 (First
 11 Cause of Action); the Washington Commercial Electronic Mail Act ("CEMA"), WASH. REV. CODE §§
 12 19.190.010-.110 (Second Cause of Action); the Washington Consumer Protection Act ("CPA"), WASH.
 13 REV. CODE §§ 19.86.010-.920 (Third Cause of Action); and the Washington "Prize Statute," WASH.
 14 REV. CODE §§ 19.170.010-.900 (Fourth Cause of Action). (Am. Compl. (Dkt. No. 15).) Gordon is a
 15 Washington resident and registrant of the internet domain gordonworks.com ("Gordonworks"). Omni is
 16 Gordon's business, which involves (1) software development and other endeavors and (2) a "spam
 17 business," which entails "[n]otifying spammers that they're violating the law" and filing lawsuits¹ if they
 18 do not stop sending e-mails to the Gordonworks domain. (Defs.' SJ Mot., Newman Decl. Ex. A (Dep. of
 19 Gordon) at 117-19.) Plaintiff Gordon alleges that between August 21, 2003 and February 15, 2006, he
 20 received materially false or misleading, unsolicited e-mail advertisements from Defendants that were
 21 transmitted through Omni's domain server to his e-mail address "jim@gordonworks.com," as well as to
 22

23 _____
 24 ¹ Omni is a party to ten other similar cases in the Western District of Washington. See Case Nos.
 25 C06-1118-MJP, C06-1129-JCC, C06-1210-TSZ, C06-1284-TSZ, C06-1348-MJP, C06-1350-JCC, C06-
 26 1469-MJP, C06-1537-JCC, C07-222-RSM, and C07-386-MJP. Only one of these cases is designated
 "closed."

1 other individuals using Gordonworks for domain hosting. (Am. Compl.) Plaintiffs² most recent estimate
 2 of the number of these e-mails is 13,800. (Pls.' Partial SJ Mot., Gordon Decl. ¶ 26.)

3 Defendants Virtumundo, Inc. ("Virtumundo") and Adknowledge, Inc. ("Adknowledge") are non-
 4 Washington resident businesses that provide online marketing services to third-party clients. Virtumundo
 5 is a Delaware corporation with its principal place of business in Kansas. Adknowledge is also a Delaware
 6 corporation with its principal place of business in Missouri. Virtumundo and Adknowledge market
 7 products for their clients by transmitting e-mails to interested consumers. Defendant Scott Lynn
 8 ("Lynn") is a Missouri citizen and serves as Chief Executive Officer of Adknowledge. He is also the sole
 9 shareholder of both companies.³

10 On May 24, 2006, this Court denied Defendants' motion to dismiss for lack of personal
 11 jurisdiction (Order (Dkt. No. 24)) and on December 8, 2006, this Court granted in part and denied in part
 12 Defendants' motion to dismiss various claims for pleading deficiencies (Order (Dkt. No. 51)), granting
 13 leave to Plaintiffs to further amend their Amended Complaint to cure the identified defects. Plaintiffs
 14 never did so. Accordingly, the prior claim dismissals stand, such that no Prize Statute claims remain
 15 (entirely eliminating the Fourth Cause of Action) and Plaintiffs' "personally identifying information"
 16 CEMA claim, WASH. REV. CODE § 19.190.080, no longer remains (eliminating parts of the Second and
 17 Third Causes of Action). Defendants have now moved for summary judgment on all of Plaintiffs'
 18 remaining claims—which include CAN-SPAM claims (First Cause of Action), CEMA claims (Second
 19 Cause of Action), and CPA claims (Third Cause of Action) as they relate to surviving CEMA claims (but
 20 not to dismissed Prize Statute or CEMA claims). Because summary judgment on multiple grounds
 21

22 _____
 23 ² Unless otherwise indicated, references to "Plaintiffs" include both Gordon and Omni.

24 ³ Unless otherwise indicated, references to "Defendants" include Adknowledge, Virtumundo, and
 25 Lynn. The Court notes that Defendants prefer to treat Lynn separately, but the outcome of this Order
 26 renders the distinction irrelevant for the purposes of this discussion, because the analysis herein applies to
 all of Plaintiffs' claims against all three Defendants. See *infra* section III.D.

1 disposes of this case entirely, the Court's analysis is governed by the summary judgment standard, as
2 follows.

3 II. LEGAL STANDARD

4 Rule 56 of the Federal Rules of Civil Procedure governs summary judgment, and provides in
5 relevant part, that "[t]he judgment sought shall be rendered forthwith if the pleadings, depositions,
6 answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is
7 no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of
8 law." FED. R. CIV. P. 56(c). In determining whether an issue of fact exists, the Court must view all
9 evidence in the light most favorable to the nonmoving party and draw all reasonable inferences in that
10 party's favor. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248–50 (1986); *Bagdadi v. Nazar*, 84
11 F.3d 1194, 1197 (9th Cir. 1996). A genuine issue of material fact exists where there is sufficient evidence
12 for a reasonable factfinder to find for the nonmoving party. *Anderson*, 477 U.S. at 248. The inquiry is
13 "whether the evidence presents a sufficient disagreement to require submission to a jury or whether it is
14 so one-sided that one party must prevail as a matter of law." *Id.* at 251–52. The moving party bears the
15 burden of showing that there is no evidence which supports an element essential to the nonmovant's
16 claim. *Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986). Once the movant has met this burden, the
17 nonmoving party then must show that there is in fact a genuine issue for trial. *Anderson*, 477 U.S. at
18 250.

19 III. ANALYSIS

20 A. Federal CAN-SPAM Claims (First Cause of Action)

21 Because Defendants challenge Plaintiffs' standing to bring a private cause of action under CAN-
22 SPAM, the Court must address this threshold issue prior to reaching the merits of their CAN-SPAM
23 claims. The CAN-SPAM Act's primary enforcement provisions empower the Federal Trade Commission
24 "FTC" and other federal agencies to pursue violators of the Act. 15 U.S.C. § 7706(a), (b). State
25 attorneys general may bring civil enforcement actions. *Id.* § 7706(f). A limited private right of action
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1 also exists. The CAN-SPAM Act allows an action by a "provider of Internet access service adversely
2 affected by a violation of" §§ 7704(a)(1), 7704(b), or 7704(d)⁴ or "a pattern or practice that violates" §
3 7704(a)(2), (3), (4), or (5).⁵ 15 U.S.C. § 7706(g)(1). "Internet access service" is defined in the CAN-
4 SPAM Act, 15 U.S.C. § 7702(11), by way of reference to another federal statute, which provides as
5 follows:

6 The term "Internet access service" means a service that enables users to access content,
7 information, electronic mail, or other services offered over the Internet, and may also
8 include access to proprietary content, information, and other services as part of a package
of services offered to consumers. Such term does not include telecommunications
services.

9 47 U.S.C. § 231(e)(4). Defendants argue that Plaintiffs cannot bring a private right of action because (1)
10 they are not "Internet access service" ("IAS") providers as defined by the Act and (2) they have not been
11 "adversely affected" by the violations they have alleged, as required by § 7706(g)(1).

12 The facts relevant to the standing inquiry are as follows. Plaintiff Gordon, via Plaintiff Omni,
13

14 ⁴ Section 7704(a)(1) prohibits "false or misleading transmission information," as follows:

15 It is unlawful for any person to initiate the transmission, to a protected computer, of a commercial
16 electronic mail message, or a transactional or relationship message, that contains, or is accompanied by,
17 header information that is materially false or materially misleading. For purposes of this paragraph—
(A) header information that is technically accurate but includes an originating electronic mail address,
domain name, or Internet Protocol address the access to which for purposes of initiating the message was
obtained by means of false or fraudulent pretenses or representations shall be considered materially
misleading;
18 (B) a "from" line (the line identifying or purporting to identify a person initiating the message) that
accurately identifies any person who initiated the message shall not be considered materially false or
19 materially misleading; and
(C) header information shall be considered materially misleading if it fails to identify accurately a
20 protected computer used to initiate the message because the person initiating the message knowingly uses
another protected computer to relay or retransmit the message for purposes of disguising its origin.

