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Seek and You Shall Find: Google's AdWords and the Nominative Functional Fair Use Defense

I. Introduction: Google AdWords

Google has become a household name since its enactment in 1998.¹ The verb form 'to google' was added to the Oxford English dictionary in 2006.² Using Google's website, an individual can enter an company's name or trademark into Google's search engine and launch a search.³ Google's operating system responds to a search request in two ways.⁴ First, based on predetermined algorithms, Google provides a list of websites based on relevancy to a consumer's entered search terms.⁵ Prospective purchasers can search for a good or service and then be linked to that provider's website via Google, enabling the searcher to obtain information about products and possibly purchase items.⁶ Secondly, Google provides for context-based advertising.⁷ If Google's predetermined algorithm deems an ad likely to be relevant to a searcher, Google places a link to that website if a company has purchased placement of its ads from Google.⁸

One of Google's most profitable features is its' advertising program, Google AdWords, through which advertisers purchase specific terms.⁹ When consumers enter a specified search term, the keyword triggers the display of the advertiser's ad and link.¹⁰ Advertisers pay Google

¹ Google History, Google, <http://www.google.com/corporate/history.html> (last visited Nov. 20, 2013).

² See Anders Bylund, To Google or Not to Google, Motley Fool (July 5, 2006), <http://www.fool.com/investing/dividends-income/2006/07/05/to-google-or-not-to-google.aspx>; see also Google Definition, Oxford English Dictionary (3d ed. 2006).

³ *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 125 (2d Cir. 2009).

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ *Rescuecom Corp.*, 562 F.3d at 125.

⁹ *Id.*

¹⁰ *Id.*

based on the number of times searchers “click” on the advertiser's website.¹¹ Google places these paid for advertisements typically in the most prominent portions of the search webpage, thus possibly misleading searchers as to what results are the most relevant to their query as opposed to those purchased by the highest-bidding advertiser.¹²

Every year, businesses spend billions of dollars purchasing trademarks on Google AdWords.¹³ The reason for this is simple: without purchasing these brand-specific terms, competitors will likely pay for these terms and will be at the top of a consumer search, regardless of relevance.¹⁴ While this situation is not ideal for businesses, some commentators have gone so far as to assert that this is coercion simply because companies have no choice but to purchase their brand names to protect their rights.¹⁵ Due to the structure of AdWords’ payment system, Google has monetary incentive to encourage keywords that will result in more clicks on advertisements.¹⁶ Purchasers of Google’s AdWords program expect the ads to provide value and profit and lead to more traffic at their website and thus more purchases.¹⁷ Most of Google is funded by advertisement revenue.¹⁸ Google makes essentially all of its profits from the advertisement revenue, for example in 2004, Google reported \$3.1 billion in revenue while only \$50,000 of that was not from advertising revenue.¹⁹ In fact, advertisers pay Google for each click by a user on their sponsored link.²⁰ Google has instituted a keyword suggestion tool that allows for information based on past searches to be gathered and to create more exposure for the

¹¹ *Id.*

¹² *Rescuecom Corp.*, 562 F.3d at 126.

¹³ *Id.*

¹⁴ David Rodnitzky, *How to ‘Protect’ Brand Keywords for Less*, SEARCH ENGINE LAND (May 24, 2012 9:51 AM), <http://searchengineland.com/how-to-protect-brand-keywords-for-less-121566>.

¹⁵ *Id.*

¹⁶ *Rescuecom Corp.*, 562 F.3d at 126.

¹⁷ *Rescuecom Corp.*, 562 F.3d at 125.

¹⁸ *Id.* at 126. Rescuecom alleged that AdWords accounted for 97% of Google revenue.

¹⁹ Stephanie Yu Lim, *Can Goggle Be Liable for Trademark Infringement? A Look at the “Trademark Use” Requirement as Applied to Google AdWords*, 14 UCLA Ent. L. Rev. 265, 269 (2007).

