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The Confusion Continues over Key Word Confusion

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In April 2012, the United States Court of Appeals for the Fourth Circuit weighed in on the now long-running battle between Google and trademark owners. The court reversed the district court's controversial holding that Google did not infringe Rosetta Stone's trademarks because the marks were a functional part of Google's AdWords program.[1] In doing so, however, the Fourth Circuit carefully avoided a more elemental issue: whether Google "used" Rosetta Stone's marks at all. For several years, courts in the United States have grappled with the issue of whether selling or purchasing another's trademark as a keyword can constitute trademark infringement with seemingly mixed results.

This struggle has expanded to Europe, where the Court of Justice of the European Communities ruled that trademark owners could not prevent Google from selling their trademarks as keywords because Google was not, in that court's opinion, using the trademarks in the course of trade. The decision appears consistent with several decisions in the United States, which concluded that similar conduct did not amount to a "use in commerce" under the Lanham Act, but directly at odds with other American courts that reached the opposite conclusion. Suffice it to say the Internet has proven itself to be a square peg, unfit for the round hole of trademark laws drafted before the modern computer age. Consequently, there continues to be a great degree of uncertainty surrounding the billion-dollar keyword-advertising business.

Online Keyword Advertising

When an Internet user performs a search, the search engine displays a list of responsive websites. This display typically consists of "natural results" and "sponsored links." The natural results are the websites that contain the search term. The sponsored links appear on the results page because the advertiser purchased the search term or keyword from the search engine. Many search engines permit an advertiser to purchase another company's trademark as a search term. Some search engines even utilize programs that recommend keywords, which may include trademarked terms.

Not surprisingly, suggesting trademarked terms as keywords has caused a stir among the trademark owners, and a growing number of trademark infringement lawsuits against search engines and online advertisers. The trademark owners typically assert that the search engines are infringing their marks by selling them as keywords, and the advertisers by purchasing them.

In response, search engines assert that the sale of keywords does not constitute "use" in the trademark sense. Courts addressing this threshold issue of trademark infringement have, to date, reached different results.

U.S. Court Decisions on Selling Ads Linked to Trademarks

The Lanham Act makes it unlawful for any person, without permission, to

use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.[2]

The majority of American courts that have addressed the issue of trademark infringement in the context of keyword advertising have dealt with it from the advertiser's perspective. By and large, these decisions are noncontroversial in terms of whether the advertiser used the trademark at issue. They all either assume or directly conclude that the advertiser's purchase of a keyword identical with a trademark is a "use in commerce," and focus instead on whether the advertiser's use is likely to cause confusion. Only a handful of decisions have confronted the more difficult question of whether the search engine itself "uses" the trademarks by selling them as keywords. However, the courts that have undertaken that question do not agree on the answer.

The Second Circuit Approach

The Second Circuit was among the first courts to take on keyword advertising in *1-800 Contacts, Inc. v. WhenU.com, Inc.*[3] The defendant, WhenU, created a program that delivered "contextually relevant advertising" to computer users by employing an internal directory of website addresses, search terms, and keyword algorithms. When the program recognized a term typed into a web browser, it randomly selected an advertisement from a corresponding product or service category and displayed an advertisement for a similar product or service in a separate "pop-up" window. The advertiser for the similar product—WhenU's customer—would pay WhenU for referrals but had no access to WhenU's internal directory and could not request or purchase keywords that would trigger its advertisements.

The *1-800 Contacts* court began its analysis by focusing on the Lanham Act's definition of use in commerce in 15 U.S.C. § 1127, which states in part that a mark is used in commerce only "when it is used or displayed in the sale or advertising of services and the services are rendered in commerce." The court noted that WhenU was not using the mark in the traditional sense because it did not place the mark on any goods or services in order to pass them off as emanating from 1-800 Contacts, but used 1-800 Contacts' website address (www.1800contacts.com) as a website address and not as a mark. Furthermore, the court emphasized the fact that the contents of WhenU's directory were not accessible to the computer user, the public, or even WhenU's customers. In sum, the court compared WhenU's "internal utilization of a trademark in a way that does not communicate it to the public" to "a[n] individual's private thoughts about a trademark."[4] This, the court concluded, did not constitute a use under the Lanham Act.