21 15 U.S.C. § 7704(a)(1). Section 7704(b) deals with "aggravated violations" not at issue here, and §
22 7704(d) deals with warning label requirements for "commercial electronic mail containing sexually
23 oriented material" not at issue here.

24 ⁵ A pattern or practice claim under these subsections must allege "deceptive subject headings" (§
25 7704(a)(2)), "return address" and unsubscribe option violations (§ 7704(a)(3)), "transmission of
commercial electronic mail after objection" allegations (§ 7704(a)(4)), or "identifier, opt-out, and
physical address" violations (§ 7704(a)(5)).

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1 leases (from “GoDaddy”) the server space that hosts the “Gordonworks” domain. (Pls.’ Partial SJ Mot.,
 2 Gordon Decl. ¶ 6; Defs.’ SJ Mot., Newman Decl. Ex. A (Dep. of Gordon) at 115:10.) This is a
 3 “dedicated” server (meaning that he does not share his space with other GoDaddy clients), but Plaintiffs
 4 do not have physical control over the server “box,” do not maintain or configure it, and have, in fact,
 5 never seen it. (Defs.’ SJ Mot., Newman Decl. Ex. A (Dep. of Gordon) at 111–12.) This server is not
 6 backed up. (*Id.* at 110:25–111:1.) However, previously, and when receiving e-mails relevant to this
 7 lawsuit, Plaintiffs had a non-dedicated (shared) virtual server that was backed up. (*Id.* at 111:1–13.)
 8 Plaintiffs access their server virtually, by going to their “Plesk” interface, available through GoDaddy, to
 9 set up new e-mail accounts and new domains, as well as passwords for their clients. (*Id.* at 109:8–24,
 10 214:10–19.) Moreover, Plaintiffs could not host their own server even if they chose to do so.
 11 Defendants point out that Plaintiffs’ service agreement with Verizon, which Plaintiffs use to physically
 12 connect to the Internet, prohibits them from using Verizon’s Broadband Service “to host any type of
 13 server personal or commercial in nature.” (Defs.’ Mot. for Bond, Townsend Decl. Ex. O (Verizon
 14 Agreement ¶ 3.7.5).) Plaintiffs do not address this issue.⁶

15 Plaintiffs operate a website at gordonworks.com, and they provided e-mail accounts to at least six
 16 clients “free for the first year, subject to data collection” for Plaintiff Gordon’s “research purposes.”
 17 (Defs.’ Mot. for Bond, Townsend Decl. Ex. U (Plaintiffs’ Response to Interrogatory No. 22 (identifying
 18 e-mail accounts for “Bonnie, Jamila, Jay, Jonathan, and Emily Abbey[,] Griffin Online Domain, and
 19 Anthony Potts”).) According to Plaintiffs, Gordon began providing e-mail accounts by September 2003,
 20 and Gordon believes that his provision of these accounts, “building web sites for others, and maintaining
 21 a website that acts as a clearinghouse for job-search information and small business resources on the
 22

23 _____
 24 ⁶ On a final technical note, the parties engage in drawn-out disputes about “root account” access
 25 and “DNS server” operation. Even taking Plaintiffs’ arguments as fact, the Court finds these factors
 26 immaterial to the standing analysis. The foregoing description of Plaintiffs’ server setup is sufficient to
 assess Plaintiffs’ IAS status.

1 World Wide Web” qualifies him as an IAS under the Act. (Pls.’ Partial SJ Mot., Gordon Decl. ¶¶ 7–8.)
 2 Gordon also alleges that the e-mail accounts he had provided to others were “inundated with commercial
 3 electronic mail messages, rendering them unusable,” and, consequently, he “took over the administration
 4 of those e-mail accounts and began directly receiving the e-mail sent thereto.” (*Id.* ¶ 9.) His clients
 5 “relinquished control” of their e-mail accounts in 2003.⁷ (Defs.’ Reply re Mot. for Bond, Newman Decl.
 6 Ex. A (Draft Transcript of Dep. of Gordon) at 465:6–8.) At present, the only person other than himself
 7 who uses a “Gordonworks” e-mail address is Gordon’s wife. (*Id.* at 465:9–14.) Nevertheless, Gordon
 8 did not disable the relinquished e-mail accounts, instead keeping them active for spam research. (Defs.’
 9 SJ Mot., Newman Decl. Ex. A (Dep. of Gordon) at 197:19–23.) Gordon testified that the “benefits” of
 10 receiving spam can be quantified in terms of his dissertation research, as well as “settlement agreements
 11 for people who have said that they wouldn’t spam me any longer.” (*Id.* at 222.)

12 On its GoDaddy server, Plaintiff Omni (whose first client appeared in May of 2005) hosts
 13 domains for its clients, who have e-mail addresses “@” their own domains, *i.e.*, not
 14 “@gordonworks.com.” (Pls.’ Partial SJ Mot., Declarations of Anthony Potts (Dkt. No. 56), Bonnie
 15 Gordon (Dkt. No. 57), Emily Abbey (Dkt. No. 58), Jamila Gordon (Dkt. No. 59), Jay Gordon (Dkt. No.
 16 60), Jonathan Gordon (Dkt. No. 61), and Russell Flye (Dkt. No. 62).) Notably, more than half of these
 17 Omni clients share the “Gordon” surname. Each of them has multiple (up to fourteen) e-mail addresses at
 18 which they or others allegedly receive illegal spam. None of these clients has paid Plaintiffs for their
 19 services. All of Plaintiffs’ income or revenue for 2006 and 2007 has been from “settlements and
 20

21 _____
 22 ⁷ The effective date of the CAN-SPAM Act is January 1, 2004. CAN-SPAM Act of 2003, Pub.
 23 L. No. 108-187, § 16 (approved Dec. 16, 2003) (note to 15 U.S.C. § 7701). Thus, Omni’s initiation of
 24 “services” to clients in 2005, described *infra*, appears to be relevant to CAN-SPAM claims as well as
 25 Washington state law claims, while the gordonworks.com services described here likely are relevant *only*
 26 to Plaintiffs’ Washington CEMA claims, because CEMA was enacted in 1998 and revised in 1999 (and
 thus was in effect in 2003). 1998 Wash. Legis. Serv. Ch. 149 (West) (S.H.B. 2752); 1999 Wash. Legis.
 Serv. Ch. 298 (West) (S.H.B. 1037). Facts regarding gordonworks.com are presented here to
 demonstrate the historical development of Plaintiffs as entities with potential CAN-SPAM standing.

1 disputes.” (Defs.’ Reply re Mot. for Bond, Newman Decl. Ex. A (Draft Transcript of Dep. of Gordon) at
2 46:20–22.)

3 Gordon generally alleges that “[d]ue to the limited technological resources available to me as a
4 small business, the sheer volume of the spam sent by Defendants has made it extremely difficult to
5 manage, and has cost me untold hours of manpower, and substantial resources.” (Pls.’ Partial SJ Mot.,
6 Gordon Decl. ¶ 26.) However, Gordon has not hired any staff to deal with this administrative situation
7 nor elaborated on the “resources” he has spent. Plaintiffs utilize spam filters, which catch and mark spam
8 before it arrives in Plaintiffs’ inboxes. (Defs.’ SJ Mot., Newman Decl. Ex. A (Dep. of Gordon) at 81–82;
9 217; 220.) Defendants suggest that Gordon’s sorting effort is “exclusively directed toward litigation
10 preparation,” and consists of sorting batches of (already-identified) spam e-mails, sent to him by clients
11 “unsorted in lots of 10–50,000” for use in his multiple spam lawsuits. (Defs.’ Opp’n to Partial SJ 10
12 (quoting Pls.’ Opp’n to Mot. to Compel Segregation of Emails, Gordon Decl. ¶ 3 (“The job of collecting,
13 sorting, and compiling records on this and other defendants is a very time-consuming process.”))