²⁰ *Id.*

advertiser and more revenue for Google.²¹ When Google began allowing the purchase of keyword triggers, Google was well aware of the possibility of “subject[ion] to more trademark infringement lawsuits” but was willing to take the risk for potential monetary gain.²²

As a result of the monetary incentive, Google has implemented a Keyword Suggestion tool, which due to information gathered by previous searches, suggests keywords which will likely lead to advertisement results.²³ This means that someone who searches for Nike might have Adidas links displayed. Companies in opposition to Google’s AdWords system have argued that this display will likely confuse potential customers into believing that they are entering the company’s website or one affiliated with their brand name search.²⁴ Not only will this lead to a potential lost sale, but it might also mean a loss of goodwill when a consumer mistakenly believes that an inferior product was associated with a particular brand.²⁵

Obviously, brand owners can purchase brand specific search terms, but some have argued that this can be viewed as Google free riding on the goodwill of the brand owner and profiting merely because a brand owner wants to thwart a competitor from purchasing search terms.²⁶ They argue that Google wins whether the brand owner purchased the search words or not.²⁷ However, non-owner purchasers of brand names may be found to have infringed a trademark right. In response to allegations that Google is infringing upon trademark rights and profiting

²¹ *Id.*

²² *Rosetta Stone, Ltd.*, 730 F. Supp. 2d at 538 (citing Google, Securities and Exchange Commission: Form S-1 Registration Statement 10 (2004), available at <http://i.i.com.com/cnwk.1d/pdf/ne/2004/google.pdf> (“[a]dverse results in these lawsuits may result in, or even compel, a change in this practice which could result in a loss of revenue for us, which could harm our business.”)).

²³ *Rescuecom Corp.*, 562 F.3d at 125.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

from these infringements, Google created a “Trust and Safety Team,” which monitors trademarks in sponsored links in order to prevent links to counterfeit websites.²⁸

This article considers Google’s profiting from the use of another’s brand in its AdWords program, and the possibility of AdWords having an adverse effect on the function of trademarks. When evaluating whether Google’s profits infringes brand owners’ rights through its use of AdWords, courts have typically applied trademark law.²⁹ This article argues the Google’s AdWords does not, directly, infringe third parties’ trademark rights. Several courts have examined Google’s AdWords, but only two major cases have discussed Google’s AdWords from a functionality standpoint. The Supreme Court should adopt a similar approach as the European Union in addressing any trademark issues with respect to AdWords: finding trademark violations by Google only if a third party’s use of a search term has an adverse effect on the function of a mark and Google knows about this and does not correct it.³⁰ This method is not at odds with the recent decision in *Rosetta Stone* which found the functionality doctrine did not apply in that case.³¹ Other courts addressing Google’s AdWords focus on a potential “likelihood of confusion” and “use” of trademarks as a potential violation. This methodology is unduly burdensome; however, as it focuses individually on each trademark finding Google liable for third parties’ misconduct. Utilizing the functionality test set out by the European Union is a superior method to address trademark disputes because looking mainly to adverse effects on the function of a mark, while still allowing a case-by-case analysis of potential violations, will ensure proper trademark protection and remain loyal to the purpose of trademark law. This article proposes a “nominative functional fair use defense,” as a way for Google to avoid

²⁸ *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 150 (4th Cir. 2012).

²⁹ See for e.g. *Rescuecom Corp.*, 562 F.3d at 125; *Rosetta Stone*, 676 F.3d at 173.

³⁰ *Joined Cases C-236/08, C-237/08 and C-238/08, Google France Google Inc. v. Louis Vuitton Malletier, Google France v. Viaticum Luteciel, Google France v. CNRRH Pierre-Alexis Thonet Bruno Raboin Tiger, a franchisee of Unicis*, 2009.

³¹ *Rosetta Stone, Ltd.*, 732 F. Supp. 2d at 541.

trademark infringement, as it mirrors other fair use defenses to trademark violations. Thus, unless Google has knowledge of and does not remedy third party violations, Google's AdWords cannot infringe trademark rights.

