

May 2012 Intellectual Property Roundtable

Did Rosetta Stone v. Google change the trademark infringement landscape for Keyword Advertising?



**By: Michael M. Lafeber
Kathryn M. McDonald
Briggs and Morgan, P.A.
80 S. Eighth Street
2200 IDS Center
Minneapolis, Minnesota 55402**

Did Rosetta Stone v. Google change the trademark infringement landscape for Keyword Advertising?

The Fourth Circuit recently revived Rosetta Stone's trademark infringement and dilution claims against Google. *Rosetta Stone Ltd. v. Google Inc.*, No. 10-2007 (4th Cir. Apr. 9, 2012) The claims are based on Google's AdWords program, commonly referred to as "keyword advertising." While the much anticipated decision failed to break new legal ground, it is noteworthy for the Court's analysis and characterization of certain facts universal to Google's AdWords program.

BACKGROUND

The *Rosetta Stone* case involves Google's AdWords program. The AdWords program – better known as "keyword" advertising – allows advertisers to bid on certain "keywords." When a user searches for those keywords, links to the advertisers' websites appear in the non-organic or "Ads" section of the search results.

A. Google's AdWords Trademark Policy

Google's policies concerning the use of third-party trademarks as keywords has changed over the years.

1. Pre 2004

Prior to 2004, Google's policy precluded both the use of trademarks in the text of an advertisement and the use of trademarks as keywords upon request of the trademark owner.

2. 2004-2009

Google loosened its policy in 2004 to allow the use of third-party trademarks as keywords even over the objection of the trademark owner. Google even introduced a tool that suggested relevant trademarks for clients to bid on as keywords. Google continued to block the use of trademarks in the actual advertisement text at the request of a trademark owner.

Google's reason for allowing trademarks as keywords over the trademark owner's objection was financial. Specifically, Google's own research showed that "[a]bout 7% [of its] total revenue [was] driven by [trademark]ed keywords." With the policy shift, Google understood that "[t]here [would be] a slight increase in risk that we and our partners will be the subject of lawsuits from unhappy trademark owners."

3. 2009 - Current

Google changed its policy in 2009 to permit the limited use of trademarks in advertising text in four situations:

- (1) the sponsor is a reseller of a genuine trademarked product;
- (2) the sponsor makes or sells component parts for a trademarked product;

- (3) the sponsor offers compatible parts or goods for use with the trademarked product; or
- (4) the sponsor provides information about or reviews a trademarked product.

B. Google's Internal Studies

Google's pre-2009 policy precluding the use of third-party trademarks in ad text was based in part on Google's own internal studies suggesting such use might confuse internet users. Specifically, Google conducted studies "to analyze user confusion (if any) associated with ads using [trademark] terms." One study revealed that "the likelihood of confusion remains high" when trademark terms are used in ad text. According to the study, "94% of users were confused at least once" with "[n]o difference between strong and weak trademarks." Based on this evidence, one of the studies recommended "that the only effective [trademark] policy . . . is: (1) [to] [a]llow [trademark] usage for keywords; (2) [but] not allow [trademark] usage in ad text – title or body."

There were no follow-up or contradictory studies suggesting the likelihood of confusion had lessened prior to Google's 2009 decision to allow third-party marks to appear in ad text.

C. Google's Knowledge of Counterfeit "Rosetta Stone" Sales

There was a "proliferation of sponsored links to pirate/counterfeit [Rosetta Stone] sites" following Google's 2009 decision to allow third party trademarks in ad text. Rosetta Stone repeatedly: 1) advised Google that a sponsored link was associated with counterfeit products; 2) provided Google the domain names associated with each such Sponsored Link; and 3) provided the text of each Sponsored Link.

From September 3, 2009 through March 1, 2010, Rosetta Stone notified Google of approximately 200 instances of keyword advertising for unauthorized Rosetta Stone products. Even after being notified of these websites, Google continued to allow the apparent counterfeit sites to continue to use "ROSETTA STONE" as a keyword.

