

## Trademark owners gain leverage in keyword ad wars

Court in 'Rosetta Stone' relied on studies showing that even savvy Web users are confused by Google's sponsored links.

BY LEWIS R. CLAYTON

A user of an internet search engine—Google, Bing, Yahoo!—who includes a well-known trademark in a search is likely to see a group of ads related to that mark. These ads—typically appearing above or beside search results—may identify dealers or suppliers of the trademarked product, link to sites that offer advice or product reviews or point to sellers of competitive goods.

None of this is an accident: Competitors of trademark owners, as well as the owners themselves, bid on the right to place sponsored links keyed to trademarks in favored positions on pages that display search results.

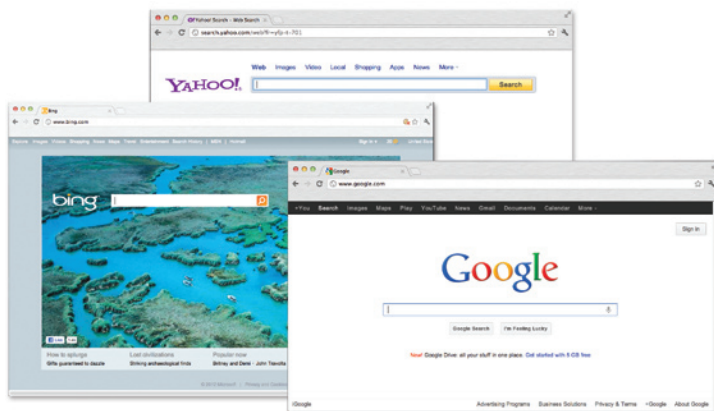
During the past several years, unhappy trademark owners have turned to the courts to stop such sponsored ads, arguing that the sale of advertising keywords including trademarks violates what they see as their

In 2005, trademark owners suffered a significant defeat in *1-800 Contacts Inc. v. WhenU.com Inc.*, 414 F.3d 400 (2d Cir. 2005). In that case, the Second Circuit addressed software that displayed pop-up ads whenever a user entered a particular search term into a Web browser. A vision-care company sued a competitor that bought the right to display ads keyed to the plaintiff's trademark. Dismissing the trademark claim, the Second Circuit held that the trademark had not been used in commerce—an essential element of a trademark infringement claim. The Second Circuit reasoned that consumers seeing the pop-up ad were unaware that it had been triggered by the trademark: "A company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to an individual's private thoughts about a trademark. Such conduct simply does not violate the Lanham Act." Under this rationale, the sale of keywords would have effectively been immune from

scrutiny under the Lanham Act (as long as the trademarks were not used in the ads themselves).

But in 2009, the Second Circuit reversed course. In *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123 (2d Cir. 2009), Rescuecom claimed trademark violations when Google search users were shown advertisements for competing businesses keyed to use of the mark "Rescuecom" as a search term. The Second Circuit distinguished (though did not explicitly overturn) *1-800 Contacts* and held that this did qualify as use in commerce under the Lanham Act. Rather than merely displaying advertisements triggered by the plaintiff's mark, Google made use of the mark itself, by directly encouraging advertisers to purchase Rescuecom's trademark as an advertising keyword.

*Rescuecom* appears to have established that using trademarks in keyword-based advertising satisfies the "use in commerce" requirement of the Lanham Act. As a result, the battleground in keyword trademark liti-



### THE PRACTICE

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rights under the Lanham Act to control use of their marks. But many federal courts have been skeptical of these claims, rejecting liability except in cases in which trademark owners can make a robust showing that sponsored ads cause consumer confusion, or that the operator of the search engine was aware that purchasers of sponsored ads were engaged in misconduct. A decision issued last month by the U.S. Court of Appeals for the Fourth Circuit, however, indicates trademark owners may be gaining a little leverage.



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gation has shifted to other requirements of a Lanham Act claim—chiefly the requirement that a plaintiff show likelihood of consumer confusion resulting from ads appearing on a search-results page. Here, too, trademark owners have faced significant obstacles.

Courts have looked closely at the context in which sponsored ads appear in order to judge whether those ads threaten consumer confusion. Sponsored ads that are labeled as purchased links and do not include the plaintiff's trademark are difficult to attack. In *J.G. Wentworth v. Settlement Funding LLC*, 2007 WL 30115 (E.D. Pa. 2007), for example, the court dismissed a complaint, finding that use of the plaintiff's trademark to purchase ads displayed with Google search results did not cause a likelihood of consumer confusion: "[T]he links to defendant's website at issue always appear as independent and distinct links on the search result pages...plaintiff does not allege that defendant's advertisements and links incorporate plaintiff's marks in any way discernable to internet users and potential customers."