Part II of this article will discuss relevant case law pertaining to Google's AdWords which have utilized either an amalgam of trademark "use" or "likelihood of confusion" which leaves a mess of confusion for potential advertisers. Part III will discuss functionality as analyzed under *Rosetta Stone* and *Google France*. Part IV will explain why adopting a standard similar to that of the European Union's through a nominative functional fair use defense is good form.

II. Relevant legal doctrines

Most of the courts that have addressed Google's AdWords have extremely wide-ranging views.³² Google's "Trust and Safety Team" believed that any disputes over the use of its' AdWords program would likely be resolved between a trademark holder and the advertiser using the mark;³³ however, since Google benefits from the AdWords program, many trademark holders have brought suits against Google pursuant to the Lanham Act.³⁴ The federal trademark statute, the Lanham Act, provides for two main causes of action.³⁵ First, causes of action may be established for uses that would likely cause confusion.³⁶ Second, a cause of action may be made

³² See e.g. *Rosetta Stone Ltd.*, 676 F.3d at 150; *Rescuecom Corp.*, 562 F.3d at 125.

³³ See Advertising Policies: What is Google's AdWords and AdSense Trademark Policy?, Google, <http://AdWords.google.com/support/aw/bin/answer.py?hl=en&answer=6118> (last visited Oct. 27, 2013).

³⁴ See, e.g., *Google, Inc. v. Am. Blind & Wallpaper Factory, Inc.*, No. C 03-5340, 2007 U.S. Dist. LEXIS 32450 (N.D. Cal. Apr. 18, 2007); *Rescuecom Corp.*, 456 F. Supp. 2d 393; *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004).

³⁵ 15 U.S.C. § 1125 (c)(1)(A)(2006).

³⁶ *Id.*

against uses that dilute the value of a famous mark.³⁷ Thus, to establish trademark infringement under Lanham Act, a plaintiff must prove that: (1) it owns a valid mark; (2) defendant used mark in commerce and without plaintiff's authorization; (3) defendant used mark or imitation of it in connection with sale, offering for sale, distribution, or advertising of goods or services; and (4) defendant's use of mark is likely to confuse consumers.³⁸ Many of the cases that have addressed AdWords, or other similar keyword tools, have found potential trademark violations through either "use" or "likelihood of confusion," and have held varying and often conflicting views.³⁹

A. Trademark use

Courts have struggled with whether trademarks as a search keyword constitute the type of "use in commerce" outlawed by the Lanham Act; keyword searches are distinct from traditional trademark "use" as a product identifier.⁴⁰ Case law is unclear regarding Google's practice of selling trademarks as keywords amounting to "trademark use." Those courts that have examined AdWords from a "use" perspective are divided as to how broadly the scope of "trademark use" should be interpreted.⁴¹ Those courts in favor of a broad interpretation usually find liability for trademark infringement, but those courts who favor a traditional interpretation of "trademark use" tend to absolve Google of any liability.⁴² Thus, this section addresses the varying court opinions regarding whether keyword searches can constitute "use in commerce" to violate the

³⁷ *Id.*

³⁸ Lanham Act, § 32(a), 15 U.S.C.A. § 1114(a).

³⁹ *See supra* note 32.

⁴⁰ *See* Roger Colaizzi, A Discussion of Internet-Related Trademark Cases and Trademark Fraud, in *Recent Trends in Trademark Protection: Leading Lawyers on Analyzing Recent Decisions in Trademark Law* 41, 45 (Oct. 1, 2009), available at 2009 WL 3358961.

⁴¹ Stephanie Yu Lim, *Can Google Be Liable for Trademark Infringement? A Look at the "Trademark Use" Requirement As Applied to Google AdWords*, 14 UCLA ENT. L. REV. 265, 266 (2007).

⁴² *Id.*

Lanham Act, and demonstrate the necessity for a clearer standard to evaluate trademark infringement for keyword searches.