14 As for technical impact, it is undisputed that Plaintiff Omni’s lease provides access to 500
15 gigabytes of data transfer space (“bandwidth”) per month through server-host GoDaddy. (Defs.’ SJ
16 Mot., Newman Decl. Ex. A (Dep. of Gordon) at 110:16–22.) Gordon acknowledges that he has not
17 “come close” to using all of that bandwidth. (*Id.* at 110:22.) Nor have his server costs gone up due to
18 spam. Gordon has testified that, despite his allegations that Defendants’ e-mails are false or misleading,
19 he has not been misled or confused by any “from lines” in Defendants’ e-mails. (*Id.* at 394:18–20.)

20 Significantly, Gordon testified that he is not seeking actual damages in the instant litigation
21 (because none exist) and that he is instead seeking solely statutory damages for each e-mail sent. (Defs.’
22 SJ Mot., Newman Decl. Ex. A (Dep. of Gordon) at 319:18–320:22.) For example, in Plaintiffs’ motion
23 for partial summary judgment, Plaintiffs seek CAN-SPAM statutory damages for 7,890 allegedly illegal e-
24 mails, pursuant to 15 U.S.C. § 7706(g), of \$100 per e-mail, to be tripled for violations committed
25 “willfully and knowingly.” (Pls.’ Partial SJ Mot. 23–24.) The CAN-SPAM portion of Plaintiffs’
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1 statutory damages request is therefore \$2,367,000.⁸ In his final opportunity at dispositive briefing,
2 Gordon again raised no allegation of actual damages, did not dispute the facts described *supra*, and
3 instead asserted that he and his clients having to go through spam e-mails is sufficient “adverse effect” to
4 meet the statutory standing requirement. (Pls.’ Opp’n to SJ 17–18.)

5 The Court now turns to whether Plaintiffs qualify as an IAS that was “adversely affected” by
6 Defendants’ alleged CAN-SPAM violations. Defendants submit that the free e-mail account and domain
7 services and the existence of the Gordonworks domain, along with the structure of Plaintiffs vis-a-vis the
8 Internet and other entities, cannot suffice to make Plaintiffs the type of IAS that Congress intended to
9 have a private right of action. Defendants further contend that Plaintiffs have realized no adverse effects,
10 even if they are an IAS. Almost no caselaw exists on the issue of what qualifies an entity as an IAS that
11 is adversely affected, and the statutory language is far less detailed than the facts of this or other cases.

12 Beginning with the definition of an IAS, the plain language of the statute provides:

13 The term “Internet access service” means a service that enables users to access content,
14 information, electronic mail, or other services offered over the Internet, and may also
15 include access to proprietary content, information, and other services as part of a package
of services offered to consumers. Such term does not include telecommunications
services.

16 47 U.S.C. § 231(e)(4). It is not clear what exactly the exceedingly broad phrase “service that enables
17 users to access” means, and the parties dispute whether this definition incorporates any technical,
18 hardware, or space requirements, and ultimately, whether it includes Plaintiffs. The Court finds that,
19 although “Internet access service” is defined (by incorporation) in the CAN-SPAM Act, the statutory
20 definition of an IAS is nevertheless ambiguous. Congress’s language is not particularly illuminating
21 except where the definition provides examples (“electronic mail”) or exclusions (“telecommunications
22 services”).

23 _____
24 ⁸ Plaintiffs’ partial summary judgment motion requests a total of \$10,257,000 in statutory
25 damages: \$2,367,000 pursuant to CAN-SPAM and \$7,890,000 pursuant to CEMA, which allows \$1,000
per illegal e-mail. WASH. REV. CODE §§ 19.190.040(2).

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1 In arguing that they are an IAS, Plaintiffs rely on what appears to be one of the *two*⁹ cases
 2 assessing whether a CAN-SPAM plaintiff has standing. In this unreported case, *Hypertouch, Inc. v.*
 3 *Kennedy-Western Univ.*, No. C04-5203-SI, 2006 WL 648688 (N.D. Cal. Mar. 8, 2006), the district court
 4 found that the plaintiff was an IAS because provision of e-mail services alone was sufficient, regardless of
 5 whether other services were also provided. *Id.* at *3. Because the plaintiff in *Hypertouch*
 6 “administer[ed] its own e-mail servers,” it was an IAS, “regardless of who is listed as owning the domains
 7 associated with those servers.” *Id.* The *Hypertouch* court also found that the provision of e-mail
 8 services at no charge did not change the analysis, because Congress considered free e-mail services when
 9 passing the CAN-SPAM Act. *Id.* The *Hypertouch* court then found the “adverse effect” element
 10 satisfied as well, because the plaintiff had experienced “decreased server response and crashes,” “higher
 11 bandwidth utilization,” and was “forced” to implement “expensive hardware and software upgrades.” *Id.*
 12 at *4. Accordingly, because the *Hypertouch* plaintiff met both prongs, the district court found that it had
 13 standing, though it ultimately lost on the merits. *Id.*

14 While it did not directly so find, the *Hypertouch* court apparently found the foregoing IAS
 15 definition ambiguous as well, because it considered “congressional intent” in reaching its conclusion.
 16 Courts are entitled to rely on legislative history only after a statute is deemed ambiguous on its face.
 17 *United States v. Curtis-Nev. Mines, Inc.*, 611 F.2d 1277, 1280 n.1 (9th Cir. 1980) (“When a statute is
 18 ambiguous, reports of committees of the Congress may be used as an aid to ascertaining the purpose of
 19 Congress in passing the statute. Additionally, it is the duty of a court in construing a law to consider the
 20 circumstances under which it was passed and the object to be accomplished by it.”) (internal citations and
 21 quotations omitted). This Court finds the legislative history particularly instructive to the standing
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 24 ⁹ The other relevant case is *White Buffalo Ventures v. Univ. of Texas*, 420 F.3d 366 (5th Cir.
 25 2005). There, the court found that the University of Texas was an IAS, but did so in the context of a
 26 preemption analysis. *Id.* at 372–73. Accordingly the Fifth Circuit had no occasion to consider the
 second standing question regarding “adverse effect.”

1 inquiry but comes to a different conclusion than the *Hypertouch* court, because the facts of the instant
 2 case are distinguishable.

3 In the Committee Report, under the heading “Costs to ISPs,¹⁰ Consumers, and Businesses,” the
 4 Senate Committee on Commerce, Science, and Transportation found that “[s]pam imposes significant
 5 economic burdens on ISPs, consumers and businesses” because “[m]assive volumes of spam can clog a
 6 computer network, slowing Internet service for those who share that network. ISPs must respond to
 7 rising volumes of spam by investing in new equipment to increase capacity and customer service
 8 personnel to deal with increased subscriber complaints.” S. REP. NO. 108-102, at 6 (2003) (Comm. Rep.
 9 on CAN-SPAM Act of 2003 (S. 877)). “Dictionary attacks” can hijack a server, slowing it and making it
 10 appear that legitimate users are sending spam, and “web bugs” communicate back to the spammer from
 11 the recipient’s computer. *Id.* at 3–4. Increased costs of anti-spam software are “passed on as increased
 12 charges to consumers . . . [and] some observers expect that free e-mail services . . . will be downsized.”
 13 *Id.* at 6. The Committee also noted that “[a]lthough Internet access through broadband connections is
 14 steadily growing, a dial-up modem continues to be the method by which a vast majority of Americans
 15 access the Internet and their e-mail accounts.” *Id.* at 7. The “per-minute” and long distance charges for
 16 Internet connections for many e-mail users were exacerbated by time spent on manual spam filtering,
 17 resulting in additional per-customer costs. *Id.*

18 In subsequently describing the various enforcement provisions in the Act, the Committee
 19 discussed the private right of action provision at issue here, which

20 would allow a provider of Internet access service adversely affected by a violation . . . to
 21 bring a civil action. . . . This could include a service provider who carried unlawful spam
 22 over its facilities or who operated a website or online service from which recipient e-mail
 23 addresses were harvested in connection with a violation

24 *Id.* at 21. Moreover, on the House side, Representative John Dingell stated that the standing provision at
 25

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¹⁰ Congress gave examples of “ISPs” (Internet Service Providers) as being Microsoft’s MSN mail
 and Hotmail, as well as Earthlink, in a discussion of the impact of spam on network functioning. S. REP.
 No. 108-102, at 3.

