

## Case Study: Rosetta Stone V. Google

*Law360, New York (May 22, 2012, 6:14 PM ET)* -- On April 9, the U.S. States Court of Appeals for the Fourth Circuit issued a highly anticipated ruling on the legality of the use of others' trademarks in Google's keyword ad/sponsored links program, AdWords. The case is *Rosetta Stone Ltd. v. Google Inc.*, No. 10-2007, 2012 U.S. App. LEXIS 7082 (4th Cir. Apr. 9, 2012). The court reversed most of a 2010 ruling by the U.S. District Court for the Eastern District of Virginia, vacating an order granting summary judgment in Google's favor on all claims and reinstating language software maker Rosetta Stone's direct and contributory trademark infringement claims and dilution claim.[1]

The case is important because it indicates that there are circumstances in which search engines may conceivably be held liable for facilitating trademark infringement committed by others through their keyword advertising programs and, importantly, that the search engines' own use (sale) of others' trademarks as keywords may render them liable for direct infringement. This could renew interest in search engines as potential targets for enforcement actions.

The decision also implicitly acknowledges that keyword advertising programs are being used by some advertisers for deceptive purposes, including trademark infringement and counterfeiting. Finally, the decision corrects several errors of law committed by the lower court. Overall, it is a favorable decision for trademark owners.

Rosetta Stone sued Google in 2009, claiming that the search giant committed direct and contributory trademark infringement and trademark dilution, and was unjustly enriched, by allowing purveyors of counterfeit Rosetta Stone software to purchase Rosetta Stone's trademarks as keyword search terms.

This resulted in "sponsored links" ads being displayed alongside Google's organic search results. Links in the ads led unsuspecting consumers to websites which sold the counterfeit software. Although the district court had granted summary judgment on all counts, the Fourth Circuit found that a reasonable fact finder could determine that the use of Rosetta Stone's mark by Google and its advertisers is likely to cause confusion (trademark infringement) or dilution (a diminishing of the distinctiveness of a famous mark).

### Direct Infringement

The Fourth Circuit cited Rosetta Stone's survey and anecdotal evidence of actual confusion, including the deposition testimony of five customers who attempted to buy a "Rosetta Stone" software package from a site linked to a sponsored keyword ad but ended up receiving counterfeit software instead. The district court had found the testimony unavailing because the number of affected consumers was de minimus, and because they knew they were not purchasing the software directly from Rosetta Stone.

The Fourth Circuit held that the testimony could not be rejected at this stage of the case, because the consumers testified that they thought they were purchasing from authorized resellers. It also determined that the events testified to, in conjunction with other evidence of customer complaints, were not de minimus.

The appellate court also relied heavily on internal studies conducted by Google prior to its 2004 trademark-keyword advertising policy revision, which concluded that “the likelihood of confusion remains high” when a trademark term is used in the title or body of a sponsored link, and which reflected that “94% of users were confused at least once” by such a practice (which Google allows today).

Additionally, there was deposition evidence that two of Google’s own employees were unable to determine (without further research) which sponsored links in a search results page were for authorized Rosetta Stone resellers, reflecting an uncertainty about the origin of the product which the Fourth Circuit deemed “quintessential actual confusion evidence” for summary judgment purposes.

### **Contributory Infringement**

In addition to holding that sufficient evidence had been presented to support the possibility of an ultimate finding of direct trademark infringement, the court determined that Rosetta Stone’s claim of contributory infringement (which requires knowledge that one is facilitating another’s wrongful acts) could also proceed, relying, in part, upon Rosetta Stone’s evidence that Google continued selling keywords to entities it knew to be infringers or counterfeiters, and holding that the district court had applied the wrong standard in weighing the evidence.

### **Functionality**

The lower court ruling had included a fairly egregious error of law — an unsupported extension of a trademark legal principal known as the “functionality doctrine.” This doctrine holds that product features that are purely functional (e.g., allowing for improved mechanical operation or cheaper manufacture of a product) cannot acquire the distinctiveness necessary to serve as a source-indicator — an essential trademark property. The district court misapplied this doctrine and held that Google’s use of Rosetta Stone’s mark as a keyword to trigger ads performs an “essential indexing function” that is protected under the functionality doctrine.

The Fourth Circuit correctly held that the doctrine “simply does not apply in these circumstances,” explaining, in part, that the accepted functionality doctrine addresses the manner in which the trademark owner uses the mark, rather than the use of the mark by the accused infringer.[2]

The district court’s erroneous utilization of the “functionality” concept brings to mind two other potential defenses for Google in keyword advertising cases. Beginning with cases that were filed at the dawn of the AdWords program, Google has always asserted that it is merely selling advertising space triggered by a trademark term, and that such conduct is not infringement because it does not constitute statutory “use” of the mark in commerce.

Although Google did assert this theory in support of its motion for summary judgment below, it did not pursue the argument on appeal. The Fourth Circuit thus did not rule on the issue, but pointedly referenced, the Second Circuit’s ruling in *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 129-31 (2d Cir. 2009), that Google’s activity does qualify as a “use in commerce” of a trademark. Other courts have held similarly.

Another way of looking at Google's advertisers' (and, contributorily, Google's) use of others' trademarks is that it is permissible "nominative fair use." This trademark law concept allows the referential use of others' marks by advertisers who are legitimate resellers of the trademarked product or who wish to compare a competing product with the trademarked product in a nondeceptive fashion, and is enshrined in Google's current AdWords trademark policy.

Several circuits have recognized the nominative fair use doctrine as a defense to trademark infringement. See *Century 21 Real Estate Corp. v. Lendingtree Inc.*, 425 F.3d 211 (3d Cir. 2005); *New Kids on the Block v. News America Pub. Inc.*, 971 F.2d 302 (9th Cir. 1992). See also *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d. Cir. 2010).