The court also found that WhenU did not use the trademark when its program placed an advertisement on a computer user's screen. The court explained that the advertisements did not display 1-800 Contacts' trademark and the advertisements' appearance was not dependent on the user's keying in of the trademark. Moreover, the ads did not divert computer users from 1-800 Contacts' website to the advertisers' websites. Based on these findings, the court concluded that WhenU was not using 1-800 Contacts' trademark for purposes of Lanham Act liability. Following *1-800 Contacts*, district courts in the Second Circuit consistently found that a wholly internal use of a trademark was not a use in commerce.[5]

In *Rescuecom Corp. v. Google Inc.*,[6] however, the Second Circuit clarified its *1-800 Contacts* ruling. It vacated the trial court's grant of Google's motion to dismiss, which had found that Google's AdWords program was analogous to the purely internal use in *1-800 Contacts*. The Second Circuit did not agree. It noted that unlike Google, the defendant in *1-800 Contacts* did not use the plaintiff's trademark at all; rather it used the plaintiff's web address, which included the trademark. The court also noted that the program in *1-800 Contacts*, unlike Google's AdWords program, did not permit advertisers to key their advertisements to specific words or the plaintiff's trademarks. Indeed, the list of keywords was not available to advertisers.

The court observed that Google's AdWords program went beyond mere internal use of the trademarks, as was the case in *1-800 Contacts*. Based on its conclusion that Google's objective was "to sell keywords to advertisers," and Google actively suggesting keywords (including trademarks) to advertisers, the court concluded that Google was doing more than employing a trademark internally.[7] Nor was the court persuaded by Google's claim that its AdWord's program was similar to traditional product placement in which a vendor places a generic product next to a trademarked product so that the generic product benefits from the trademarked product's name recognition. "It is not by reason of absence of a use of a mark in commerce that benign product placement escapes liability; it escapes liability because it is a benign practice which *does not cause a likelihood of consumer confusion.*"[8] Accordingly, the court concluded that Google had used the plaintiff's mark. It was careful, though, to limit its ruling to the issue of "use," leaving for the trial court the issue of whether Rescuecom could show a likelihood of confusion.[9]

In an appendix to its decision, the *Rescuecom* court questioned one of the bases for the *1-800 Contacts* decision: the definition of "use in commerce" in 15 U.S.C. § 1127. The *Rescuecom* court observed that the court in *1-800 Contacts* overlooked critical language in § 1127, which states, "The 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."[10] After examining the statutory history of § 1127, the court concluded that § 1127's definition of "use in commerce" was not a limitation on the type of conduct causing infringement, but applied only to "the [Lanham] Act's use of that term in defining favored conduct, which qualifies to receive the protection of the Act."[11] Otherwise, a deliberate infringer could escape liability "precisely because he acted *in bad faith*."[12] Not being bound by *1-800 Contacts*, courts outside the Second Circuit have reached results similar to *Rescuecom*.[13]

The Fourth Circuit Approach

More recently, however, the confusion over keywords took a new turn. In *Rosetta Stone, Ltd. v. Google, Inc.* (*Rosetta Stone I*),[14] the district court granted summary judgment in Google's favor, holding that no jury could find a likelihood of confusion. Notwithstanding this conclusion, the court, borrowing a trade dress concept, alternatively held that Google's use of Rosetta Stone's marks was a functional, noninfringing use. In the court's opinion, Google's ability to use Rosetta Stone's marks as keywords was essential to Google's function as a source of information for web users and advertisers, and thus, noninfringing.

Due to its reliance on a doctrine ordinarily applied in trade dress cases, the district court's decision in *Rosetta Stone I* was controversial and complicated the use issue even further. Fortunately, the Fourth Circuit provided a modicum of clarity, soundly rejecting the district court's functionality reasoning and holding that "[t]he functionality doctrine simply does not apply" where Rosetta Stone's use of its mark, as opposed to Google's use of the mark, clearly was not essential to the functioning of Rosetta Stone's products.[15] However, the court in *Rosetta Stone II* did not decide the issue of whether Google was "using" Rosetta Stone's mark in the first place. So while the issue of functionality appears settled, the same cannot be said for the issue of use.

The European Decision

In *Google France SARL v. Louis Vuitton Malletier SA*,[16] the Court of Justice of the European Communities held that "[a]n internet referencing service provider which stores, as a keyword, a sign identical with a trade mark and organises the display of advertisements on the basis of that keyword does not use that sign within the meaning of Article 5(1) and (2) of Directive 89/104," the European regulation governing trademark infringement.[17] That regulation permits a

trademark owner to prohibit a third party from using a sign identical with its trademark when that use is in the course of trade; is in relation to goods or services that are identical with, or similar to, those for which that trademark is registered; and affects, or is liable to affect, the functions of the trademark.