For example in *GEICO*, the court utilized a broad definition of trademark use and denied Google's motion to dismiss, finding that the plaintiff adequately alleged trademark use.⁴³ GEICO asserted that when Google sold the rights to link advertising to the plaintiff's trademarks it was using the trademarks in commerce without receiving permission from GEICO.⁴⁴ The court went on to distinguish the facts of this case from the WhenU line of cases in which the alleged "trademark use" was the use of the trademark in the internal computer coding of pop-up software.⁴⁵ The WhenU cases involved software called "SaveNow" which responded to a computer user's "activities by generating relevant pop-up advertisements."⁴⁶ The WhenU cases concluded that such a use did not constitute "trademark use" under the Lanham Act because the pop-up ads did not place the trademarks in question in commerce. The GEICO court found the WhenU cases distinguishable because WhenU did not market the trademarks as keywords to which advertisers could directly purchase rights.⁴⁷ Thus, the court's broad interpretation of "use in commerce" necessitated a finding of liability for trademark infringement due to third party advertisers' ability to purchase trademarks as keywords.

Similarly, in *800-JR Cigar v. GoTo.com*, JR Cigar sued the Internet search engine, GoTo.com and under a broad definition of trademark use found trademark infringement.⁴⁸ GoTo.com sold ads tied to search terms and offered an automated "Search Term Suggestion Tool," very similar to Google's key word search.⁴⁹ JR Cigar argued that GoTo.com violated the

⁴³ *Gov't Employees Ins. Co.*, 330 F. Supp. 2d at 704.

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp. 2d 273, 277 (D.N.J. 2006).

⁴⁹ *Id.*

Lanham Act because it: (1) profited from the unauthorized sale of its trademarks as search terms to GoTo.com's customers; (2) used the JR marks to attract search customers to its site; and (3) created and implemented a scheme to divert Internet users seeking to find “jr cigar” to JR Cigar's competitors and rivals.⁵⁰ The court found that GoTo made “trademark use” of the JR marks in three ways: (1) GoTo traded on the value of the marks by accepting bids from those competitors of JR desiring to pay for prominence in search results; (2) GoTo injected itself into the marketplace by acting as a conduit to steer potential customers away from JR to JR's competitors, ranking its paid advertisers before any “natural” listings in a search results list; and (3) through the “Search Term Suggestion Tool,” GoTo identified those of JR's marks which are effective search terms and marketed them to JR's competitors.⁵¹ Thus, the court’s broad definition of trademark use led to a holding of trademark infringement.

However, in *Rescuecom v. Google*, the court utilized a more traditional definition of trademark use and found no infringement by Google, but was overturned, demonstrating that even within circuits courts varied on what constitutes trademark use. Rescuecom argued that Google's actions amounted to trademark infringement because: (1) defendant attempted to “free-ride” on the good will associated with Rescuecom and its activities caused confusion; (2) defendant's activities lured Internet searchers away and prevented them from reaching plaintiff's website; (3) defendant's activities altered the search results an Internet user receives; and (4) defendant used Rescuecom's trademarks internally as a keyword to trigger the appearance of competitors' advertisements.⁵² The Northern District Court in New York found that Rescuecom’s allegations could not establish that Google's AdWords product infringed

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Rescuecom Corp.*, 562 F.3d at 127.

trademarks because there was no allegation of any “trademark use.”⁵³ The court emphasized that “use” needed to be alleged as a threshold matter and was separate from the “in commerce” or “likelihood of confusion” elements.⁵⁴ Moreover, the court did not find that typing in a trademark in a search engine lured Internet searchers away from the plaintiff’s website.⁵⁵ Any keyword would bring up a both a page showing sponsored links and relevant search results, the plaintiff’s website.⁵⁶ More importantly, the court reasoned that there was no “use” because Rescuecom’s trademark was not in any of the links to competitors and because Google did not affect the “appearance or functionality of plaintiff’s website.”⁵⁷ Finally, the court found that an “internal use” of a trademark did not amount to a “trademark use” because it did not place the mark on any goods, containers, displays or advertisements and because such a use was not visible to the public.⁵⁸ However, the Second Circuit overturned this decision, not addressing a possible Lanham Act violation, but stated that trademarks used as keyword searches did constitute “use in trademark.”⁵⁹ Thus, although the Northern District Court in New York utilized a traditional definition to find no infringement by Google, the Second Circuit overturned this decision finding a trademark use for keyword searches.

