

Rosetta Stone v. Google: Fourth Circuit Misses Opportunity to Clarify Distinction Between Direct and Contributory Trademark Infringement

By Jonathan Bloom

I. Introduction

Last spring, in its eagerly awaited decision in *Rosetta Stone Ltd. v. Google Inc.*,¹ the Fourth Circuit reversed the district court's grant of summary judgment for Google on claims arising out of the use of Rosetta Stone trademarks by counterfeiters in sponsored ads on Google's website. The case presented an opportunity for the court to clarify a number of issues pertaining to potential search-engine liability for keyword-triggered sponsored ads, but the court failed to make the most of the opportunity.

The district court saw Rosetta's attack on Google's sale of its trademarks as keywords as overreaching and found a way to reject every claim. Although the court botched the law in some respects, its overall take on the case was fundamentally correct: absent evidence of a failure to address specific, known infringing conduct, Google—a seller of advertising space—should not be liable for conduct by AdWords customers who violate Google's policies. That reasonable view of Google's legal obligations was undercut, however, by the district court's willingness to entertain a direct infringement claim, including the requisite detailed likelihood-of-confusion analysis, before ultimately throwing it out.

The court of appeals corrected some of the district court's legal errors, but its approach to Rosetta's direct and contributory infringement claims—in particular, its failure to explain the distinction between them or to identify contributory infringement as the appropriate framework for evaluating Google's conduct—left a muddle where clear guidance was needed. The ruling thereby virtually ensured additional meritless keyword ad-related claims would be asserted against Google and other search-engine operators.

The law is clear in other contexts (file-sharing services, swap meets/flea markets, online marketplaces such as eBay and Amazon) that the provider of a service or of facilities that can be used for infringing purposes is liable, if at all, only as a contributory or vicarious infringer. These entities are properly viewed as facilitators, not as direct infringers. The same understanding has not yet coalesced, however, with respect to keyword sellers, but it should, and the Fourth Circuit missed the chance to say so.

Much of the considerable interest in *Rosetta Stone* was generated by the district court's likelihood-of-confusion analysis (in which it discussed only three of the nine fac-

tors in the Fourth Circuit's test) and its bizarre ruling that the functionality doctrine dictated summary judgment for Google on Rosetta's direct infringement claim. Not enough attention has been paid, however, to the question of how Google can potentially be liable as a direct infringer—even assuming a likelihood of confusion—in the absence of any evidence that it itself used the Rosetta Stone marks as trademarks or helped create any of the allegedly infringing ads. The Fourth Circuit cited Google's purported failure to dispute trademark use as an excuse for skipping the issue and proceeding (as the district court had) to the likelihood of confusion. But Google *did* raise the issue (albeit perhaps not as clearly or strenuously as it could have), and it was incumbent on the Fourth Circuit to address it.

The court of appeals' failure to scrutinize the Trademark Use issue reflected its failure to see the case for what it was: one of a series of cases aimed at invalidating the practice of selling trademarks to third parties as keywords, without regard to whether the resulting ads make lawful referential use of the marks or even use the marks in ads at all. The assertion of a direct infringement claim against Google reflected an effort to shift onto Google the trademark-policing burden that properly rests with the trademark owner. Rosetta's goal in this regard was overt: it acknowledged that it brought the case not to force Google to respond with greater alacrity to infringement notices but rather to “stop Google's auction and sale of Rosetta Stone Marks to third parties for use as keywords and in the content of their sponsored links.”²

Rosetta's objective—total control over its mark in connection with Google's AdWords program—was akin to that of Tiffany in its unsuccessful suit against eBay. In that case the trial court found (and the Second Circuit noted) “some basis in the record for [the] assertion that one of Tiffany's goals in pursuing [the] litigation [was] to shut down the legitimate secondary market in authentic Tiffany goods.”³ The Second Circuit observed that eBay could not “guarantee the genuineness of all of the purported Tiffany products offered on its website” and that imposing liability on that basis “would unduly inhibit the lawful resale of genuine Tiffany goods.”⁴ Rosetta, likewise, sought to bar legitimate resellers of its software from bidding on its marks, and it sought to achieve this goal by holding Google directly liable for infringing ads as *if it were a counterfeiter*.

If that were the rule, then Google would be faced with an impracticable burden of due diligence that would threaten its ability to continue to make keyword sales of third-party marks—exactly what Rosetta sought. The district court had it right: there is, it observed, “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.”⁵ The outcome sought by Rosetta—a total ban on third-party use of its mark as a keyword—would be an effective prophylactic, but it would eliminate a range of noninfringing uses that comply with Google’s policies, and it would cripple a practice that is vital financially to the operation of free search engines.

This broader perspective should have prompted the Fourth Circuit to consign Rosetta’s direct infringement claim to oblivion. Instead, even though fact findings cited by the court should have precluded a finding of direct infringement by Google, the Fourth Circuit sent the case back to the district court for another look at the likelihood-of-confusion evidence (among other things). That evidence should have been deemed relevant only to whether Google *advertisers* were direct infringers, not to whether Google was.