The court framed the issue as whether Google's AdWords program, in which Google sold keywords identical with trademarks and provided the technological means for triggering advertisements when an Internet user entered the trademark as a search term in Google's search engine, used the trademark in a way that the trademark's owner could prevent. The court concluded it did not.

The court's decision turned on its interpretation of the phrase "use in the course of trade," which it found to mean use "in the context of commercial activity with a view to economic advantage and not as a private matter."[18] Under this definition, the court held, an advertiser that purchased a keyword from Google as a means of triggering its own advertisement was clearly using the mark in the course of trade: "Since the sign selected as a keyword is the means used to trigger that ad display, it cannot be disputed that the advertiser indeed uses it in the context of commercial activity and not as a private matter."[19] On the other hand, Google, in the court's opinion, was not using the trademark.

The court found that Google's activity was not the same as the advertisers' conduct. The court reasoned that "the use, by a third party, of a sign identical with, or similar to, the proprietor's trademark implies, at the very least, that that third party uses the sign in *its own commercial communication*."[20] Google, thus, allowed its clients "to use signs which [were] identical with, or similar to, trade marks, without itself using those signs."[21]

The narrow distinction affixed to the definition of "use in the course of trade" requiring that the use be in the defendant's own commercial communication allowed the court to find that Google's storage of the trademarks and sale to third parties could not be prohibited by the marks' owners. Moreover, the court was not bothered by the fact that Google was being paid by advertisers to use trademarked keywords. In the court's view, "[t]he fact of creating the technical conditions necessary for the use of a sign and being paid for that service does not mean that the party offering the service itself uses the sign."[22] Instead, if the trademark owners wanted to curb Google's activities, they would have to rely on different regulations governing "intermediary service providers."[23]

When Is a Use a Use?

At first glance, the European court's decision seems consistent with the Second Circuit's opinion in *1-800 Contacts* and those cases concluding that a purely internal use of a trademark is not an actionable "use" under the Lanham Act. Similar to the Lanham Act's requirement that a defendant use a trademark in commerce, Article 5 of Directive 89/104 requires that a defendant use a trademark "in the course of trade." But a closer examination of the facts and the rationale for the courts' holdings shows that the European court's decision is fundamentally different, legally and factually, from both lines of American cases discussed.

The European court concluded that Google's promotion and sale of keywords that were identical to the plaintiffs' trademarks was not a use in the course of trade. The court was not concerned with the fact that Google was selling advertising space based on the plaintiffs' trademarks. Nor was it concerned that Google actively encouraged advertisers to use trademarks as keywords. The court's decision was based on its interpretation of "use in the course of trade" to mean a commercial use. But the court did not stop there. To be an actionable commercial use, a defendant must use the

trademark in its own commercial message. This narrow distinction differentiates the European decision from both lines of American cases.

First, the *1-800 Contacts* line of cases, while finding that the defendants were not "using" the plaintiffs' trademarks, dealt with a situation in which the defendants' programs, unlike Google's AdWords program, did not trigger advertisements based on the plaintiffs' trademarks, did not suggest keywords to advertisers, and did not publish the contents of their keywords directories. Consequently, these decisions are factually distinguishable from the European cases, and, as the *Rescuecom* court pointed out, cannot be extended to situations where the defendant, like Google, has taken affirmative steps to sell advertising space based specifically on the plaintiff's trademark.

Second, the American cases that concluded that Google was "using" the plaintiffs' trademarks are plainly inconsistent with the European ruling. This inconsistency is due to the European court's determination that to be an actionable use the defendant must employ the plaintiff's trademark in its own commercial message, a narrow conception of use that has not been accepted by the American courts in practice. Instead, the courts which found that Google was using the plaintiffs' trademarks for purposes of the Lanham Act recognized that the Lanham Act reaches conduct beyond specifically using a mark in a commercial message.

Nowhere does the Lanham Act explicitly state "that 'use as a trademark' is required for an accused use to be an infringement."[24] Instead, according to Professor McCarthy, "[t]he statutory requirement of 'trademark use' is indirect and implicit in the requirement that there be a likelihood of confusion for infringement to occur."[25] That is, trademark use is "not a separate element of plaintiff's case, but is only one aspect of the likelihood of confusion requirement for infringement."[26] This view is arguably exemplified in the appendix to *Rescuecom* and decisions following it.

