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Tough Road For Keyword Ad Suits After Rosetta Stone Deal

By Ryan Davis

Law360, New York (November 19, 2012, 9:55 PM ET) -- The recent settlement between Rosetta Stone Inc. and Google Inc. leaves brand owners without clear guidance on how trademark law applies to the use of keywords in online ads, and the daunting prospect of taking on the search giant may dissuade further lawsuits that could answer those questions, attorneys said.

Rosetta Stone claimed that Google infringed its trademarked name by selling it as a keyword to third-party advertisers on its AdWords program, and Google initially won summary judgment. The Fourth Circuit reversed in April, finding sufficient evidence of confusion to allow the case to proceed.

Trademark attorneys and brand owners had hoped the revival of the closely watched case would establish case law on how to prove liability in keyword trademark suits, but that was not to be, as the parties settled last month.

While many brand owners remain concerned about the use of their trademarks as advertising keywords by others, there may be few companies for whom taking up the mantle of challenging the practice makes financial sense, given the continued uncertainty over the viability of such claims, said Richard Stockton of Banner & Witcoff Ltd.

"Google's revenues are based on sales of AdWords, so they aren't just going to let it go. They're going to fight to the death," he said. "There's a very substantial amount of risk for any party challenging Google going forward."

While the Fourth Circuit ruling forced Google to defend its practice of letting third parties purchase trademarks as keywords, the company was still in a strong position if the Rosetta Stone case had proceeded, said Michael Atkins of Atkins Intellectual Property PLLC.

Although it found that Google was not entitled to summary judgment, the Fourth Circuit held firm to a principle established by the Second Circuit in a case involving eBay Inc. that Internet service providers can only be held liable for trademark infringement if they knew or should have known of the infringing activity.

Google's policy of halting ad sales when it learns of infringement would likely have shielded it from liability had it proceeded, Atkins said, adding that the rulings by both circuits "give search engine providers more comfort that as long as they have reasonable procedures in place, they're not going to be found liable."

One of Rosetta Stone's main objections was that Google was allowing the use of its name in ads for entities that were selling counterfeit versions of Rosetta Stone's language-learning software. In the settlement announcement, the two companies said that they were planning to work together to improve ways to detect counterfeiters and keep them from using AdWords.

If Google takes the pledge seriously and improves its software and procedures to ensure that counterfeiters don't use AdWords, it would become more difficult for any future company that sues over keyword trademarks to show that Google intended to create consumer confusion or caused actual confusion, Stockton said.

"Anyone who comes after this is going to have an even tougher road," he said.

Potential plaintiffs in future AdWords suits will have to do a pure economic analysis of whether the harm they are suffering in lost sales or consumer confusion merits the expense of a likely years-long battle with Google, Stockton said.

"I'm not aware of anyone else who's going to jump in and sort of carry the flag for the IP owner community," he said.

While Google has some strong legal arguments going forward, objections to how it allows the use of trademarks in AdWords remain and potential future challengers are out there.

"Generally, the trademark community and many trademark owners believe it's confusing to sell AdWords that include another trademark," said Beth Goldman of Orrick Herrington & Sutcliffe LLP.

Despite the risks of taking on Google, some companies may still believe the fight to be worthwhile, Goldman said, especially if they are facing a situation similar to Rosetta Stone's, where potential customers allegedly bought counterfeit software thinking it was real and called the company to complain when it didn't work.

"If you have a situation like that, where your reputation is being adversely affected, you don't really have a choice but to take action," she said. "It's much more than potentially losing sales."

Brand owners may also target Google if it fails to abide by its own stated policy of shutting down ads when it becomes aware of infringement, said William Schultz of Merchant & Gould PC. He said he's seen an uptick recently in instances where brand owners complain to Google that their mark is being used in an infringing way in AdWords and the company has declined to take action.

"If Google is aware of the issue and continues to serve the advertiser, we're going to see a new set of suits," he said. "For brand owners, it may be wise to use the complaint system and if it doesn't work, to sue Google and the advertiser."

In other cases, Schultz said it may make more sense for an aggrieved brand owner to directly sue the third party that is using the trademark in AdWords, since it is more clearly the bad actor, as opposed to Google.

"We may see a downturn in suits against Google, but suing advertisers will still be a way trademark owners will enforce their brand," he said.

Counterfeiters and software pirates like those Rosetta Stone objected to could be difficult to locate and sue, but otherwise, the party that used the trademark is a safer target, Atkins said.

"I've never thought going after Google was a smart idea, the idea of taking on a 900-pound gorilla and attacking its very reason to be," he said. "It's much wiser to go after the purchaser of the keyword."

In addition to the legal risks involved, keyword trademark suits may wane over time as consumers become more sophisticated about how keyword ads work and are less likely to be confused, attorneys said.

Atkins noted that Web users now tend to know that the results that show up in Google's yellow "sponsored links" box aren't necessarily connected with the term they searched for. That understanding could lead to fewer suits over AdWords, just as increased use of search engines prompted a decline in trademark suits involving domain names, he said.

"Those domain name cases have really fallen away because domain names are so much less important now," he said.

While Google and Rosetta Stone are likely happy to have put the dispute behind them, the same

can't be said of attorneys who had hoped it would establish important trademark precedent.

"This was a fascinating case with good lawyers on both sides who put a lot of thought into it," Stockton said. "I wish they'd fought it out."

--Editing by John Quinn and Jeremy Barker.

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