The Fourth Circuit also fumbled the likelihood-of-confusion analysis, including by reaching the dubious conclusion that evidence relating to Google’s internal studies of the impact of proposed keyword policy changes raised a triable fact issue concerning Google’s intent to infringe. This finding will discourage responsible assessments of proposed policies and practices and provide a hook for baseless direct infringement claims. In general, the court’s review of the record evinced greater concern with policing the summary judgment standard than with clarifying the substantive legal standards for direct and contributory infringement. This “missing the forest for the trees” approach will hinder the development of the law in this area.

The Fourth Circuit’s failure to appropriately circumscribe Google’s potential direct infringement liability had predictable consequences: within months of the court’s decision, Professor Eric Goldman noted that “we’re seeing more litigation against Google now than we did in the year prior to the *Rosetta Stone* ruling.”⁶ Most of these suits will fail,⁷ but shouldn’t appellate courts do what they can to prevent meritless claims from being brought in the first place?

II. Factual Background⁸

Rosetta Stone sells language learning products and services and holds various registered “ROSETTA STONE” trademarks. Rosetta conducts “a substantial amount of its business over the Internet,” including through its own website, advertising on third-party

websites, and authorizing sales of its products by resellers such as Amazon.com and Barnes & Noble.

Google’s AdWords Program is an “auction-style advertising program that displays advertisements to users of Google’s search engine in the form of Sponsored Links.” Sponsored Links are displayed above or to the right of the organic search results. AdWords allows advertisers to bid on “keywords” that will trigger a Sponsored Link to the advertiser’s website in response to a search query using the keyword. Advertisers can select keywords from a list of words or phrases generated by Google, including by a trademark-specific version of Google’s Query Suggestion Tool. Google’s Query Suggestion Tool is aimed at helping advertisers target consumers who are likely to be attracted by their advertisements.

Advertisers pay Google based on the number of times consumers click on an ad and are linked through to the advertiser’s website. Google filters the list of suggested keywords to remove trademarked terms as to which Google has received a complaint. Since 2004, Google has otherwise allowed the purchase of trademarks as keywords by competitors of the trademark owner.

Google changed its trademark policy in 2009 to allow advertisers to include another’s trademark in the text of an advertisement (in addition to purchasing the trademark as a keyword) provided the advertiser: (1) resells legitimate products bearing the trademark; (2) sells components, replacement parts, or compatible products; or (3) provides noncompetitive information about the goods or services corresponding to the trademarked term.

Google’s enforcement procedures include use of a Trust and Safety Team to address complaints about violation of its AdWords policies, including fraud and counterfeiting. The Team removes ads confirmed to violate AdWords policy. Some advertisers using Sponsored Links nevertheless have misdirected Google users to sites that sell counterfeit Rosetta Stone products or falsely suggest a connection to Rosetta Stone.

Rosetta Stone participated in the AdWords program beginning in 2002. It made frequent requests to have ads removed that violate Google’s policy, and Google complied with the requests and was even praised by Rosetta for doing so. Between July 2007 and March 2010, Rosetta Stone made more than \$27 million from orders placed by customers who used Google and received 330,796 orders from paid search referrals.

III. The Lawsuit

Rosetta Stone sued Google in the Eastern District of Virginia in July 2009, alleging that Google, through AdWords, had helped third parties mislead consumers and misappropriate Rosetta’s marks by (1) using the marks as keywords and (2) using them in the text of Sponsored Link ads. Rosetta alleged that the former practice

triggered ads “expressly designed to draw consumers away from Rosetta websites” and that the latter practice “misleadingly communicate[d] to consumers that such links [were] endorsed or sponsored by Rosetta Stone or its affiliates, or that such websites [were] official Rosetta Stone websites.”⁹

The causes of action alleged were: (1) trademark infringement; (2) contributory trademark infringement; (3) vicarious trademark infringement; (4) trademark dilution; (5) trademark infringement (state); (6) unfair competition (state); and (7) unjust enrichment.

Rosetta alleged that it had “long been and remains a strong supporter of the Internet and the promise that it holds for consumers and society” and that it did “not question that Google’s search engine provides consumers with a powerful and highly-useful means to search the Internet for information.”¹⁰ However, Rosetta alleged, Google’s search engine was “helping third parties to mislead consumers and misappropriate the Rosetta Stone Marks by using them as ‘keyword’ triggers for paid advertisements and by using them within the text or title of paid advertisements.”¹¹ The core allegation was that

when some web users click on the link that Google’s advertisers pay to place above or alongside purportedly objective “organic search results” in order to seek information about Rosetta’s products or services, they are deceived into believing that they will be provided with official information about Rosetta Stone’s products and other services directly from Rosetta Stone.... In fact, in some instances, these links lead to websites that offer the products and services of Rosetta’s competitors, whether or not they also offer Rosetta’s own products and services. In other instances, these links lead to websites that offer pirated Rosetta Stone products.¹²