1 issue here “provides for a *limited* right of action by bona fide Internet service providers.” 150 CONG.
 2 REC. E72 (January 28, 2004) (emphasis added). Later, Rep. Dingell stated, “Additionally, we intend that
 3 Internet access service providers provide actual Internet access service to customers.” *Id.* at E73.

4 The foregoing legislative history suggests several things with respect to the scope of the private
 5 right of action. First and foremost, the plain statutory language requiring that (1) an IAS (2) suffer
 6 “adverse effect” is confirmed. Specifically, the definition of an IAS ought to be considered in conjunction
 7 with the harm caused to IASs (or ISPs as Congress alternately refers to them) when trying to divine
 8 Congress’s intent. The most significant harms enumerated by Congress were ISP- or IAS-specific, going
 9 well beyond the consumer-specific burden of sorting through an inbox full of spam. These harms to IASs
 10 or ISPs relate to network functioning, bandwidth usage, increased demands for personnel, and new
 11 equipment needs, which eventually cost consumers. S. REP. NO. 108-102, at 6. Because these harms
 12 were defined in terms of Internet access service providers, and because standing was conferred only on
 13 IASs (not consumers), it follows that such harms must be (1) possible and (2) actually occur, if a private
 14 entity is to have standing under the Act. *Id.* at 21 (reiterating that the private right of action is for a
 15 “*provider of Internet access service adversely affected* by a violation,” not individual e-mail users and not
 16 IASs experiencing no adverse effects). Thus, even if an entity could meet the ill-defined and broad
 17 definition of an IAS, the “adverse effect” to that entity must be both real and of the type uniquely
 18 experienced by IASs for standing to exist. Any other reading would expand the private right of action
 19 beyond what Congress intended.

20 Defendant repeatedly points out that Plaintiffs have no paying “customers” and their provision of
 21 free e-mail precludes status as an IAS. The Court disagrees with this interpretation, in light of
 22 Congress’s clear references to free e-mail services and the corrosive effect of spam on free e-mail
 23 providers, such as Microsoft and Earthlink. Rather, in light of the legislative history as it relates to IAS
 24 requirements, it is notable that Plaintiffs lease a server housed with GoDaddy which is accessed solely
 25 through an interface that GoDaddy provides via Verizon’s internet connection. Congress has not in
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1 specific terms spoken to whether and how Plaintiffs’ relationships with GoDaddy or Verizon matter, but
 2 because other entities actually house the hardware and bandwidth that could be burdened by spam,
 3 Plaintiffs’ structural dependence might be quite significant. Moreover, because Plaintiffs’ volume is so
 4 small, it is unlikely that they alone would realize the ISP- or IAS-specific strains described by Congress
 5 before it chose to confer a private right of action only on those entities. Therefore, Plaintiffs’ small scale,
 6 when combined with their obvious dependence on other entities, suggests that Plaintiffs’ burdens, if any,
 7 would be shared and likely borne almost entirely by other entities if they ever were to materialize. Apart
 8 from the question of whether Plaintiffs actually realized any adverse effects, these factors suggest that
 9 Plaintiffs might not be an IAS as Congress envisioned one.

10 Nevertheless, it is fairly clear that Plaintiffs are, in the most general terms, a “service that enables
 11 users to access” Internet content and e-mail, and accordingly, they qualify as an IAS under the statute’s
 12 capacious definition. Regardless, Plaintiffs clearly have not actually borne the ISP- or IAS-specific
 13 burdens described by Congress. Therefore, because they cannot show “adverse effect,” which is inherent
 14 in the definition of private standing under 15 U.S.C. § 7706(g)(1), it is irrelevant whether Plaintiffs are a
 15 true IAS. For the following reasons, the Court finds that Plaintiffs do not have CAN-SPAM standing
 16 regardless of whether they are an IAS.

17 Specifically, Plaintiffs undisputedly have suffered no harm related to bandwidth, hardware,
 18 Internet connectivity, network integrity, overhead costs, fees, staffing, or equipment costs, and they have
 19 alleged absolutely no financial hardship or expense due to e-mails they received from Defendants.
 20 Plaintiffs have spam filters available to them, and such filters continue to become more sophisticated.
 21 Nor do Plaintiffs allege that they use “dial-up,” the costs associated with which were specifically
 22 discussed by Congress (and likely are becoming an obsolete concern as high-speed broadband usage
 23 becomes the norm). Moreover, even if there is some negligible burden to be inferred from the mere fact
 24 that unwanted e-mails have come to Plaintiffs’ domain, it is clear to the Court that whatever harm might
 25 exist due to that inconvenience, it is not enough to establish the “adverse effect” intended by Congress.

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1 Indeed, the only harm Plaintiffs have alleged is the type of harm typically experienced by most e-mail
2 users. The fact that Congress did not confer a private right of action on consumers at large means that
3 “adverse effect” as a *type* of harm must rise beyond the level typically experienced by consumers—*i.e.*,
4 beyond the annoyance of spam.

5 Not only must CAN-SPAM private plaintiffs allege a particular type of harm, the adverse effect
6 they allege must be significant. To hold otherwise would lead to absurd results. For instance, Plaintiffs’
7 client Anthony Potts states that, using the domain Omni established and registered for him, he has
8 provided nine e-mail addresses to Washington residents at the “anthonycentral.com” domain. (Pls.’
9 Partial SJ Mot., Potts Decl. ¶ 4.) Accordingly, Mr. Potts appears as well to be a “service that enables
10 users to access” Internet content and e-mail under the broadest interpretation of what an IAS is. If Mr.
11 Potts is an IAS, is he too an intended holder of a private right of action under CAN-SPAM? Are, in turn,
12 his “clients” (e-mail account holders who might provide “services” to others) also intended plaintiffs? If
13 Congress’s “limited” provision of a private right of action is to have any traction at all, the quantum of
14 harm for Plaintiffs or Mr. Potts or any other purported IAS must be *significant*.

15 The necessity of a showing of significant adverse effect is particularly evident in the instant case,
16 where Plaintiffs seek *solely* statutory damages. Indeed, Plaintiffs seek nearly \$2.4 million in what amount
17 to punitive fines on Defendants, calculated per e-mail. Because Congress provided a private right of
18 action only to “provider[s] of Internet access service *adversely affected*,” 15 U.S.C. § 7706(g)(1)
19 (emphasis added), it must be that Congress intended standing to require a showing of some significant
20 harm to justify such steep statutory damages pursuant to § 7706(g)(3). Statutory damages under CAN-
21 SPAM never would be a function of actual damages. However, “adverse effect” is a textual prerequisite
22 to claiming these damages. Any other construction would impose strict liability on spammers for e-mails
23 received by *any* IAS regardless of adverse impact, thereby rendering the “adversely affected” language of
24 the private right of action provision superfluous. Such is an impermissible result in any statutory
25 construction. Accordingly, substantial actual harm must exist before these exorbitant amounts of
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1 statutory damages are available to private plaintiffs. Once a plaintiff shows sufficient harm, it is clear that
2 Congress intended to make a statement by imposing these large per-e-mail fines. Yet, permitting private
3 parties with *no harm* to invoke CAN-SPAM to collect millions of dollars surely is not what Congress
4 intended when it crafted this “limited” private right of action. Congress simply did not intend for
5 anyone—IAS or not—to be able to utilize the limited private right of action provided in the Act despite
6 being unable to allege, much less prove, adverse effect. Without a requirement of significant adverse
7 impact, Congress’s “limited” private right of action would become available to almost anyone.