D. Confusion Evidence

a. Consumer Confusion

Several consumers claimed to have purchased counterfeit ROSETTA STONE software from a sponsored link post 2009 mistakenly believing the site to be affiliated with or authorized by Rosetta Stone (Rosetta Stone ultimately submitted deposition testimony from five such consumers at trial (the maximum number of confusion depositions allowed by the Court.))

b. Google In-House Trademark Attorneys

Shown a Google search results page for the keyword phrase "Rosetta Stone," two Google in-house trademark attorneys were unable to determine which sponsored links were authorized resellers of ROSETTA STONE products.

c. Confusion Survey

Rosetta Stone also conducted a confusion survey "test[ing] for actual confusion regarding the appearance of sponsored links when consumers conducted a Google search for 'Rosetta Stone.'" The confusion survey "yield[ed] a net confusion rate of 17 percent", meaning "17 percent of consumers demonstrate actual confusion."

DISTRICT COURT DECISION

With this as the backdrop, Rosette Stone commenced litigation against Google alleging direct, contributory and vicarious trademark infringement, dilution and unjust enrichment. According to Rosetta Stone, Google's AdWords Program enabled and encouraged counterfeiters to purchase Rosetta Stone's trademarks as keywords in order to deceive and confuse consumers.

The district court disagreed and awarded Google a complete victory. In granting Google's motion for summary judgment on all claims, the district court reasoned, "[N]o reasonable trier of fact could find that Google's practice of auctioning Rosetta Stone's trademarks as keyword triggers to third party advertisers creates a likelihood of confusion as to the source and origin of Rosetta Stone's products[.]"

FOURTH CIRCUIT DECISION

The Fourth Circuit revived Rosetta Stone's claims of direct and contributory trademark infringement, and trademark dilution, but affirmed the district court's decision as to vicarious infringement and unjust enrichment. The decision breaks little new legal ground. Rather, much of the opinion is spent correcting procedural and evidentiary errors in the district court's analysis. Of note, however, is the Court's assessment and application of certain evidence and facts universal to Google's AdWords program.

A. Direct Infringement

1. No Opinion on "Use in Commerce"

Interestingly, Google conceded Rosetta Stone was able to survive summary judgment on all elements except likelihood of confusion. Accordingly, the issue of "use in commerce" was not before the Court on appeal and the Court declined to express an opinion on the issue.

2. Likelihood of Confusion

The Court rejected Rosetta Stone's argument that the lower court erred by failing to analyze each of the nine factors traditionally considered in assessing likelihood of confusion. The Court explained that the list is not mandatory or exhaustive. In a candid discussion, the Court acknowledge many of the traditional factors are irrelevant or inapplicable in certain cases.

The Court's opinion focused on the three relevant factors addressed by the district court – 1) intent; 2) actual confusion; and 3) sophistication of the consuming public.

a. Intent

The Court disagreed with the lower court's assessment of the evidence. Applying the well established standard for summary judgment, the Court explained, "Viewing the evidence and all reasonable inferences in a light most favorable to Rosetta Stone, as we are required to do on a motion for summary judgment, we conclude that a reasonable trier of fact *could* find that Google intended to cause confusion in that it acted with the knowledge that confusion was very likely to result from its use of the marks."

The key facts relied upon by the Court to support its conclusion included: 1) Google's election to loosen its trademark policy in 2004 to allow the use of third-party trademarks as keywords largely for financial reasons; 2) Google's understanding and knowledge that the new policy would create "a slight increase in risk that [Google] and [its] partners [would] be the subject of lawsuits from unhappy trademark owners."; 3) Google's decision to loosen its trademark policy further in 2009 to allow the use of trademarks in ad text in certain circumstances; and 4) Google's knowledge based on its own internal studies that allowing such use of trademarks in ad text created a significant risk of source confusion.