Rosetta sought an injunction permanently:

- barring Google from, *inter alia*, “directly or indirectly selling or offering for sale the Rosetta Stone Marks or other items confusingly similar to the Rosetta Stone Marks for use in its search engine-based advertising programs to anyone other than Rosetta Stone or its authorized licensees” and
- “continuing to post advertisements for anyone other than Rosetta Stone and its authorized licensees because Internet users have run a search on Google’s search engine using search terms that are identical or confusingly similar to the Rosetta Stone Marks.”¹³

Google moved to dismiss the unjust enrichment claim and for summary judgment on all other claims. On August 3, 2010, the district court granted Google’s motion for summary judgment in its entirety. This article will focus on the court’s handling of the direct and contributory infringement claims.

IV. The District Court’s Summary Judgment Ruling

A. Direct infringement

The court begin its discussion of direct infringement by stating that there was no dispute that by auctioning the marks as keyword triggers and allowing their use in Sponsored Link titles and advertising text, Google had used the Rosetta Stone marks in commerce; the only issue as to direct infringement was the likelihood of consumer confusion.¹⁴ The court then identified the nine likelihood of confusion factors set forth in *George & Co. L.L.C. v. Imagination Entm’t Ltd.*:¹⁵ (1) strength or distinctiveness of the mark; (2) similarity of the marks; (3) similarity of the goods and services; (4) similarity between the facilities used by the markholders; (5) similarity of advertising used by the markholders; (6) defendant’s intent; (7) actual confusion; (8) quality of the defendant’s product; and (9) sophistication of the consuming public. The court stated, however, that only three of the factors—intent, actual confusion, and consumer sophistication—were disputed,¹⁶ and it confined its discussion to those factors without addressing whether they were the only ones that were probative of consumer confusion.

1. Intent

The court found no genuine issue of material fact as to whether Google intended to confuse potential purchasers of Rosetta Stone products or sought to pass off its goods or services as Rosetta’s. Its key findings on this issue were: (1) Google provides ad space; it does not sell Google-made products; (2) Google internal studies indicated an intent to profit from the sale of trademarks as keywords, not an intent to confuse; (3) Google does not make money from ads for counterfeit goods, as counterfeiters tend to use stolen credit cards; and (4) it is not in Google’s interest to confuse users by encouraging counterfeiting.¹⁷

2. Actual Confusion

The court found that the evidence of actual confusion was de minimis. Specifically, it found that: (1) Rosetta Stone had identified only five individuals who claimed to be confused out of more than 100,000,000 ad impressions triggered by use of the “Rosetta Stone” keyword; (2) none of the ads complained about conformed to Google’s policy; (3) all five individuals were confused as to the authenticity of the products, not as to the source, and thus (in the court’s view) were not confused in a legally relevant way; (4) customer complaints concerning coun-

terfeit Rosetta Stone software identified Craigslist and spam, not Google, as the means by which the products were located; and (5) Rosetta’s survey expert measured whether respondents believed a link was “endorsed” by Rosetta Stone, not whether there was confusion as to the source of the products—only the latter (in the court’s view) being relevant.¹⁸

3. Consumer Sophistication

The court found that consumers willing to spend hundreds of dollars on language-learning software were likely to spend time learning about Rosetta products and would be able to distinguish between Sponsored Links and organic search results.¹⁹

* * *

In sum, the court found no genuine issue of material fact as to likelihood of confusion and granted summary judgment to Google.

B. Contributory Infringement

With respect to contributory infringement, Rosetta argued that (1) Google’s Query Suggestion Tool encourages advertisers to bid on brand names, which induces advertisers to infringe the Rosetta Stone marks, and (2) Google supplies its service to those it knows or has reason to know are using it to infringe by allowing known counterfeiters to open AdWords accounts. The district court found, however, that no reasonable trier of fact could conclude that Google “intentionally induces or knowingly continues to permit third-party advertisers selling counterfeit Rosetta Stone products to use the Rosetta Stone Marks in their Sponsored Link titles and advertising text.”²⁰ The court pointed out that the “mere existence of a tool that assists advertisers in optimizing their ads does not, in itself, indicate intent to induce infringement,”²¹ and it noted that (1) Google informs advertisers they are responsible for not violating the law; (2) the desire for economic gain does not amount to contributory infringement; and (3) there was no evidence that Google had failed to act on specific, contemporaneous knowledge of infringing activity by advertisers.²² As the court put it:

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. Google has worked closely with law enforcement and brand owners to combat counterfeiting because it knows that those advertisements can create a bad experience for web users, who Google ultimately relies on for its business.²³