8 Finally, Congress’s reference to “bona fide Internet service providers” merits comment. Plaintiffs’
9 clients are few, most appearing to be family members. Plaintiffs also admit to *benefitting* from spam by
10 way of their research endeavors and prolific litigation and settlements. This belies any suggestion that
11 Plaintiffs are “bona fide Internet service providers” that have been “adversely affected” by spam. Instead,
12 Plaintiffs’ continued use of other people’s e-mail addresses to collect spam and their undisputed ability to
13 separate spam from other e-mails for generating lawsuit-fueled revenue directly contradicts any hint of
14 adverse effect that otherwise might exist. Plaintiffs are not the type of entity that Congress intended to
15 possess the limited private right of action it conferred on adversely affected bona fide Internet access
16 service providers.

17 Taking the facts as a whole, the Court finds that Plaintiffs lack standing to sue under §
18 7706(g)(1). Because Plaintiffs have no standing, their CAN-SPAM claims must be DISMISSED and the
19 Court has no occasion to reach the parties’ arguments on the merits of those claims.

20 **B. Washington CEMA Claims (Second Cause of Action)**

21 Defendants claim that Plaintiffs’ Washington CEMA claims are preempted by the CAN-SPAM
22 Act. The CAN-SPAM Act contains an expressed preemption clause. The United States Supreme Court
23 has held that, when evaluating federal statutes that expressly preempt state law, “analysis of the scope” of
24 the preemption clause “must begin with its text.” *Medtronic, Inc. v. Lohr*, 518 U.S. 470, 484 (1996).
25 However, “interpretation of that language does not occur in a contextual vacuum. Rather, that
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1 interpretation is informed by two presumptions about the nature of pre-emption.” *Id.* at 485. First, due
 2 to the presumption that “Congress does not cavalierly pre-empt state-law causes of action,” a court must
 3 “start with the assumption that the historic police powers of the States were not to be superseded by the
 4 Federal Act unless that was the clear and manifest purpose of Congress.” *Id.* (internal quotations and
 5 citations omitted). Second, a court must be guided by the principle that “any understanding of the scope
 6 of a pre-emption statute must rest primarily on a fair understanding of congressional purpose.” *Id.* at
 7 485–86 (emphasis in original) (internal quotations and citations omitted). This analysis applies to
 8 allegations that an entire state statutory scheme is preempted, as well as to allegations that only particular
 9 claims within that structure are preempted. *Id.*

10 The CAN-SPAM Act’s preemption clause provides:

11 This chapter supersedes any statute, regulation, or rule of a State or political subdivision
 12 of a State that expressly regulates the use of electronic mail to send commercial messages,
 13 *except to the extent that any such statute, regulation, or rule prohibits falsity or
 14 deception in any portion of a commercial electronic mail message or information
 15 attached thereto.*

14 15 U.S.C. § 7707(b)(1) (emphasis added). Moreover, as part of the CAN-SPAM enactment, Congress
 15 made the following finding:

16 Many States have enacted legislation intended to regulate or reduce unsolicited
 17 commercial electronic mail, but these statutes impose different standards and
 18 requirements. As a result, they do not appear to have been successful in addressing the
 19 problems associated with unsolicited commercial electronic mail, in part because, since an
 20 electronic mail address does not specify a geographic location, it can be extremely difficult
 21 for law-abiding businesses to know with which of these disparate statutes they are
 22 required to comply.

20 *Id.* § 7701(a)(11). The question before the Court is whether Plaintiffs’ Washington CEMA claims fit into
 21 the § 7707(b)(1) savings clause designated by Congress as the single exception to CAN-SPAM’s broad
 22 preemption of state electronic mail legislation.

23 Plaintiffs’ remaining CEMA claims arise under section 19.190.020 of CEMA.¹¹ This section

24 _____
 25 ¹¹ The Court recognizes that Plaintiffs have pled under the Consumer Protection Act
 26 “conspiracy” section of CEMA as well. WASH. REV. CODE § 19.190.030. However, it does not differ

1 provides:

2 (1) No person may initiate the transmission, conspire with another to initiate the
 3 transmission, or assist the transmission, of a commercial electronic mail message from a
 4 computer located in Washington or to an electronic mail address that the sender knows, or
 5 has reason to know, is held by a Washington resident that:

6 (a) Uses a third party’s internet domain name without permission of the third party, or
 7 *otherwise misrepresents or obscures any information in identifying the point of origin or
 8 the transmission path of a commercial electronic mail message;* or

9 (b) *Contains false or misleading information in the subject line.*

10 (2) For purposes of this section, a person knows that the intended recipient of a
 11 commercial electronic mail message is a Washington resident if that information is
 12 available, upon request, from the registrant of the internet domain name contained in the
 13 recipient’s electronic mail address.

10 WASH. REV. CODE § 19.190.020 (emphasis added). It is undisputed that the italicized language above
 11 forms the basis for Plaintiffs’ claims regarding Defendants’ e-mails.

12 The precise contours of Plaintiffs’ CEMA claims are important to the preemption analysis. In
 13 Plaintiffs’ summary judgment motion, as well as in responding to Defendants’ summary judgment motion,
 14 Plaintiffs’ sole focus is on the allegedly misleading “headers” in 7,890 of Defendants’ e-mails. (*See* Pls.’
 15 Partial SJ Mot. 2–19; Pls.’ Opp’n to SJ *passim.*) The Court notes that Plaintiffs pled under CEMA for
 16 false or misleading subject lines and Defendants moved for summary judgment on these claims.

17 However, Plaintiffs’ Opposition brief contains only a single reference to the “subject line” claims, which
 18 precedes the conclusory statement that “Gordon contests” Defendants’ arguments regarding subject lines.

19 (Pls.’ Opp’n to SJ 20.) Plaintiffs do not allege that any genuine issue of material fact exists as to the
 20 subject line claims or offer any evidence going to these claims. Accordingly, these claims must fail.

21 Plaintiffs’ arguments in their Opposition brief regarding the body of the e-mails relate only to CAN-
 22 SPAM claims, *see supra* note 5, and are not relevant to the instant discussion of CEMA claims.

23 Therefore, the only substantive CEMA claims relevant to the preemption analysis relate to “from lines” in

24 _____
 25 from section 19.190.020 in such a way that requires separate analysis.

1 “headers.”

2 Specifically, Plaintiffs allege that Defendants’ headers violate both CAN-SPAM and CEMA
3 because the “from line” does not include Defendants’ company names or the names of company
4 personnel. Instead, the “from line” contains a “from name” referencing a topic area or type of
5 advertisement (such as “Criminal Justice”) along with a “from address” showing the e-mail address of the
6 sender (such as “CriminalJustice@vm-mail.com”). So, for example, while “vm-mail.com” is one of
7 Defendant Virtumundo’s domains, Plaintiffs’ claims are that these headers are misleading because they
8 “misrepresent[] or obscure[] . . . information in identifying the point of origin or the transmission path”
9 because the “from name” alone does not identify Defendant Virtumundo. The Court must determine
10 whether such claims are preempted by CAN-SPAM.