Thus, for even those cases that agreed in addressing keyword searches as a possible “use” trademark violation, there are very contrasted outcomes and differing views on what even constitutes a “use” of trademark.⁶⁰ Courts that utilize the traditional definition of use tended to find no violation, while those courts that broaden the scope of trademark use found violation. Currently, though, there is little firm case law and the “use” issue is controversial and

⁵³ *Id.*

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Rescuecom Corp.*, 562 F.3d at 127.

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ *Id.*

compelling.⁶¹ These cases demonstrate the need for national consistency throughout the courts because whether a particular keyword purchase and use is fair competition or is trademark infringement is uncertain because of the range of potential jurisdictions in which a given case may arise.⁶²

B. Likelihood of Confusion

In contrast, some courts have chosen to focus on a “likelihood of confusion” in addressing Google’s AdWords. On the point of likelihood of confusion, however, a general theme seems to have emerged: if the trademarked keyword is not used within the heading, body or URL of the sponsored link or advertisement, there is a decreased likelihood of confusion.⁶³ However, this is not a steadfast rule, courts have disagreed on which factors to apply, and examining potential for trademark violations via “likelihood of confusion” requires a detailed case-by-case analysis, hence, it is an inefficient standard.

In *Google, Inc. v. American Blind & Wallpaper Factory, Inc.* (ABWF) the Northern District Court in California addressed the issue of whether Google's AdWords advertising program infringed ABWF's trademarks by selling them as keywords, and chose to focus on the potential likelihood of confusion.⁶⁴ The court found that ABWF made sufficient allegations of direct infringement by Google.⁶⁵ In coming to its conclusion, the court relied heavily on the

⁶¹ See *supra* note 40.

⁶² *Id.*

⁶³ See e.g. *Gov't Employees Ins. Co.*, 330 F. Supp. 2d at 704 (specifically distinguishing sponsored links that contain the claimed trademark in the heading or text of the advertisement from those that did not reference the mark anywhere in the advertisement); *J.G. Wentworth S.S.C. v. Settlement Funding LLC*, No. 06-0597, 2007 WL 30115 (E.D. Pa. Jan. 4, 2007) (use but no confusion where defendant used the claimed trademarks in meta tags and as a keyword but did not include them in advertisements or links).

⁶⁴ *Google Inc. v. Am. Blind & Wallpaper Factory, Inc.*, 2005 WL 832398 (N.D. Cal. Mar. 30, 2005).

⁶⁵ *Id.*

Ninth Circuit Court's reasoning in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, which addressed the issue of trademark infringement in the context of Internet advertising.⁶⁶ In *Playboy*, when a user entered specific terms into search engines, advertisements keyed to the terms would appear as banner ads running along the top or side of the search-results page.⁶⁷ The list of terms that related to adult-oriented entertainment contained the plaintiff's trademarks: "playboy" and "playmate."⁶⁸ The Ninth Circuit ultimately denied Google's motion for summary judgment as to trademark infringement due to a finding of adequate evidence of initial interest confusion in the appearance of the unlabeled banner ads because they led users to competitor advertisers' web sites.⁶⁹ Finding that the facts in the current case were sufficiently analogous to those in *Playboy*, the court held that ABWF could state sufficient facts to allege a trademark infringement claim.⁷⁰ Thus, the court held Google's AdWords advertising program infringed ABWF's trademarks by selling them as keywords due to the likelihood of confusion.

To further muddy the waters in analyzing AdWords, at least two courts have addressed both violations of trademark via "use" and "likelihood of confusion," finding differently on the latter aspect. First, the court in *800-JR Cigar v. GoTo.com*, also addressed a potential likelihood of confusion, not just the "use" mentioned *supra*.⁷¹ As to the "likelihood of confusion" element, the court applied the ten-part analysis known as the Lapp factors and determined that a likelihood of confusion had in fact, existed.⁷² Second, in *Rescuecom*, addressing the "likelihood of confusion," the court applied a multifactor test set forth in *AMF, Inc. v. Sleekcraft Boats*.⁷³

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ *Am. Blind & Wallpaper Factory, Inc.*, 2005 WL 832398.