Of significance, these are not facts unique to the *Rosetta Stone* case, but rather can be relied upon in other keyword advertising claims to survive summary judgment.

b. Actual Confusion

(1) Testimony from Consumers

The trial court discounted consumer confusion testimony on the grounds such consumers knew they were not being taken to the official Rosetta Stone website via the sponsored link. According to the lower court, because the witnesses knew they were not purchasing directly from Rosetta Stone, "none of the Rosetta Stone witnesses were confused about the source of their purchase but only as to whether what they purchased was genuine or counterfeit." The Fourth Circuit clarified that more than just source confusion is at issue in an infringement claim since "[t]he unauthorized use of a trademark infringes the trademark holder's rights if it is likely to confuse an ordinary consumer as to the source *or sponsorship* of the goods."

The trial court also discounted the consumer testimony on the grounds that none of the counterfeit sites relied on by the consumers conformed to Google's policies. Specifically, they were using the ROSETTA STONE mark in connection with counterfeit goods. The Fourth Circuit rejected this reasoning, explaining that, "Whether the sponsored link conforms to Google's policy is not an issue that bears upon whether the consuming public, which is not privy to these policies, is confused by the *actual* use of the trademarks in sponsored links." According to the Court, what matters is whether "the defendant's *actual practice* is likely to produce confusion in the minds of consumers about the origin of the goods or services in question."

(2) Google Internal Studies and In-House Trademark Counsel Testimony

The district court rejected the Google studies and in-house counsel testimony as actual confusion evidence because it "reflected a mere uncertainty about the source of a product rather

than actual confusion." The Fourth Circuit further clarified that uncertainty as to origin is "quintessential" actual confusion evidence entitled to consideration.

(3) Survey Evidence

The trial court rejected Rosetta Stone's expert survey evidence as "unreliable evidence of actual confusion because the result contained a measure of whether respondents thought Google 'endorsed' a Sponsored Link, a non-issue." The Fourth Circuit explained again that trademark infringement includes likelihood of confusion "not only as to source, but also as to affiliation, connection or sponsorship" and therefore the survey evidence was relevant and entitled to consideration.

c. Consumer Sophistication

The district court also discounted Rosetta Stone's confusion evidence based on the price and nature of the product in question. Based on the \$250-\$550 price range, and the time commitment required to learn a foreign language, the trial court concluded the relevant market of potential purchasers "is comprised of well-educated consumers. . . more likely to spend time searching and learning about Rosetta Stone's products." According to the trial court, such consumers would be able to "distinguish between the Sponsored Links and organic results displayed on Google's search results page."

The Fourth Circuit explained that while price and the nature of a product can form the basis for conclusions concerning sophistication of the relevant consumer, such conclusions are premature at the summary judgment stage. According to the Court, such "[c]redibility determinations, the weighing of the evidence, and the drawing of legitimate inferences from the facts are jury functions, not those of a judge . . . ruling on a motion for summary judgment." (*quoting Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986).)

3. Functionality

The district court's summary judgment dismissal was also based on the "functionality doctrine." According to the lower court, the keywords "have an essential indexing function because they enable Google to readily identify in its databases relevant information in response to a web user's query . . . [and] also serve an advertising function that benefits consumers who expend the time and energy to locate particular information, goods, or services, and to compare prices."

The Fourth Circuit rejected this reasoning and held that the functionality doctrine was inapplicable. According to the Court, the trial court erroneously focused on "whether Rosetta Stone's mark made *Google's* product more useful." The Court explained that the correct analysis is "whether the mark was *functional as Rosetta Stone used it.*" Applying the correct analysis, Rosetta Stone uses its registered mark as a classic source identifier. Put another way, "ROSETTA STONE" is not essential for the functioning of Rosetta Stone's products, which would operate no differently under a different brand name.

B. Contributory Infringement

Contributory trademark infringement creates liability for those who facilitate or encourage infringement. It is not enough to have general knowledge that some percentage of the purchasers of a product or service is using it to engage in infringing activities; rather, the defendant must supply its product or service to identified individuals it knows or has reason to know are engaging in trademark infringement. Despite Rosetta Stone's evidence it advised Google of approximately 200 fraudulent sponsored links, and that Google continued to allow the same advertisers to use the ROSETTA STONE mark in keyword advertising, the lower court indicated it was "unpersuaded" and dismissed the contributory infringement claim.