The International Trademark Association, in its amicus brief, urged the Fourth Circuit to adopt the doctrine. The court recognized that Google's use of Rosetta Stone's trademark was "referential or nominative in nature," and stated that this fact was relevant in shaping the particular likelihood of confusion factors that should be emphasized in such cases. However, the court specifically declined to adopt the fair use doctrine as a defense to infringement, stating that it was taking no position on the question.

## **Dilution**

The Fourth Circuit also reversed the district court's grant of summary judgment on Rosetta Stone's trademark dilution claim, holding that the lower court had misapplied the federal dilution statute, 15 U.S.C. § 1125(c), which grants protection to famous marks even in the absence of a likelihood of confusion. The appellate court clarified that the trademark owner is not required to prove that the defendant uses the famous mark as a source-identifying trademark for the defendant's own products.

Also, while a nominative fair use defense (which is statutory for dilution claims, unlike infringement claims) is available to a defendant, the burden of establishing this defense is the defendant's, and need not be proved in the negative by the plaintiff in order to withstand summary judgment. The Fourth Circuit further noted that a defendant's good faith is an essential element of the fair use defense, something that was not considered by the district court.

The court also rejected the district court's finding that Rosetta Stone had failed to establish a likelihood that Google's actions impair the distinctiveness or reputation of the mark, the essence of dilution. The lower court addressed only one out of the nonexhaustive list of six factors contained in the statute, the degree of recognition of the mark. Since the evidence showed that public recognition of the "Rosetta Stone" mark had increased during the time of the alleged dilutive conduct, the district court held that no dilution had occurred as a matter of law.

The court reversed this ruling since, under the statutory standard of likelihood of dilution, rather than actual dilution, an impairment of distinctiveness or reputation, including economic loss, may still have occurred in the past (e.g., perhaps the mark's fame and positive takeaway would have increased even more but for the dilutive conduct) or in the future.[3]

The final portion of the decision concerns the prerequisite to a dilution claim that the plaintiff's mark be shown to have been famous prior to the time the defendant "commences use" of the mark. 15 U.S.C. § 1125(c)(1). The district court had indicated (to Rosetta Stone's benefit) that "commences use" does not necessarily refer to the very first use, such that any use of the mark by Google after fame was achieved — even a continuation of use that had commenced earlier — could be actionable.

The court of appeals now holds that this is an incorrect reading of the statute, and that since Rosetta Stone's complaint alleged that Google's use of its mark began in 2004, the mark's fame at that time, rather than in 2009 (when Google changed its North American keyword ad policy to permit the use of trademarks in ad text), must be proved. This may present a serious obstacle for Rosetta Stone. The court directs the district court to determine when Google's alleged dilutive use of the mark began and to then consider whether sufficient evidence has been presented of the mark's fame at that time.

## **Implications**

The Rosetta Stone decision is helpful to trademark owners, advertisers, and practitioners, as it reaffirms that traditional trademark infringement and dilution analysis applies in the context of keyword advertising cases and corrects serious errors of law committed by the district court. In a number of respects, it is a setback for Google, which will again have to defend its trademark keyword ad policy in the trial court (unless the case is settled).

The Fourth Circuit joins other courts that are not prepared to give Google and other search engine companies a free pass when it comes to trademark infringement and dilution claims. Additionally, the damaging internal Google studies concerning trademark confusion that Rosetta Stone unearthed could be useful fodder for future plaintiffs.

In the long run, though, Google will likely benefit from the greater legal clarity provided by the decision. The company's strategy of steadily liberalizing its AdWords trademark policy, to the point where it now allows the use of others' trademarks as keywords and in ad text, and of aggressively defending that policy in court, has succeeded brilliantly until now, and trademark keyword ads have contributed significantly to the bottom line of one of the world's most profitable and successful companies.

Google's lawyers are certainly prepared to go to trial, if necessary, to defend the company on the basis of classic trademark likelihood of confusion factors and defenses, as was already done in the first keyword case to be tried, *Gov't Employees Ins. Co. v. Google Inc.*, 1:04CV507, (E.D. Va. Aug. 8, 2005).

While other trademark owners may now be considering asserting their own claims against Google, with its deep pockets, or other search engines, many who have already gone that route have been left wanting. In most cases, where a bad actor advertiser can be identified, and real harm can be shown, the better strategy may be to focus on the advertiser rather than on the search engine. Companies are advised to protect their trademarks by remaining diligent in their review of, and action against, competitors who improperly use their marks in connection with keyword ads.

Advertisers, on the other hand, should review their keyword advertising policies to be sure that they do not utilize competitors' trademarks as keywords in a manner that crosses the line from fair use to infringement, running the risk of liability. Besides being a sound business practice, staying within the bounds of legally defensible advertising will avoid an "unclean hands" defense, should the advertiser find that its own mark is being purchased as a keyword by a competitor who does cross the line.

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[1] The court affirmed the district court's grant of summary judgment in Google's favor on Rosetta Stone's claims of vicarious infringement and unjust enrichment.

[2] Indeed, the Ninth Circuit already had rejected such a "functionality" defense in an early keyword advertising case, *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9th Cir. 2004).

[3] In striking down the district court's dilution analysis, the Fourth Circuit held that the lower court had misapplied its ruling in *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007), a case where a parody fair use defense prevailed over a dilution claim, which has stuck in the craw of some trademark owners and commentators because of the commercial nature of the parody. Famous trademark owners will no doubt welcome the court's clarification that Louis Vuitton does not stand for the proposition that no claim for dilution by blurring can exist when there is evidence that public recognition of the defendant's product increased.