⁷⁰ *Id.*

⁷¹ *800-JR Cigar, Inc.*, 437 F. Supp. 2d 273, 277.

⁷² *Id.*

⁷³ *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 n.11 (9th Cir. 1979) (listing the factors as follows: (1) similarity of conflicting marks; (2) proximity of the two companies' products or services; (3) strength of the plaintiff's mark;

This aspect of violation of the Lanham Act was harder for the court to settle due to savvy Internet searchers' unlikelihood of confusion regarding search engine sponsored links.⁷⁴ Consequently, while both *800-JR Cigar* and *Rescuecom* agreed in addressing potential keyword search violations as either a trademark use violation or under likelihood of confusion, the courts did not agree as to the outcome of a potential violation under likelihood of confusion.

Accordingly, these courts addressing AdWords' potential violations of trademark demonstrate the contrasting views presented by the courts. Not only do courts disagree as to whether to apply trademark "use" or "likelihood of confusion," but also, courts differ as to which factors adequately determine whether there is a likelihood of confusion regarding a trademark.⁷⁵ Therefore, these cases strongly demonstrate the need for a clearer standard in evaluating possible trademark infringement.

III. Functionality

Along with the many variations in addressing Google's AdWords, at least two courts have addressed it from a functionality standpoint. Trademarks are different from patents and copyrights because consumers have a continuing interest in protecting trademark owners' exclusive rights in marks while, aside from incentives, consumers would like free access to patented inventions and copyrighted expressions; because of that difference, functionality exists,

(4) marketing channels used by the two companies; (5) degree of care likely to be exercised by purchasers in selecting goods; (6) defendant's intent when selecting the mark; (7) evidence of actual consumer confusion; and (8) likelihood of expansion of product lines.).

⁷⁴ Rachel R. Friedman, *No Confusion Here: Proposing a New Paradigm for the Litigation of Keyword Advertising Trademark Infringement Cases*, 12 VAND. J. ENT. & TECH. L. 355, 371 (2010) (citing *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 n.11 (9th Cir. 1979)).

⁷⁵ See e.g. *800-JR Cigar, Inc.*, 437 F. Supp. 2d 273 at 277 (using the Lapp factors to discern a likelihood of confusion); see also *Rescuecom Corp.*, 562 F.3d at 127 (using factors set out in *Sleekcraft*, see *supra* note 73); see also *infra* Part III's discussion of *Rosetta Stone*.

and there may be more leeway to allow Google to proceed with its AdWords and keyword searches without infringing upon intellectual property rights. Although this attribution of trademark law differentiates it from the other types of patent law, until recently, courts have not focused on functionality in discussing Google's AdWords campaign or other similar trademark issues. The two main cases that address functionality are seemingly different, but can be reconciled in order to provide a clear standard to evaluate potential trademark violations for AdWords.

The first case that addresses functionality is *Rosetta Stone*. Rosetta Stone brought a claim of trademark infringement under the Lanham Act against Google.⁷⁶ Rosetta Stone is a business that marketed language-learning software under the brand name "Rosetta Stone" and had several other registered marks in connection with its' business.⁷⁷ In 2009, after developing technology to check linked websites to determine the validity of trademarks, Google implemented a policy to permit the use of trademarks in advertising text in four situations.⁷⁸ Rosetta Stone alleged that this policy was causing searchers to purchase counterfeit versions of their products and lead to consumer confusion.⁷⁹ Accordingly, Rosetta Stone asserted several claims against Google: (1) direct trademark infringement under the Lanham Act; (2) contributory trademark infringement; (3) vicarious trademark infringement; (4) trademark dilution; and (5) unjust enrichment.⁸⁰ The district court held "[n]otwithstanding a favorable finding for Google under the relevant infringement elements, the functionality doctrine protect[d]

⁷⁶ *Rosetta Stone Ltd.*, 676 F.3d at 150.

