

Client Alert

A report
for clients
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of the Firm April 2009

Second Circuit Holds that Keyword Ad Sales May Be a Trademark “Use in Commerce”

The Second Circuit recently held that a search engine's sale of keyword advertisements based on trademarks of others may constitute a “use in commerce” sufficient to state a claim under the Lanham Act. *Rescuecom Corp. v. Google Inc.*, 2009 WL 875447 (2d Cir. April 3, 2009). This is an important decision as it substantially expands trademark protection on the Internet, which had previously been quite narrow under earlier Second Circuit precedent that had been relied on by lower courts in denying such claims as a matter of law.

Google's search engine responds to user searches in two ways. First, Google's search engine provides a list of links to websites, ordered in descending relevance to the user's search terms based on Google's algorithms. Second, Google's search engine displays context-based advertising. Google sells the placement of context-based links through its AdWords program and Keyword Suggestion Tool.

Advertisers purchase advertising placement through Google's AdWords program. These advertisements consist of a combination of content and a link to the advertiser's webpage. Advertisers purchase particular search terms, and when a user enters these search terms the advertiser's ad appears in a “Sponsored Link” either above or beside the search results. Advertisers pay Google based on the number of times Internet users click on the advertisement to visit the advertiser's website. Advertisers are free to purchase trademarked terms through AdWords. Google also employs Keyword Suggestion Tool, a program that recommends keywords (including trademarked terms) to be purchased related to the advertiser's area of business.

Rescuecom is a national computer service franchising company that offers on-site computer services and sales. Rescuecom alleges that Google recommended and sold its “RESCUECOM” mark as a search term to Rescuecom's competitors, causing ads for its competitors' websites to appear as “Sponsored Links” above Rescuecom's website in the users' search results. Rescuecom alleges that these links appear in a manner likely to cause the searcher to believe mistakenly that a competitor's advertisement and website link is sponsored by, ensored by, approved by, or affiliated with, Rescuecom.

The United States District Court for the Northern District of New York granted Google's motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(6) for failure to state a claim upon which relief may be granted. The district court explained that even if Google used Rescuecom's mark in a manner that is likely to confuse or deceive consumers regarding the source of Rescuecom's competitors' services, Google's actions are not a “use in commerce” under the Lanham Act, because the competitor's advertisements triggered by Google's programs did not exhibit Rescuecom's trademark. The district court relied on the decision in *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005) (“1-800”), in which the Second Circuit held that the use of a trademarked term in a database used to trigger pop-up advertisements was not a “use in commerce” under the Lanham Act.

The Second Circuit reversed the district court's decision, distinguishing the sale of trademarked search terms for keyword advertising from the pop-up advertising database at issue in *1-800*. First, in *1-800*, the defendant's program provided context-based pop-up advertisements in a separate window depending on the website the user entered in his or her browser. Because the website address in question was not used or claimed by the plaintiff as a trademark, the transactions alleged to be infringing in *1-800* did not involve the use of the plaintiff's trademark. By contrast, the court noted, Google's AdWords program places advertisements based on a user's search for the trademarked term itself.

Second, the defendant in *1-800* did not offer to sell keywords to trigger the pop-up ads. The display of a particular pop-up advertisement was controlled by the defendant's internal directory, which associated various search terms with specific product categories. Although the directory contained trademarked terms, advertisers merely purchased placement within specific product categories, and the contents of the directory were not disclosed. By contrast, "here Google displays, offers, and sells Rescuecom's mark to Google's advertising customers when selling its advertising services. In addition, Google encourages the purchase of Rescuecom's mark through its Keyword Suggestion Tool." *Rescuecom*, 2009 WL 875447 at *5.

The court also addressed Google's argument that its use of the Rescuecom trademark is no more confusing to consumers than a retail vendor who places a generic product next to a trademarked product. The court rejected this argument as grounds for a motion to dismiss:

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. In contrast, if a retail seller were to be paid by an off-brand purveyor to arrange product display and delivery in such a way that customers seeking to purchase a famous brand would receive the off-brand, believing they had gotten the brand they were seeking, we see no reason to believe the practice would escape liability merely because it could claim the mantle of "product placement."

Id. at *6. The court held that Rescuecom adequately alleged that Google's placement of "Sponsored Links" horizontally above the list of search results was likely to cause consumer confusion. Although the court contrasted the "Sponsored Link" placement with the placement in *1-800*, in which the advertisement appeared in a separate window with the defendant's brand displayed in the frame, it noted that it was not opining on whether Google's use of Rescuecom's trademark in its AdWords program actually causes likelihood of confusion or mistake.

This decision throws into doubt a number of district court decisions in the Second Circuit in which courts have relied on the *1-800* decision for the proposition that the use of a trademarked term in an internal computer directory or code cannot constitute trademark use. It remains to be seen whether the Second Circuit will distinguish a competitor's *purchase* of trademarks for use in keyword searches from Google's *sale* of trademarks, as well as how this decision will impact the use of a competitor's trademark in a website's metatags for the purpose of influencing search engine results.

The opinion also contains an appendix expressly labeled as *dicta*, which explains in detail the court's statutory analysis of the Lanham Act's "use in commerce" phrase and to what extent the Act's definition of "use in commerce" is meant to apply to the phrase as it is used in the definition of trademark infringement. Although *dicta*, it should prove instructive to courts outside the Second Circuit examining this issue.

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