The district court was influenced by *Tiffany Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), wherein the Second Circuit rejected a contributory trademark infringement claim against eBay because the record at trial indicated eBay had generalized notice some Tiffany goods sold on its site might be counterfeit. Applying *Tiffany*, the lower court concluded that Rosetta Stone failed to establish with the requisite specificity that Google knew or should have known of the infringing activity. The trial court also noted that Google did not ignore Rosetta Stone's complaints. The trial court explained, "There is little Google can do beyond expressly prohibiting advertisements for counterfeit goods, taking down those advertisements when it learns of their existence, and creating a team dedicated to fighting advertisements for counterfeit goods." The trial court ultimately concluded that "Rosetta Stone has not met the burden of showing that summary judgment is proper as to its contributory trademark infringement claim."

The Fourth Circuit again disagreed. According to the Court, the district court "turned the summary judgment standard on its head." The Court explained, "While it may very well be that Rosetta Stone was not entitled to summary judgment, that issue is not before us. The only question in this appeal is whether, viewing the evidence and drawing all reasonable inferences from that evidence in a light most favorable to Rosetta Stone, a reasonable trier of fact could find in favor of Rosetta Stone, the nonmoving party." The Court distinguished the *Tiffany* decision on the grounds that it was not made at the summary judgment stage, but rather on appeal of a judgment rendered after a lengthy bench trial (wherein the trial judge weighed the evidence sitting as a trier of fact.)

C. Vicarious Infringement

Vicarious liability requires a showing the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product. The Fourth Circuit affirmed the trial court's holding that the evidence was insufficient for a fact finder to conclude Google exercised the requisite control over the counterfeit activity.

D. Dilution

The district court dismissed Rosetta Stone's dilution claim on the grounds that Google was not using the ROSETTA STONE mark to identify its own products and services. In support of its decision, the district court relied on the text of the statutory "fair use" defense that shields a person's "fair use" of plaintiff's mark so long as such use is not as "a designation of source for the person's own goods or services." 15 U.S.C. § 1125(c)(3)(A).

The Fourth Circuit rejected the trial court's reasoning, explaining that it incorrectly rendered nontrademark use coextensive with the "fair use" defense under the FTDA. The Court explained that the statute requires more than showing that defendant's use was "other than as a designation of source." In addition, the defendant's use must also qualify as a "fair use." Accordingly, the Court remanded for a proper evaluation and assessment of the dilution claim and purported fair use defense.

Lastly, the Fourth Circuit also disagreed with the trial court's reasoning that because the public's awareness of the Rosetta Stone brand actually increased with the use of keyword advertising, the distinctiveness of Rosetta Stone's mark was not impaired and no actual injury was suffered. According to the Fourth Circuit, such a truncated analysis places undue emphasis upon whether any actual injury has been suffered by plaintiff's brand. The court remanded the dilution claim with instructions to address all factors relevant to whether Google's use is likely to impair the distinctiveness of the ROSETTA STONE mark.

SUMMARY

The *Rosetta Stone* decision is arguably insignificant from a legal standpoint. It involved narrow issues and contains no significant new legal developments. However, from a practical standpoint, the decision could result in new claims against Google or other similarly situated service providers relating to AdWords or comparable programs. The decision also emphasizes the importance of potential plaintiffs documenting: 1) instances of its trademarks being used as keywords with unauthorized or counterfeit sites; and 2) formal notice of such conduct being provided to the applicable search engine.

DISCUSSION POINTS

1. What are the legal and practical implications of the *Rosetta Stone* decision?
2. Was the trial court's analysis/evaluation of the likelihood of confusion factors much different than many other analogous cases granting summary judgment in defendant's favor? (Put another way, was the lower court's real error its erroneous *description* of the applicable standard?)
3. Should the "functionality doctrine" shield the practice of keyword advertising? Is keyword advertising a technology that benefits the consumer? Is it merely the modern day equivalent of placing competing brands of the same product in the same store aisle?
4. Is it reasonable for a consumer to assume or believe a "sponsored link" website is sponsored by or associated with brands offered for sale on such site?
5. Does Google have a "fair use" defense?
6. What could or should Google do to better insulate itself from future claims?