11 In a case analyzing an Oklahoma law, *Omega World Travel v. Mummagraphics, Inc.*, 469 F.3d
12 348, 353 (5th Cir. 2006), the Fifth Circuit analyzed a statute prohibiting a sender of e-mail from
13 “misrepresent[ing] any information in identifying the point of origin or the transmission path of the
14 electronic mail message” or sending a message that lacks “information identifying the point of origin or th
15 transmission path” or “[c]ontains false, malicious, or misleading information which purposely or
16 negligently injures a person.” There, in comparing the plaintiffs’ claims to the statutes in question, the
17 *Omega* court first affirmed the district court’s finding that the plaintiffs’ claims were for “immaterial
18 errors” or misrepresentations in the e-mails at issue. *Id.* at 353. For example, the plaintiffs had claimed
19 that the messages (1) stated that the recipients had signed up for the mailing list when they actually had
20 not, (2) contained header information, and in particular a “from address” that was not linked to the actual
21 sender, and (3) contained “from addresses” that the sender had stopped using. *Id.* at 351. The *Omega*
22 court then turned to the text of § 7707(b)(1), scrutinizing the terms “falsity or deception” and concluding
23 that they are linked contextually, such that the statute’s savings clause was not meant to “sweep up” mere
24 errors. *Id.* at 354. Rather, the *Omega* court found that because only “materially false or materially
25 misleading” header information was actionable under CAN-SPAM, Congress could not have intended, by
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1 way of the savings clause, to allow states to undermine that choice by imposing “strict liability for
2 insignificant inaccuracies.” *Id.* at 355. The *Omega* court found that the plaintiffs’ reading of the savings
3 clause within the preemption clause would create “a loophole so broad that it would virtually swallow the
4 preemption clause itself.” *Id.*

5 The CAN-SPAM legislative history underscores that the *Omega* court’s holding is correct. In
6 discussing the preemption clause and its savings clause, the Committee explained that only statutes that
7 “target fraud or deception” would be saved. S. REP. NO. 108-102, at 21. Indeed, a “State law requiring
8 some or all commercial e-mail to carry specific types of labels, or to follow a certain format or contain
9 specified content, would be preempted. By contrast, a State law prohibiting fraudulent or deceptive
10 headers, subject lines, or content in commercial e-mail would not be preempted.” *Id.* In light of the
11 impossibility of a sender knowing to which state an e-mail would be sent and the resultant inability to
12 know with which laws to comply, the Committee believed strongly in the necessity of “one national
13 standard” except where e-mails were fraudulent or deceptive. *Id.* at 21–22.

14 This Court agrees with the *Omega* court’s assessment of congressional purpose as well as its
15 preemption holding. Applying the *Omega* analysis here, the Court finds the following. Plaintiffs’
16 allegations here are that “from addresses” ending, for example, with “vm-mail.com” do not suffice to
17 make the header not false or misleading because they require one to figure out to whom or what “vm-
18 mail.com” refers—*i.e.*, the message is not obviously from “Virtumundo.” The parties agree that
19 identification can be achieved by reverse-look-up using, for example, the “WHOIS” database, which “is
20 an Internet program that allows users to query a database of people and other Internet entities, such as
21 domains, networks, and hosts.” Definitions, Implementation, and Reporting Requirements Under the
22 CAN-SPAM Act; Proposed Rule, 70 Fed. Reg. 25,426, 25,446 n.233 (May 12, 2005). The WHOIS
23 database is maintained by domain registrars and “includes the registrant’s company name, address, phone
24 number, and e-mail address.” *Id.* Plaintiffs do not dispute that WHOIS data can identify Defendants, and
25 they have pointed to no e-mails that fail to provide information useful to a correct WHOIS look-up.
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1 Plaintiffs instead contend that this extra step should not be required of consumers. Regardless of the
 2 merits of that argument, the Court cannot find that “from addresses” ending with a domain that facilitates
 3 an accurate identification of Defendants could in any sense be found “false” or “deceptive.” Accordingly,
 4 while claims actually alleging falsity or deception under CEMA would not be preempted, Plaintiffs’
 5 claims here—for, at best, “incomplete” or less than comprehensive information—are for immaterial errors
 6 that may not be litigated under state law. Plaintiffs have not raised any issues of material fact that could
 7 prove Defendants’ e-mails materially “false or deceptive” as those terms are used in the CAN-SPAM Act.
 8 Accordingly, Plaintiffs’ CEMA claims are preempted by CAN-SPAM.

9 In arguing against such a result, Plaintiffs cite to another of their cases, *Gordon v. Impulse*
 10 *Marketing Group, Inc.*, 375 F. Supp. 2d 1040, 1044–46 (E.D. Wash. 2005), wherein the district court
 11 found Gordon’s claims were not preempted. Plaintiffs argue that this preemption holding compels the
 12 same result here. However, that ruling was on an early Rule 12(b)(6) motion and the contours of
 13 Gordon’s claims were not discussed in the opinion. This Court does not disagree with the general
 14 proposition that some CEMA claims are not preempted. Indeed, as noted above, CEMA claims that
 15 allege “false or deceptive” e-mail headers would fit into Congress’s savings clause. However, in the
 16 instant case, the Court has the benefit of extensive summary judgment briefing and a record that clarifies
 17 the nature of Plaintiffs’ claims. The claims in the instant case are not for “falsity or deception,” and
 18 therefore they are preempted and must be DISMISSED.

19 **C. Washington CPA Claims (Third Cause of Action)**

20 In its December 8, 2006 Order (Dkt. No. 51), this Court discussed the five elements to a CPA
 21 claim: (1) an unfair or deceptive act or practice, (2) in trade or commerce, (3) that impacts the public
 22 interest, (4) which causes injury to the party in his business or property, and (5) the injury must be
 23 causally linked to the unfair or deceptive act. *Hangman Ridge Training Stables, Inc. v. Safeco Title Ins.*
 24 *Co.*, 719 P.2d 531, 535–37 (Wash. 1986). A violation of CEMA satisfies the first three *Hangman Ridge*
 25 elements. Because Plaintiffs’ preempted CEMA claims are the basis for their CPA claims, the CPA
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1 claims too must fail. Moreover, while an allegation of damage or harm was sufficient to survive a prior
 2 Rule 12(b)(6) motion in the instant case, the record has now been developed and it is undisputed that
 3 Plaintiffs have suffered no actual harm and are instead seeking only statutory damages. Accordingly,
 4 there is no genuine issue of material fact as to the injury element of Plaintiffs’ CPA claim. For the
 5 foregoing reasons, Plaintiffs’ CPA claims must be DISMISSED.

6 **D. Request to Separately Dismiss Defendant Scott Lynn**

7 Defendants’ motion for summary judgment to dismiss Scott Lynn is MOOT because the legal
 8 analysis of both federal and state claims disposed of all claims against all Defendants without need to
 9 reach the merits of any claims against Mr. Lynn in particular.

10 **E. Miscellaneous Motions to Seal, Strike, and File Overlength Briefing**

11 (1) Defendants’ reasonable request (Dkt. No. 97) to file an overlength summary judgment
 12 motion is GRANTED.

13 (2) Plaintiffs’ motion to seal (Dkt. No. 120) the declaration of Derek Newman (Dkt. No. 101)
 14 filed in support of Defendants’ summary judgment motion is DENIED. Plaintiffs argue that the entire
 15 489-page Gordon deposition exhibit should be sealed because four pages therein were designated
 16 “confidential” pursuant to the parties’ protective order in this case. Under Local Civil Rule CR 5(g)(1),
 17 there is a “strong presumption of public access to the court’s files and records which may be overcome
 18 only on a compelling showing that the public’s right of access is outweighed by the interests of the public
 19 and the parties in protecting files, records, or documents from public review.” Simply because portions
 20 of the deposition were designated as “confidential” during discovery does not justify sealing them from
 21 public view when filed on the Court’s docket. Nor do the oblique references to settlements therein
 22 constitute a “compelling showing” that this significant amount of material should be sealed. Accordingly,
 23 the motion is DENIED.