In the appendix to *Rescuecom*, the Second Circuit explained that "use in commerce" was only intended to be a jurisdictional requirement that is coextensive with Congress's commerce power, not a separate requirement for infringement.[27] The courts following *Rescuecom* used similar reasoning. They found that, even though Google was not using the plaintiffs' trademarks in its own commercial messages, Google's activity was actionable because it could leverage higher payments from advertisers by linking advertisements to keywords, like trademarks, that have substantial goodwill. In this sense, Google was trading on the marks' goodwill. But as these courts recognized, "liability for trademark infringement has never turned on 'free riding' per se: the test has always been whether there is a likelihood of confusion."[28] As such, these courts did not ask whether Google's activity could be characterized as a "trademark use," but whether whatever activity Google was engaging in could result in a likelihood of confusion.

This view, moreover, is consistent with the *1-800 Contacts* line of cases because no confusion can occur where the defendant is not using the plaintiff's trademark at all. Furthermore, although *1-800 Contacts* narrowly defined "use in commerce" to mean use as a trademark, its primary concern was still whether the defendant's activities were likely to cause confusion.

Nevertheless, following the Fourth Circuit's deliberate choice in *Rosetta Stone II* to leave the question of use to the district court on remand, it remains to be seen whether Google can persuade an American court that the sale of trademarks as keywords is not a "use" for purposes of trademark infringement under the Lanham Act.

The same cannot be said for the European court. Rather, its requirement that a defendant use a trademark in a commercial message could conceivably foreclose actions for direct infringement in cases where the defendant is actually causing confusion. The European court's decision was based on a "use" requirement that may or may not exist in American trademark law apart from the traditional likelihood of confusion inquiry. This distinction becomes clear when one examines how the European court addressed the advertisers' uses of the plaintiffs' trademarks.

After finding that the advertisers, unlike Google, were using the plaintiffs' trademarks in their own commercial messages, the court went on to state that the plaintiffs' right to prevent such a use must be "reserved to cases in which a third party's use of the sign affects or is liable to affect the functions of the trade mark."[29] From this, the court reasoned that "the proprietor of the mark cannot oppose the use of a sign identical with the mark if that use is not liable to cause detriment to any of the functions of that mark."[30] This rule is similar to the Lanham Act's requirement that plaintiffs demonstrate a likelihood of confusion in order to show infringement. So the fact that the European court did not reach this inquiry with respect to Google, whose conduct in Europe was identical to its conduct in the United States, indicates that, unlike the Lanham Act, the European regulations make "use in a commercial message" a separate element from the likelihood of confusion inquiry.

In sum, the European court's decision rested on its determination that the plaintiff in a trademark infringement case must show that the defendant used the plaintiff's trademark in a commercial communication. If this is shown, the plaintiff must then demonstrate that the use in that commercial communication affects the functions of the trademark. Under this analysis, it is possible that the defendant's conduct can create confusion among consumers without being considered a direct infringement of the trademark. The American court decisions, in contrast to the European decision, arguably are moving toward Professor McCarthy's view that the plaintiff in a trademark infringement case does not need to show that the defendant used the trademark as a separate element from the traditional likelihood of confusion inquiry. In this regard, the American decisions may be more flexible as to the type of conduct that may be considered direct infringement of a trademark.

Avoiding Liability and Protecting Brands

Although American courts are increasingly moving toward a broad application of use in commerce, the issue of use is still unsettled. Nonetheless, the case law in both the United States and Europe provides some guidance for both trademark owners and parties employing trademarks in online advertising.

Based on the European decision and the Second Circuit's *1-800 Contacts* line of cases, search engines can avoid direct liability for trademark infringement by not including trademarks as keywords. Or if using trademarks as keywords, a search engine could not publish the keyword directory and not allow advertisers to bid on or purchase specific keywords. Such efforts may bring the search engine's activity within the narrow class of American cases where the defendant was found not to use the plaintiff's trademark at all. And these efforts would certainly protect against liability for infringement under European standards.

Assuming a search engine's keyword advertising program "uses" trademarks, the search engine can avoid or minimize the risk of liability by taking steps to ensure that it and its advertisers are not using the trademarks in a way that is likely to cause confusion or undermine the purposes of the trademark. For instance, the search engine should clearly label search results that are sponsored links as such, require its advertisers to accurately and conspicuously identify themselves in their advertisements, or require each advertiser to certify that it is not using trademarks in a confusing

manner. In any event, the search engine should set forth clear standards for its advertisers and set up mechanisms through which trademark owners can alert the search engine to potential trademark violations. Finally, search engines need to be diligent in reacting to complaints of trademark infringement.