Moreover, like eBay, the court stated, Google “has no mechanism for detecting which advertisers sold counterfeit Rosetta Stone products.... [I]t cannot determine if a Rosetta Stone product is a counterfeit without physically inspecting it.”²⁴ The court noted that “even with eBay’s knowledge of the high rate of Tiffany counterfeits,” the Second Circuit in *Tiffany* did not impute to eBay the degree of specific knowledge necessary for liability.²⁵ Comparing the approximately 200 notices Google received of Sponsored Links advertising counterfeit Rosetta Stone products to the record in *Tiffany*, in which eBay received thousands of infringement claims, the court “necessarily” held that Rosetta had not met the burden of showing that summary judgment was warranted on its contributory infringement claim.²⁶

V. The Fourth Circuit’s Ruling

Rosetta appealed, and the Fourth Circuit reversed and remanded the grant of summary judgment to Google on, *inter alia*, the direct and contributory infringement claims. In doing so, the court identified both substantive legal errors and errors in the trial court’s application of the summary judgment standard.

A. Direct Infringement

At the outset, the Fourth Circuit questioned the district court’s assertion that Google had conceded its use of the marks in connection with the sale, offering for sale, distribution, or advertising of any goods or services, as contemplated by 15 U.S.C. § 1114(1)(a).²⁷ The court of appeals noted that Google had disputed the point in its summary judgment brief.²⁸ However, on the premise that the issue had not been raised on appeal, the court proceeded to review the district court’s findings as to likelihood of confusion.

Next, addressing Rosetta’s argument that the district court erred by not addressing each of the circuit’s likelihood-of-confusion factors, the court observed that the factors are “only a guide—a catalog of various considerations that may be relevant”²⁹ and that there is “no hard and fast rule that obligates the district court to discuss each non-mandatory factor.”³⁰ This is especially true, the court pointed out, “when the use of the plaintiff’s trademark is referential or nominative in nature,” in which case many of the factors “are either unworkable or not suited or helpful as indicators of confusion” because the defendant is not passing off its goods under the plaintiff’s mark.³¹ This is the case, the court pointed out, with respect to the similarity of the marks, the strength of the plaintiff’s mark, the similarity of the parties’ goods and services, the quality of the defendant’s goods, the similarity of facilities, and the similarity of advertising—factors that were not probative in this case because Google did not distribute a product or service using Rosetta’s marks.³²

As for the remaining factors, the court of appeals took the trial court to task for making factual findings, as if it were conducting a bench trial, rather than identifying genuine issues of material fact.

1. Intent

With respect to intent, the Fourth Circuit cited the fact that internal studies performed by Google suggested that there was “significant source confusion among Internet searchers when trademarks were included in the title or body of the advertisements” and the fact that Google nevertheless changed its policy in 2009 to allow use of third-party trademarks in ad text and expected both a revenue boost and an uptick in litigation as a result.³³ The court concluded from this 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.”³⁴

2. Actual Confusion

Reviewing the evidence of actual confusion, the court noted the testimony of five customers who purchased counterfeit Rosetta Stone software from a sponsored link they mistakenly believed was affiliated with Rosetta or authorized by Rosetta to resell or distribute genuine software. The district court erred in discounting this evidence, the court of appeals held, by failing to recognize that confusion as to affiliation, connection, or sponsorship, not just confusion as to source, is actionable under section 1125(a).³⁵ The court also noted evidence that Rosetta’s customer care center received more than 250 complaints between April 2009 and March 2010 from individuals who purchased counterfeit software believing it to be genuine, although the record did not indicate whether the customer made a purchase via the sponsored link.³⁶ It nevertheless sufficed for purposes of summary judgment, in the court’s view, to “infer that a great number of these individuals were confused by the apparent relationship between Rosetta Stone and the sponsored link given that Google began allowing trademarks to be displayed in ad text in 2009 and in light of the evidence showing a substantial ‘proliferation of sponsored links to pirate/counterfeit sites.’”³⁷

The court also found that Google internal studies, including one that formed the basis for Google’s continued prohibition in 2004 on using trademarks purchased as keywords in ad text, were “probative as to actual confusion in connection with Google’s use of trademarks.”³⁸ The court also cited the testimony of two Google lawyers who could not determine without research which sponsored links were for authorized resellers of Rosetta products. The district court dismissed the testimony as irrelevant because it showed “mere uncertainty about the source of a product rather than actual confusion,” but the court of appeals held that uncertainty is probative of actual confusion.³⁹

As for Rosetta’s expert survey, the court found that its showing of a net confusion rate of seventeen percent was “clear evidence of actual confusion for purposes of summary judgment.” The district court believed that whether respondents thought Rosetta endorsed a sponsored link was a “non-issue,” but the Fourth Circuit held that confusion as to sponsorship is actionable.⁴⁰

3. Consumer Sophistication

Finally, with respect to consumer sophistication, the court disagreed with the district court’s findings of fact on summary judgment and found “sufficient evidence in the record to create a question of fact as to consumer sophistication,”⁴¹ including an internal Google study reflecting that “even well-educated, seasoned Internet consumers are confused by the nature of Google’s sponsored links and are sometimes unaware that sponsored links are, in actuality, advertisements.”⁴²

The court therefore reversed and remanded the grant of summary judgment to Google on the direct infringement claim.