Since 2009, Google has allowed the use of trademarks in the text of sponsored advertising, but only in four situations. Under the Google policy, the trademark may appear only when the ad sponsor resells a genuine trademarked product, makes or sells component parts for a trademarked product, offers compatible parts or goods for use with the trademarked product or provides information about or reviews the trademarked product.

Beyond the context and content of the ad, a court's ruling on likelihood of confusion will be influenced by its beliefs about the sophistication of Internet users. Those views have evolved over the years. In 1999—generations ago in the life of the Internet—the Ninth Circuit in *Brookfield Comms. Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999), was concerned about "initial interest confusion" when a trademark was used as a metatag for a Web site operated by a competitor. Under that doctrine, "[a]lthough there is no source confusion in the sense that consumers know they are patronizing [a site other than plaintiff's]," there is nevertheless a trademark violation because the user is diverted to a site other than plaintiff's

and defendant thereby "improperly benefits from the goodwill that [plaintiff] developed in its mark."

By 2010, however, the Ninth Circuit acknowledged that consumers are growing more sophisticated as online commerce becomes commonplace. *Toyota Motor Sales v. Tabari*, 610 F.3d 1171 (9th Cir. 2010). "In the age of FIOS, cable modems, DSL and T1 lines, reasonable, prudent and experienced internet consumers are accustomed to... exploration by trial and error. They skip from site to site, ready to hit the back button whenever they're not satisfied with a site's contents. They fully expect to find some sites that aren't what they imagine based on a glance at the domain name or search engine summary." *Id.* at 1179.

The Fourth Circuit is the most recent court of appeals to consider a trademark claim based on sponsored ads appearing on a search-results page. In *Rosetta Stone Ltd. v. Google Inc.*, 676 F.3d 144 (4th Cir. 2012), language-software developer Rosetta Stone sued Google in the Eastern District of Virginia for direct and contributory trademark infringement under the Lanham Act. Rosetta Stone claimed that, since Google began to allow the use of trademarks in the text of sponsored ads in 2009, it has been "plagued" by sponsored ads offering counterfeit Rosetta Stone software, alleging that it had reported 190 instances of sponsored links offering counterfeit products. After the district court dismissed the complaint on summary judgment, finding insufficient evidence of likelihood of confusion, Rosetta Stone's appeal attracted dozens of amici, including prominent marketers and sports leagues.

The Fourth Circuit reversed and remanded the case for trial. On the trademark infringement claim, the court found evidence indicating that Google intended to cause confusion when it allowed the use of trademarks in the text of sponsored ads. The court pointed to internal Google studies suggesting that "there was significant source confusion among Internet searchers when trademarks were included in the title or body of the advertisements." Indeed, one Google study concluded that the "only effective [trademark] policy" is to "[a]llow [trademark] usage for keywords," but not "allow [trademark] usage in ad text—

title or body." The Fourth Circuit also found evidence of actual consumer confusion based on the Google studies, as well as consumer testimony and expert survey evidence indicating that purchasers believed that sellers of counterfeit software who purchased sponsored ads were actually authorized Rosetta Stone resellers.

The trial court had concluded that the sophistication of the typical Rosetta Stone consumers—who are well-educated and affluent enough to purchase expensive course materials—weighed against a finding of confusion. The Fourth Circuit disagreed, taking a different approach from the Ninth Circuit's opinion in *Toyota*. The Fourth Circuit again relied on Google's studies showing that "even well-educated, seasoned Internet consumers are confused by the nature of Google's sponsored links and are sometimes even unaware that sponsored links are, in actuality, advertisements."

Summary judgment was also reversed on Rosetta Stone's contributory infringement claim. A defendant is liable for contributory infringement when it "intentionally induces another to infringe a trademark." Liability may be established when the defendant supplies its services to "identified individuals" that it knows or has reason to know are engaging in trademark infringement. Rosetta Stone produced evidence that, even after it complained to Google about specific Web sites that marketed counterfeit products, Google continued to sell sponsored ads to the operators of those sites. That evidence, the court found, established a triable contributory infringement claim.

There is little doubt that trademark principles applicable to keyword advertising will continue their rapid evolution. And, as the Rosetta Stone opinion illustrates, the increased willingness of search engines to give advertisers latitude to use their competitors' marks increases the risk of trademark liability.