On the other side, trademark owners must be diligent in policing the use of their marks. Trademark owners can make use of search engines' trademark policies and notify search engines when a possible infringing use is detected. This notice should identify the particular advertisement and the way in which it is infringing. Another possibility is for trademark owners to notify search engines affirmatively that they have not authorized anyone to purchase their trademarks as keywords. However, given that the trademarks can be used legitimately even without authorization, trademark owners should still make efforts to police the sponsored links regularly. Of course they should seek all other normal remedial methods to enforce their trademarks against those likely to purchase them as keywords—advertisers.

In the end, a party's strategy for dealing with keyword advertising is a business decision. Advertisers and search engines must weigh the benefits of using a trademark to trigger advertisements against the potential costs of infringement. Similarly, trademark owners must assess the cost of policing a potentially limitless number of infringers and determine whether it is worthwhile to engage in costly litigation. These decisions ultimately affect a company's bottom line and should not be taken lightly.

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Endnotes

[1]. Rosetta Stone Ltd. v. Google, Inc. ("*Rosetta Stone II*"), 676 F.3d 144 (4th Cir. 2012).

[2]. 15 U.S.C. § 1114(1)(a).

[3]. 414 F.3d 400 (2d Cir. 2005).

[4]. *Id.* at 409.

[5]. *See* S&L Vitamins, Inc. v. Australian Gold, Inc., 521 F. Supp. 2d 188, 200–02 (E.D.N.Y. 2007); Merck & Co. v. Mediplan Health Consulting, Inc., 425 F. Supp. 2d 402, 416 (S.D.N.Y. 2006); Rescuecom Corp. v. Google, Inc., 456 F. Supp. 2d 393 (N.D.N.Y. 2006), *vacated and remanded*, 562 F.3d 123 (2d Cir. 2009).

[6]. 562 F.3d 123.

[7]. *Id.* at 126, 129.

[8]. *Id.* at 130 (emphasis added).

[9]. *Id.* at 131. However, as the parties stipulated to a dismissal following remand, that issue was not tried. Stipulation of Dismissal, Rescuecom Corp. v. Google, Inc., No. 5:04-CV-01055 (N.D.N.Y Mar. 4, 2010) (No. 48).

[10]. *Rescuecom*, 562 F.3d at 132.

[11]. *Id.* at 133; *see also id.* at 138 (quoting S. Rep. No. 100-515, at 45 (1988)).

[12]. *Rescuecom*, 562 F.3d at 132.

[13]. *See* Google, Inc. v. Am. Blind & Wallpaper Factory, Inc., No. 03-5340, 2007 WL 1159950 (N.D. Cal. Apr. 18, 2007); 800-JR Cigar, Inc. v. Goto.com, Inc., 437 F. Supp. 2d 273 (D.N.J. 2006); GEICO v. Google, Inc. ("*GEICO I*"), 330 F. Supp. 2d 700 (E.D. Va. 2004).

[14]. 730 F. Supp. 2d 531 (E.D. Va. 2010).

[15]. *Rosetta Stone II*, 676 F.3d 144, 162 (4th Cir. 2012).

[16]. Joined Cases C-236/08, C-237/08, C-238/08, 2010 E.C.R. I-02417.

[17]. *Id.* ¶ 121.

[18]. *Id.* ¶ 50.

[19]. *Id.* ¶ 52.

[20]. *Id.* ¶ 56 (emphasis added).

[21]. *Id.*

[22]. *Id.* ¶ 57.

[23]. *Id.* ¶¶ 57, 107. The provisions related to liability as an intermediary service provider are beyond the scope of this article.

[24]. 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 23:11.50 (4th ed. 2008).

[25]. *Id.*

[26]. *Id.*

[27]. Rescuecom Corp. v. Google Inc., 562 F.3d 123, 138–39 (2d Cir. 2009).

[28]. 4 McCarthy, *supra* note 24, § 25:70.25.

[29]. Joined Cases C-236/08, C-237/08, C-238/08, Google France SARL v. Louis Vuitton Malletier SA, 2010 E.C.R. I-02417, ¶ 75.

[30]. *Id.* ¶ 76.