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Fourth Circuit Revives Rosetta Stone's Claims Against Google Over its AdWords Program

In a closely-watched battle, the Fourth Circuit brought life back into Rosetta Stone's trademark infringement and dilution claims against Google stemming from its AdWords program. In 2010, the Eastern District of Virginia ruled overwhelmingly in favor of Google on summary judgment finding that it did not infringe Rosetta Stone's trademark or dilute the value of its marks by allowing others to purchase the "ROSETTA STONE" mark in its AdWords Program. On Monday, April 9, 2012, the Fourth Circuit vacated the district court's order with respect to direct trademark infringement, contributory infringement and dilution claims. Although the Fourth Circuit has resuscitated Rosetta Stone's claims against Google, the battle is far from over. The case is now remanded to the trial court for further proceedings where the parties will continue to wage war over keyword advertising. [Click here](#) for Venable's blog post on this case and continue reading for a detailed discussion of the case.

Google's AdWords Accused of Trademark Infringement

Google's AdWords program allows advertisers to purchase "keywords" that launch the advertiser's ads when the keyword is entered as a search term in Google. In 2004, Google changed its AdWords policy to allow the use of trademarks as search triggers even over the objection of the trademark owner. Later Google introduced a tool that suggested relevant trademarks for advertisers to bid on as keywords. In 2009, Google loosened its policy further by permitting limited use of trademarks in the title or text of advertisements for resellers of trademarked products, makers or sellers of component parts for trademark products, sellers of compatible goods for use with a trademarked product or reviewers of trademarked products.

Rosetta Stone filed a complaint against Google in 2009 alleging that Google's policies created a likelihood of confusion, as well as actual confusion, leading Internet users into buying counterfeit ROSETTA STONE products. The district court ruled in favor of Google on all counts in 2010, but the appellate court reversed the decision on three key claims.

Trademark Infringement Claim Reinstated

With respect to the first claim for direct trademark infringement, the appellate court determined that there were still issues of material fact with respect to whether or not Google's use of the ROSETTA STONE mark was likely to cause confusion among consumers.

Specifically, the appellate court reasoned that there were issues that should be decided by a jury including Google's intent, instances of actual confusion and the sophistication of the consuming public. Rosetta Stone alleged that Google intended to create confusion by permitting advertisers to use trademarked terms. The record showed that Google's underlying reason for changing its policy with respect to trademark terms was "largely for financial reasons" and its own internal study suggested that there was significant confusion as to the source of ads among Internet users when trademarks were used in the title or text of ads. The appeals court found that there was sufficient evidence to suggest that a reasonable trier of fact could find that Google intended to cause confusion since it had knowledge that confusion was likely to result from its use of trademarks.

The lower court also ruled that Rosetta Stone's five witnesses who testified regarding their purchase of "bogus" ROSETTA STONE software as a result of misleading Internet search results was anecdotal, that the witnesses knew they were not buying directly from Rosetta Stone and that the counterfeit ads conformed to Google's policies that the advertisers used the ROSETTA STONE marks in connection with the selling of genuine goods. The appellate court agreed with Rosetta Stone that none of the district court's reasons justified its rejection of the actual confusion testimony. The lower court failed to consider Rosetta Stone's evidence of 262 other complaints from customers which could imply that there was a great number of customers confused regarding the relationship or sponsorship of the ads by

Rosetta Stone. Also, the lower court placed undue emphasis on the consumers not being confused as to the *source* of the goods, but failed to consider that confusion as to the *sponsorship* of the goods is also at issue in an infringement claim. Further, the ads' conformance with Google's policies has no relevance to whether or not the consuming public is confused by the actual use of trademarks in sponsored ads.

In addition, the appellate court concluded that there were still issues of fact with respect to whether or not consumers of Rosetta Stone's products are sophisticated and able to distinguish between paid advertising or organic search results on Google. The record showed that Google's own study showed that even well-educated and experienced Internet users were confused by the nature of sponsored ads and even unaware that the ads are paid advertisements.

The Functionality Doctrine is Not a Defense

Moreover, notwithstanding the lower court's finding of no likelihood of confusion, the district court went a step further and held that the functionality doctrine alone would protect Google's use of the Rosetta Stone marks as keywords. The district court reasoned that trademarked keywords are functional when entered into the Google AdWords program in that they serve a role in Google's indexing function and, therefore, such use of trademarked terms was non-infringing as a matter of law.

However, the appellate court held that the functionality doctrine "simply does not apply in these circumstances." The functionality doctrine developed as a common law rule to prohibit trade dress and trademark rights in purely functional features of a product. Here, the question was not whether *Google's use* of the Rosetta Stone mark was functional as the lower court reasoned, but whether or not the mark was functional as *Rosetta Stone used it*. The functionality doctrine is not applicable where the ROSETTA STONE mark is not functional, and any usefulness of the mark to Google in its software program is irrelevant. The appellate court noted that Google may very well be able to establish that its use of trademarked terms is non-infringing, but summarily rejected any attempt to use the functionality doctrine to do so.

Contributory Trademark Infringement Claim Reinstated

The second revived claim alleged that Google was liable for contributory infringement based on its specific knowledge that identified individuals were engaging in trademark infringement. The district court relied heavily on the Second Circuit's decision in *Tiffany (NJ) Inc. v. eBay Inc.* 600 F.3d 93 (2d Cir. 2010) which rejected a similar claim against eBay because eBay removed challenged listings from its site upon notice from Tiffany through its Verified Rights Owner Program. The appellate court found the lower court's reliance on *Tiffany* was "misplaced" due to the fact that the *Tiffany* court rendered its decision after a lengthy trial where the court weighted all the evidence presented and not on summary judgment. Here, there was sufficient evidence as to whether Google "continued to supply its services to known infringers" such that summary judgment should not have been granted.

Dilution Claim Reinstated

Finally, the Fourth Circuit vacated the lower court's rejection of Rosetta Stone's claim of trademark dilution. Trademark dilution is the slow whittling away of the ability of a famous trademark to identify and distinguish its goods or services through unauthorized uses by others. The district court ruled that Rosetta Stone could not establish its dilution claim without showing that Google used ROSETTA STONE as a trademark to identify Google's products. However, the appellate court noted that this requirement emanates from the fair use defense to a claim of dilution that is the burden of Google to establish, not for Rosetta Stone to prove in its prima facie case. Once Rosetta Stone established a prima facie case for dilution, the burden shifts to Google to demonstrate that its use was fair in that the mark was not used as a trademark to identify Google's own goods or services and that its use was in good faith.

The district court also ruled that, since ROSETTA STONE's brand recognition was stronger subsequent to the shift in Google's policies, there was no dilution. However, under the Federal Trademark Dilution Act, only a *likelihood of dilution* need be established, not actual economic loss or reputational injury. Further the appellate court instructed the district court to determine if ROSETTA STONE became famous as of 2004 when Rosetta Stone alleges Google's diluting activities began.

The Battle Continues

Although the Fourth Circuit has resuscitated Rosetta Stone's claims against Google, the battle is far from over. The case is now remanded to the trial court for further proceedings where the parties will continue to wage war over keyword advertising. Keyword advertisers and trademark owners alike should

keep an eye on this case.

Until the law is clarified, Venable can provide guidance on the use of keyword advertising and enforcement of trademark rights. For more information, contact **Jackie Patt**, or others in the **IP Litigation** or **Trademark** groups.