B. Contributory Infringement

The Fourth Circuit began its contributory infringement analysis by stating that it is “not enough to have a general knowledge that some percentage of the purchasers of a product or service is using it to engage in infringing activities,”⁴³ thereby rejecting the position advocated by Rosetta Stone and several amici. Rather, the court held, the defendant must “supply its product or service to ‘identified individuals’ that it knows or has reason to know are engaging in trademark infringement.”⁴⁴ However, the court reversed the grant of summary judgment, criticizing the trial court for improperly weighing the evidence, which, the court of appeals found, presented a triable issue as to whether Google “continued to supply its services to known infringers.” The most significant evidence in this regard, the court explained, was the evidence that Google purportedly allowed known infringers and counterfeiters to bid on the Rosetta Stone marks as keywords.⁴⁵

VI. Analysis

A. Can Google Be a Direct Infringer?

Although the district court stated there was no dispute that Google used Rosetta Stone marks as trademarks, it also stated (accurately) that Google did not sell Google-made products on its website; that Google and Rosetta Stone were not competitors; and that Google was “not engaged in the business of selling goods but in selling advertising space on a search page.”⁴⁶ If these statements were true, how could Google be said to have used the marks as trademarks?

There is no question that Google used the marks “in commerce” when it sold them as keywords through its

AdWords program. It is settled law that keyword sales constitute “use in commerce” subject to the Lanham Act since the Second Circuit’s decision in *Rescuecom Corp. v. Google Inc.*⁴⁷ eliminated the apparent circuit conflict on this issue. The *Rescuecom* court rejected Google’s argument that its sale of Rescuecom’s mark as a keyword was not a use in commerce subject to Lanham Act, and it held that Rescuecom stated an infringement claim by alleging that Google’s “display of sponsored links of competing brands in response to a search for Rescuecom’s brand name...creates a likelihood of consumer confusion as to trademarks.”⁴⁸ In a footnote, the court indicated that practices such as allowing advertisers to pay to appear at the top of the “relevance” list based on a user entering a competitor’s trademark or to have users diverted to the advertiser’s website would be “highly likely” to cause consumer confusion.⁴⁹ But the court did not discuss the factual predicate for ascribing direct liability to Google for infringing ads created by third parties without Google’s knowledge, perhaps simply assuming that Google’s role in the keyword sale transaction was sufficiently connected causally to the infringement to warrant holding Google accountable for any resulting consumer confusion.

In *Rosetta Stone*, the keyword sale transaction itself was not claimed to cause consumer confusion; the alleged confusion was caused by counterfeiters or other unauthorized sellers using Rosetta’s marks in sponsored ads. The district court found that Google sold advertising, not goods, and the Fourth Circuit (without implying disagreement) noted Google’s summary judgment argument that it merely sold advertising space to others who were using the mark. To the same effect, Google argued in its appeal brief that it could not be held directly liable for the actions of counterfeiters whose conduct violated Google’s policies because direct trademark infringement requires “some volitional conduct on the part of the alleged infringer,” and the record was “devoid of evidence that Google was a ‘moving force’ in counterfeiters’ decisions to counterfeit Rosetta Stone software or advertise it.”⁵⁰ This argument was consistent with the court of appeals’ finding in relation to Rosetta Stone’s vicarious infringement claim that there was “absolutely no evidence that Google intentionally copied or adopted Rosetta Stone’s mark in an effort to pass off its own goods or services under the ROSETTA STONE mark” and no evidence that Google acted jointly with any of the advertisers to control counterfeit ROSETTA STONE products.⁵¹

Thus, the issue of whether Google used the Rosetta marks in a manner that made it a potential direct infringer was raised, and the Fourth Circuit (like the district court) pointed to facts that would seem to establish the lack of any basis for a direct infringement finding. Yet the court declared that Google’s use of the marks was not an issue on appeal and proceeded to assume such use had been established. This failure to grapple with the factual

predicate, if any, for holding Google liable for direct infringement is a major conceptual weakness in the opinion and an unfortunate omission given the pressing need to clarify the legal framework applicable to search engines.

Had the Fourth Circuit been appropriately concerned with defining rational limits on potential claims against Google, it would have held that, on the record presented, Google could not be liable as a direct infringer *whether or not there were triable issues as to likelihood of confusion*. Instead, the court indulged Rosetta’s effort to conflate Google with the direct infringers.