24 (3) Defendants move to seal (Dkt. No. 91) their entire Reply (Dkt. Nos. 92 and 93) filed in
 25 support of their motion for bond because it contains, as an exhibit, Gordon deposition testimony that was
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1 designated “confidential” pursuant to the parties’ protective order. However, Defendants do not believe
 2 the material is confidential. Plaintiffs have not commented with respect to this particular motion. As with
 3 the deposition exhibit described *supra*, Local Rule 5(g)(1) requires more than a “confidential” designation
 4 and an unspecific sweeping request to seal an entire brief and all of its exhibits. Accordingly, the motion
 5 is DENIED and the Clerk is DIRECTED to UNSEAL the Reply and accompanying materials (Dkt. Nos.
 6 92 and 93).

7 (4) Defendants’ motion to seal (Dkt. No. 86) their motion to compel further testimony (Dkt.
 8 No. 87) again seeks to seal deposition testimony that does not actually disclose the sensitive material that
 9 is the subject of the motion to compel. The motion to compel merely relies on Gordon deposition
 10 testimony that is not properly sealed under the standard of Rule 5(g)(1). Accordingly this motion is
 11 DENIED and the Clerk is DIRECTED to UNSEAL the motion and accompanying materials (Dkt. Nos.
 12 87 and 88).

13 (5) In their Surreply (Dkt. No. 94) to Defendants’ motion for bond, Plaintiffs move to strike
 14 the Draft transcript of Gordon’s deposition testimony as incomplete. This request is DENIED as MOOT
 15 because the entire transcript was available to this Court in ruling on the instant motions and any excerpts
 16 from the draft were considered in context. Likewise, Plaintiffs’ motions to strike argument from
 17 Defendants’ pleadings on the motion for bond are DENIED as MOOT because there is no need to rule
 18 on the motion for bond in light of the dispositive holdings in this Order. The Court GRANTS Plaintiffs’
 19 request that their motion for partial summary judgment be considered a “Response” to Defendants’
 20 motion for bond.

21 (6) In their Opposition (Dkt. No. 82) to Plaintiffs’ partial summary judgment motion,
 22 Defendants move to strike much of Plaintiffs’ argument and evidence as inadmissible hearsay or
 23 speculation lacking foundation. The Court has considered these objections and DENIES Defendants’
 24 motion to strike this evidence because the Court did not consider inadmissible evidence or speculation in
 25 ruling on the instant motions, and, as the prevailing parties, Defendants were not prejudiced by Plaintiffs’
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1 submittal in any event.

2 (7) In their Opposition (Dkt. No. 104) to Defendants’ summary judgment motion, Plaintiffs
 3 move to strike the Declaration of Mr. Krawetz and his expert report submitted with Defendants’ motion
 4 materials. However, the Court DENIES this motion because there was no need to consider Mr.
 5 Krawetz’s declaration or expert report in ruling on the instant motions. Rather, the content of those
 6 materials went either to the merits of CAN-SPAM claims for which Plaintiff has no standing or to the
 7 immaterial errors alleged in preempted CEMA claims. Plaintiffs also move to strike Defendants’
 8 spreadsheets submitted as exhibits to the Declaration of Derek Linke (Dkt. No. 102). Again, the Court
 9 DENIES this motion because these exhibits are relevant to the merits of claims never reached, and, in any
 10 event, such summaries would be admissible under Federal Rule of Evidence 1006.

11 (8) In their Reply (Dkt. No. 108) in support of their summary judgment motion, Defendants
 12 move to strike portions of Plaintiffs’ Opposition brief and the Gordon Declaration (Dkt. No. 107) to the
 13 extent that they contradict Gordon’s prior deposition testimony. Indeed, “[t]he general rule in the Ninth
 14 Circuit is that a party cannot create an issue of fact by an affidavit contradicting his prior deposition
 15 testimony.” *Kennedy v. Allied Mut. Ins. Co.*, 952 F.2d 262, 266 (9th Cir. 1991). The same rule applies
 16 to interrogatory responses. *School Dist. No. 1J v. AcandS, Inc.*, 5 F.3d 1255, 1264 (9th Cir. 1993). To
 17 the extent that Plaintiff Gordon’s Declaration attempts to contradict his earlier deposition testimony
 18 about Omni being in the “spam business,” it is STRICKEN. Gordon was deposed in detail on this issue.
 19 However, the Court notes that this testimony was not by any stretch dispositive in considering the instant
 20 motions, and accordingly, undue weight should not be placed on this issue one way or the other. All
 21 other requests to strike improper self-impeachment are DENIED because they go to merits of claims not
 22 reached herein.

23 (9) Also in their Reply (Dkt. No. 108), Defendants move to strike the “Microsoft Bulletin”
 24 (Dkt. No. 63-11) submitted in support of Plaintiffs’ partial summary judgment motion and the
 25 “unsubscribe” e-mails sent to Defendants regarding e-mails not at issue in this lawsuit, submitted as
 26 ORDER – 23

1 Exhibit A to the Declaration of Robert Siegel (Dkt. No. 106). The motion regarding the "Microsoft
2 Bulletin" is DENIED because that exhibit goes to merits not reached. The motion regarding the
3 "unsubscribe e-mails" is GRANTED, because while it goes to merits not reached, such e-mails are wholly
4 irrelevant to this case as well as improper hearsay and inadmissible character evidence.

5 **IV. CONCLUSION**

6 For the foregoing reasons,
7 (1) Defendants' Motion for Summary Judgment (Dkt. No. 98) and the associated motion by
8 Defendants for Leave to File an Overlength Brief (Dkt. No. 97) are GRANTED and Plaintiffs' Motion
9 for Leave to Seal (Dkt. No. 120) the Declaration of Derek Newman (Dkt. No. 101) is DENIED;
10 (2) Plaintiffs' Motion for Partial Summary Judgment (Dkt. No. 53) is DENIED because Plaintiffs
11 have no standing to bring CAN-SPAM claims;
12 (3) Defendants' Motion for Bond for an Undertaking (Dkt. No. 38) is STRICKEN as MOOT;
13 Defendants may move for attorneys' fees in light of this Order; and the associated motion by Defendants
14 to Seal their Reply (Dkt. No. 91) is DENIED and the Clerk is DIRECTED to UNSEAL the Reply and
15 accompanying materials (Dkt. Nos. 92 and 93);
16 (4) the discovery motions by Defendants to Compel Discovery (Dkt. No. 69), to Compel
17 Segregation of Emails (Dkt. No. 71), to Compel Further Testimony regarding Prior Settlements (Dkt.
18 No. 87), and to Exclude Testimony from Plaintiffs' lately disclosed witnesses (Dkt. No. 116) are all
19 STRICKEN as MOOT. The Motion to Seal (Dkt. No. 86) associated with the Motion to Compel
20 Further Testimony is DENIED and the Clerk is DIRECTED to UNSEAL the motion and accompanying
21 materials (Dkt. Nos. 87 and 88); and
22 (5) The June 18, 2007 trial date and all associated deadlines are hereby STRICKEN.
23 As the prevailing parties, Defendants may file a motion for attorneys fees pursuant to 15 U.S.C. §
24 7706(g)(4) and for entry of final judgment in this matter. Defendants are hereby DIRECTED to confer
25 with opposing counsel and advise the Court of a proposed schedule for briefing these remaining issues.
26 ORDER – 24

1 SO ORDERED this 15th day of May, 2007.

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6 John C. Coughenour
7 United States District Judge
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ORDER – 25