There was no more basis for holding Google directly liable than there was in *Tiffany* to hold eBay directly liable. In *Tiffany*, the Second Circuit held that eBay’s knowledge that counterfeit Tiffany goods were offered on its site was “not a basis for a claim of direct trademark infringement,” especially as there was no dispute that eBay removed all listings challenged as counterfeit.⁵² eBay, the court noted, “cannot guarantee the genuineness of all of the purported Tiffany products offered on its website,” as that would “unduly inhibit the lawful resale of genuine Tiffany goods.”⁵³

More recently, in *Tre Milano, LLC v. Amazon.com, Inc.*,⁵⁴ a California appellate court affirmed the denial of a preliminary injunction motion against Amazon based on the sale of counterfeits by third parties on Amazon’s site. The court, quoting *GMA Accessories, Inc. v. BOP, LLC*,⁵⁵ stated that “parties [who] act as intermediaries for a transaction and do not buy and resell the commodities” are not treated as sellers under the Lanham Act “and are not directly liable for infringement under the act.”⁵⁶ Since “Amazon itself “was not selling counterfeit goods,” the court held that it was not liable as a direct infringer. Amazon, like eBay, was “a service provider facilitating the sale of counterfeit products belonging to a third party,”⁵⁷ which implicates contributory, not direct, infringement.

As the Ninth Circuit held in *Lockheed Martin Corp. v. Network Solutions, Inc.*,⁵⁸ contributory infringement applies to a party that exercises “[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark.” That is precisely the role played by Google with respect to keyword-triggered sponsored ads. Without setting out to do so, Google provides the “site and facilities for direct infringement”⁵⁹ and thus properly is liable, if at all, as a secondary infringer.

In short, direct infringement is the wrong legal theory for keyword ad claims against Google (or any search engine). Unfortunately, the Fourth Circuit declined to address this crucial point.

B. What Facts Are Material to the Likelihood of Confusion?

After regrettably passing over the basis for potentially holding Google directly liable, the Fourth Circuit, to its credit, rejected Rosetta’s argument that the district court

was obliged to evaluate each of the likelihood-of-confusion factors. The court explained that several factors (including strength of the mark and similarity of the products) are not probative—and need not be considered—in cases involving referential uses, i.e., where the defendant has used the plaintiff’s mark to identify the *plaintiff’s* product. It would have been helpful had the court gone further and articulated a likelihood-of-confusion standard applicable to referential (or nominative) fair uses, which it expressly declined to do, but the court correctly embraced flexible pragmatism rather than rote formula.

Having laid to rest the misplaced criticism of the district court’s truncated likelihood-of-confusion discussion, though, the rest of the court’s likelihood-of-confusion analysis left something to be desired. Most notably, in evaluating the evidence of intent, the court held that a genuine issue of material fact was raised by internal Google studies predicting an uptick in litigation if it were to start allowing the use of third-party marks in ad text. In so ruling, the court ignored the countervailing evidence that Google: (i) adopted automated measures specifically to prevent what it recognized to be the increased opportunities for infringement; (ii) adopted a policy intended to permit only noninfringing referential uses; (iii) maintained a Trust & Safety team responsible for responding to complaints; and (iv) had what the district court found to be a business incentive to keep its site free of infringement.

The district court correctly found no credible evidence that Google intended to infringe; to the contrary, it found that it was “in Google’s own business interest, as a search engine, not to confuse its users by preventing counterfeiters from taking advantage of its service.”⁶⁰ The district court in *Tiffany* similarly found that eBay had “an interest in eliminating counterfeit Tiffany merchandise from eBay...to preserve the reputation of its website as a safe place to do business,”⁶¹ and the Second Circuit in *Tiffany* noted that “private market forces give eBay and those operating similar businesses a strong incentive to minimize the counterfeit goods sold on their websites.”⁶²

By deeming a predictive internal study sufficiently probative of intent to infringe to warrant a remand, the Fourth Circuit ascribed materiality to evidence that did not even relate to the marks at issue. As a policy matter, moreover, holding that such studies are enough to defeat summary judgment will discourage analysis of the impact of contemplated business practices by Internet service providers. Search engines should not be chilled from studying the likely effects of new policies or practices by concern with the potential litigation consequences of doing so.

With respect to actual confusion, the court of appeals corrected the district court’s erroneous holding that confusion as to authenticity is not material under the Lanham Act, but it gave too much weight to certain

record evidence. For example, the court cited complaints received by Rosetta’s customer care center from individuals who purchased what they thought was counterfeit Rosetta Stone software.⁶³ The trial court found that the complainants identified Craigslist, spam emails, and other sources other than Google as the means by which they located the allegedly infringing products,⁶⁴ and the Fourth Circuit failed to specifically address this finding. Moreover, the court’s reliance on evidence that Google attorneys were unable to distinguish genuine from counterfeit Rosetta Stone ads raises the question of how evidence of Google’s inability to reliably police infringement on its own supports a claim that seeks to require it to do just that.

C. What Remedial Steps Are Required to Avoid Contributory Infringement Liability?

As for contributory infringement, the Fourth Circuit agreed with Google and its amici (including my clients) that to prevail on a claim of contributory infringement it is “not enough to have general knowledge that some percentage of purchasers of a product or service is using it to engage in infringing activities.”⁶⁵ But the trial court erred, the Fourth Circuit held, by granting summary judgment to Google based on its conclusion that Rosetta Stone had failed to prove *it* was entitled to summary judgment. The court found that the “most significant” evidence relating to contributory infringement was evidence that even after Rosetta Stone notified Google of sponsored ads for counterfeit Rosetta Stone products, Google “continued to allow Sponsored Links for other websites by these same advertisers to use the Rosetta Stone Marks as keyword triggers and in the text of the Sponsored Link advertisements.”⁶⁶ The court held that a reasonable trier of fact, drawing all reasonable inferences in a light most favorable to Rosetta Stone (the non-moving party), could find in its favor.

The Fourth Circuit’s focus on *infringers* rather than on infringing *ads* differs from the Second Circuit’s requirement of knowledge of specific infringing eBay *listings* as a predicate for contributory infringement liability in *Tiffany*. It is, however, nominally consistent with the Supreme Court’s holding in *Inwood Labs., Inc. v. Ives Labs., Inc.* that contributory trademark liability can arise where a “manufacturer or distributor...continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement.”⁶⁷ The Supreme Court reiterated this focus on known *infringers* two years later, when it stated that *Inwood* applies to supplying a product to “*identified individuals* known...to be engaging in continuing infringement.”⁶⁸

Given the summary judgment posture, it was not irrational for the Fourth Circuit to remand for a closer look at whether Google’s treatment of known counterfeiters met the *Inwood* standard, but the court did not provide sufficient guidance as to what Rosetta must show to

defeat summary judgment. The court did not explain, for example, whether the law requires Google to bar all one-time infringers or accused infringers from participation in AdWords—which would conflict with the holding in *Tiffany* that eBay did not run afoul of *Inwood* where repeat violators of eBay’s anti-counterfeiting policy were suspended from the site⁶⁹—or, on the other hand, whether Google must investigate additional ads from prior infringers which arguably would conflict with the holding in *Tiffany* that a service provider “is not contributorily liable under *Inwood* merely for failing to anticipate that others would use its service to infringe a protected mark.”⁷⁰

The implication that failure to immediately bar a known or accused infringer from continued use of one’s service may be enough to demonstrate contributory infringement has been rejected by other courts, which have recognized the reasonableness of a more flexible approach. For instance, the Second Circuit noted in *Tiffany* that eBay “primarily employed a ‘three strikes rule’—for suspensions,” but would suspend a seller after the first violation if it was clear that the seller listed a number of infringing items or that the sale of counterfeit merchandise appeared to be the only thing the seller was on eBay to do.⁷¹ The Second Circuit noted the district court’s finding that it was “understandable that eBay did not have a ‘hard-and-fast, one-strike rule’ of suspending sellers because a [Notice of Claimed Infringement] ‘did not constitute a definitive finding that the listed item was counterfeit’ and because ‘suspension was a very serious matter, particularly to those sellers who relied on eBay for their livelihoods.’”⁷²

The district court in *Tiffany* found that upon reviewing a potentially infringing or problematic listing, eBay would (1) remove the listing; (2) send the seller a warning; (3) restrict the seller’s account, including temporary or indefinite suspension; or (4) refer the matter to law enforcement. Factors taken into account included the language and sophistication of the listing, the seller’s history and feedback rating from past buyers, the seller’s business model, and the seller’s eBay registration information.⁷³

Similarly, in *Tre Milano* the court noted that when Amazon determines that a listing is for an infringing item, its actions “range from blocking the listing to blocking the seller.”⁷⁴ Blocked sellers are prohibited from opening a new account, but if an infringing seller has a good relationship with Amazon and positive customer feedback, Amazon might block the listing and issue a warning.⁷⁵

These decisions, in which automatic termination was not required to avoid liability, are in accord with the DMCA, which likewise does not require Internet service providers to immediately ban known infringers in order to qualify for one of the statutory safe harbors.

Rather, safe-harbor eligibility requires that the service provider have “adopted and reasonably implemented... a policy that provides for the termination *in appropriate circumstances* of subscribers and account holders of the service provider’s system or network who are *repeat infringers*.”⁷⁶

One can argue that as a matter of policy it would behoove Google to presume across-the-board infringement in the case of known infringers, but it is a different question whether the failure to adopt and act on such a presumption—that is, to adopt a “one strike, you’re out” policy—should give rise to liability.