Internet Advertising: Promoting Products and Services**I. Introduction**

- A. Internet Advertising: Methods of Promotion
- B. Accessing Internet Advertising Inventory
- C. Options for Purchasing Inventory
- D. Key Contract Issues
- E. Trends and Developments

II. Internet Advertising: Methods of Promotion

- A. Methods of Promotion
 - 1. Search
 - 2. Display
 - 3. Video
- B. Search Engine Marketing ("SEM")
 - 1. What is it? Search Advertising refers to a method of advertising using a Web search engine. In this is a form by which an advertiser seeks to promote its website or product by increasing its visibility in the search engine results pages.
 - 2. How does it work? There are a number of ways an advertiser can act to increase its visibility. However, in the context of SEM, it is the practice of buying paid search listings to increase visibility (as opposed to search engine optimization ("SEO"), which seeks to obtain better free search listings. In SEM, advertisers select and purchase key words. When a customer types in the key word in a search, that advertiser's link is displayed as part of a sponsored listing. The cost associated with a key word is generally determined by a bidding process. The advertiser pays when an end user clicks on the sponsored link.
 - 3. Additional Services:
 - a. Search Engine Optimization - This is the process by which a website seeks to manage its placement in the natural search results. SEO efforts may involve a site's coding, presentation, and structure, as well as addressing issues that could prevent search engine indexing programs from fully indexing a site. Other efforts may include adding certain content to a site, ensuring that content is easily indexed by search engine robots, and making the site more appealing to users.
 - b. Search Engine Management - This service manages an SEM campaign by monitoring click-through rates

and customer actions, and adjusting the bidding on key works to achieve a certain ROI on the campaign.

C. Display (Banners/Pop-Ups & Unders)

- 1. What is it? Display advertising is a type of advertising that may, and most frequently does, contain graphic information beyond text such as logos, photographs or other pictures, and similar items.
- 2. How does it work? Basically, a visitor arrives at a website and an advertisement (or creative) is placed in the space available for the display of an advertisement (called "inventory"). Code on the website will communicate with an ad server that will decide on what type of advertisement to place in the inventory. The ad server then places the advertisement in the inventory for display to the visitor (an "impression").

D. Video

- 1. What is it? Video advertising is similar to television advertising. Short advertisements are placed before (pre-roll) or after (post-roll) online video content. Increasingly, online video advertising is placed with a corresponding display advertisement next to the video content.
- 2. How does it work? The placement of a video advertisement works the same as it does with the placement of a display creative. The technology, however, is not agnostic as the type of video player that a publisher uses may dictate the type of ad serving technology that can be used to serve the video advertisement. Some companies have developed video ad serving technology that works across different types of video players.

III. Accessing Internet Inventory (Ad Space)**A. Who Has the Inventory?**

- 1. Individual Web Sites (Publishers)
- 2. Portals
- 3. Search Engines
- 4. Networks

B. Individual Publishers

- 1. These are web sites with specific content or subject matter. They typically do not offer content beyond a few subject areas or they only represent one business.
- 2. Use ComScore and other counting sites to identify largest sites, site content, demographics.

C. Portals

1. What are they? A web portal is a web site that functions as a point of access to information on the World Wide Web. Portals present information from diverse sources in a unified way and offer other services such as customized news feeds, selected stock prices, information, entertainment and various other features. Portals provide a consistent look and feel with access control and procedures for multiple applications, which otherwise would have been different entities altogether.
2. Who are they? Largest Portals: Yahoo!, MSN, AOL. Other important portals include those provided by DSL providers (Cable and Telephone companies) to their customers.

D. Search Engines

1. What are they? In the present context, a search engine is web site with the primary purpose to help find information on the World Wide Web. The search engine allows one to ask for content meeting specific criteria (typically those containing a given word or phrase) and retrieves a list of items that match those criteria. With respect to advertising, a search engine in addition to "natural results" will display listings for which the search engine has been compensated
2. Who are they? The largest Search Sites include, Google; Yahoo!; MSN; AOL Search, and Ask.com. There are other vertical search engines that focus on specific topics or categories (NexTag, Travelocity).
3. To access the advertising inventory, each engine has different technologies that can be accessed directly. (ex., Google - AdWords; Yahoo! - Panama; MSN - Live Search)

E. Third Party Networks

1. What are they? Advertising network refers to an intermediary that connects a group (network) of web sites (publishers) that have available advertising inventory (to host advertisements) and advertisers which want to run advertisements on those sites. An advertising network (also called an online advertising network or ad network) is a collection of unrelated (to the network) online advertising inventory. An advertiser can buy a run of network package, or a run of category package within the network. Large publishers often sell only their remnant inventory through ad networks. Typical numbers range from 10% to 60% of total inventory being remnant and sold through advertising networks.
2. Who are they? The largest third party networks include Advertising.com, ValueClick, Casale Media, and Tribal Fusion

3. Types of Networks

- a. Affiliate - Affiliate marketing is a method of promoting web businesses (merchants/advertisers) in which an affiliate (publisher) is rewarded for every visitor, subscriber, customer, and/or sale provided through the efforts of the publisher. Typically the publisher will select the advertisements to be run on publisher's web sites. (Pull)
- b. Web - In this model, the advertising network, using proprietary modeling software, decides which advertisements are served into the web site. The publisher does not know the specific advertisers that will appear on the site (but usually has an opportunity to block specific advertisers or categories of advertisers. (Push)

IV. Contracting Issues

A. Whose Terms?

1. Publishers (Web Sites) - Some publishers have developed their own terms upon which they will permit advertisers to purchase inventory from them. They are typically heavily slanted in favor of the publisher and give the advertiser limited, if any, assurances or protection regarding the content of the site or the availability of inventory.
2. IAB/AAAA Terms
 - a. Developed by the Interactive Advertising Bureau and the Advertising Agencies Association of America
 - b. Intended to offer Media Companies, Advertisers, and their Agencies a voluntary standard for conducting business in a manner acceptable to all parties.
 - c. Typically the advertiser will use these terms, especially if they are represented by an agent or media buyer.

B. Potential Issues

1. Content Liability [IP Rights associated with content, what party is responsible for content on the site and for content through which a visitor can link through a site]
2. Content Quality [UGC, objectionable content]
3. Counting and Audits [which party counts impressions, which party tracks conversions, on whose numbers will payments be made]
4. Data [what data can be used, who owns it]
5. Ad serving [who hosts and serves the advertisements]

V. New Developments**A. Mobile**

1. **Defined:** A form of advertising that is communicated to the consumer via a cellular communications device in the form of a banner, poster, full screen interstitial. This also includes SMS and MMS advertisements, and mobile game ads.
2. **Issues:** There is a general wariness concerning the consumer's reactions to advertisements on their cellular phones. The carriers tightly control interactions with their networks.

B. Behavioral Targeting

1. **What is it?** Behavioral Targeting is a technique used by online publishers and advertisers to increase the effectiveness of their campaigns. The concept is to observe a user's online behavior anonymously and then serve the most relevant advertisement based on their behavior. Theoretically, this helps advertisers deliver their online advertisement to the users who are most likely to be influenced by them.
2. **Issues:** Many online users & advocacy groups are concerned about privacy issues around doing this type of targeting. In addition to privacy concerns will be the issue of truly understanding the nature of the person being targeted. For example, there is some disagreement over the validity of focus groups since there is implied influence. There is the issue of people having alternate online personalities. Advertisers have no guarantee the same person is behind the computer screen all the time. Families, for instance, often share computers, so the same browser may travel to all sorts of different sites when being used by different people. In this scenario, the concept of profiling as a means of associating behavior with an individual is fundamentally flawed.

Suggested Documents:

IAB/AAAA Terms with Comments (<http://www.iab.net/standards/educationdoc2.pdf>)