VII. Conclusion

The Fourth Circuit, presented with an opportunity to shape the law concerning keyword ad sales, failed adequately to articulate the distinction between direct and contributory liability. It was instead content to quibble with the district court’s fact-finding on summary judgment while losing sight of materiality. By remanding, it postponed the day of reckoning and, in the meantime, waved a green flag to trademark owners eager to attack Google’s sale of their marks as keywords. Word of a settlement as this article goes to press means the Fourth Circuit will, unfortunately, remain the last word in this case, as the district court will not have a chance to reiterate the governing principle that Google cannot be—and should not be expected to be—a guarantor of noninfringement by AdWords customers.

Endnotes

1. 676 F.3d 144 (4th Cir. 2012).
2. Appellant’s Reply Brief, *Rosetta Stone Ltd. v. Google Inc.*, No. 10-2007, Doc. 137 (E.D.Va. filed Dec. 13, 2010) at 1.
3. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 98 (2d Cir. 2010).
4. 600 F.3d at 103.
5. *Rosetta Stone Ltd. v. Google Inc.*, 730 F. Supp. 2d 531, 548 (E.D. Va. 2010).
6. Eric Goldman, “Google Sued Again for AdWords Trademark Infringement—Home Decor Center v. Google,” July 9, 2012, http://blog.ericgoldman.org/archives/2012/07/google_sued_aga-2.htm.
7. See, e.g., *Jurin v. Google, Inc.*, No. 2:09-cv-03065-MCE-CKD, 2012 WL 5011007 (E.D. Cal. Oct. 17, 2012).
8. The following facts are taken from the district court’s opinion. See *Rosetta Stone*, 730 F. Supp. 2d at 535-38.
9. Complaint, *Rosetta Stone Ltd. v. Google Inc.*, No. 1:09cv736 GBL/JFA (E.D. Va. filed July 10, 2009) (hereinafter “Compl.”) at ¶¶ 49-50.
10. Compl. at ¶ 6.
11. *Id.*
12. *Id.* ¶ 5.
13. Compl. At 35.
14. *Rosetta Stone*, 730 F. Supp. 2d at 540.
15. 575 F.3d 383, 393 (4th Cir. 2009).
16. *Id.*

17. *Id.* at 540-41.
18. *Id.* at 542-44.
19. *Id.* at 544-45.
20. *Id.* at 546.
21. *Id.* at 547.
22. *Id.* at 548.
23. *Id.*
24. *Id.*
25. *Id.* at 548-49.
26. *Id.* at 549.
27. 676 F.3d at 152-53.
28. *Id.* at 152 n.4.
29. *Id.* at 154 (citation omitted).
30. *Id.*
31. *Id.*
32. *Id.* at 154-55.
33. *Id.* at 156.
34. *Id.*
35. *Id.* at 157.
36. *Id.* at 158.
37. *Id.*
38. *Id.*
39. *Id.* at 158-59.
40. *Id.* at 159.
41. *Id.* at 160.
42. *Id.*
43. *Id.* at 163.
44. *Id.*
45. *Id.*
46. 730 F. Supp. 2d at 549-50.
47. 562 F.3d 123 (2d Cir. 2009).
48. 562 F.3d at 131.
49. *Id.* at 130 n.4.
50. Brief of Appellee, *Rosetta Stone Ltd. v. Google Inc.*, No. 10-2007, Doc. 149 (4th Cir. filed Dec. 28, 2010), at 33-34.
51. 676 F.3d at 165.
52. 600 F.3d at 103.
53. *Id.*
54. No. B234753, 2012 WL 3594380 (Ct. App. 2d Dist. Aug. 22, 2012) (unpublished).
55. 765 F. Supp. 2d 457 (S.D.N.Y. 2011).
56. 2012 WL 3594380 at *12 (emphasis added).
57. *Id.*
58. 194 F.3d 980, 984 (9th Cir. 1999).
59. *A&M Records, Inc. v. Napster*, 239 F.3d 1004, 1022 (9th Cir. 2001).
60. 730 F. Supp. 2d at 542.
61. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).
62. 600 F.3d at 109.
63. 676 F.3d at 158.
64. 730 F. Supp. 2d at 544.
65. 676 F.3d at 163.
66. *Id.*
67. 456 U.S. 844, 854 (1982) (emphasis added).
68. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984) (emphasis added).
69. *Tiffany*, 600 F.3d at 109.
70. *Id.* at 110 n.15.
71. 600 F.3d at 100 (citation omitted).
72. *Id.* (quoting *Tiffany*, 576 F. Supp. 2d at 489).
73. 576 F. Supp. 2d at 477.
74. 2012 WL 3594380 at *2.
75. *Id.*
76. 17 U.S.C. § 512(i) (emphasis added).

Jonathan Bloom, editor-in-chief of *Bright Ideas*, is counsel to Weil, Gotshal & Manges LLP. Mr. Bloom wrote an amicus brief to the Fourth Circuit in *Rosetta Stone* on behalf of eBay Inc. and Yahoo! Inc., but the views expressed here are his own.

Like what you're reading? To regularly receive issues of *Bright Ideas*, join NYSBA's Intellectual Property Law Section (attorneys only).