⁷⁷ *Id.*

⁷⁸ *Id.* at 151-52. The four situations include: (1) the sponsor is a reseller of a genuine trademarked product; (2) the sponsor makes or sells component parts for a trademarked product; (3) the sponsor offers compatible parts or goods for use with the trademarked product; or (4) the sponsor provides information about or reviews a trademarked product.

⁷⁹ *Id.* at 150.

⁸⁰ *Id.*

Google's use of the Rosetta Stone Marks as keyword triggers.”⁸¹ The functionality doctrine features protection under trademark law, if trademarked keywords are functional they may not receive trademark protection. A product feature is functional, “if it is essential to the use or purpose of the article or if it affects the cost or quality of the article.”⁸² The court also found AdWords’ “keywords ha[d] an essential indexing function because they enable[d] Google to readily identify in its databases relevant information in response to a web user's query.”⁸³ Further, the court stated, “the keywords affect the cost and quality of Google's AdWords program because absent third party advertisers' ability to bid on trademarked terms as keyword triggers, Google would be required to create an alternative system for displaying paid advertisements on its website.”⁸⁴ The court stated that altering or removing the AdWords program would be “potentially more costly and less effective in generating relevant advertisements.”⁸⁵ Therefore, the court held that Google’s use of trademarked keywords was a functional part of Google's product, and therefore the functionality doctrine prevented trademark infringement.⁸⁶

However, the appellate court in *Rosetta Stone* overturned the district court’s finding as to functionality. Stating that functionality developed as a way to preserve the distinction between the realms of trademark and patent law, the appellate court took issue with the district court opinion stating that:

The district court did not conclude, nor could it, that Rosetta Stone's marks were functional product features or that Rosetta Stone's *own use* of this phrase was somehow functional. Instead,

⁸¹ *Rosetta Stone Ltd.*, 676 F.3d at 150.

⁸² *Id.* at 545 citing *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 32 (2001).

⁸³ *Id.* at 545.

⁸⁴ *Id.*

⁸⁵ *Rosetta Stone Ltd.*, 730 F. Supp. 2d at 545.

⁸⁶ *Id.* at 540.

the district court concluded that trademarked keywords—be it ROSETTA STONE or any other mark—are “functional” when entered into Google's AdWords program . . . The functionality doctrine simply does not apply in these circumstances. The functionality analysis below was focused on whether Rosetta Stone's mark made *Google's* product more useful, neglecting to consider whether the mark was *functional as Rosetta Stone used it*. Rosetta Stone uses its registered mark as a classic source identifier in connection with its language learning products. Clearly, there is nothing functional about Rosetta Stone's use of its own mark; use of the words “Rosetta Stone” is not essential for the functioning of its language-learning products, which would operate no differently if Rosetta Stone had branded its product “SPHINX” instead of ROSETTA STONE.⁸⁷

Thus, the appellate court overturned the district court opinion in *Rosetta Stone* finding that the functionality doctrine cannot be a defense for Google from trademark infringement because the district court's analysis was focused on making Google's product more useful not whether the mark was functional as Rosetta Stone utilized it.

Second, the European Court of Justice addressed Google's AdWords from a unique functionality standpoint in issuing a major opinion in 2010.⁸⁸ First, the court held that Google

⁸⁷ *Id.*

⁸⁸ Joined Cases C-236/08, C-237/08 and C-238/08, *Google France Google Inc. v. Louis Vuitton Malletier, Google France v. Viaticum Luteciel, Google France v. CNRRH Pierre-Alexis Thonet Bruno Raboin Tiger, a franchisee of Unicis*, 2009.

was not “involved in use [of a mark] in the course of trade.”⁸⁹ Secondly, the court held that the key-word buying advertiser, is “involved in use” of the mark “in the course of trade” and “in relation to goods or services.”⁹⁰ Finally, for advertisers to be liable for trademark infringement, their use of a mark must have an adverse effect on one or more of the essential functions of the mark.⁹¹ So, with respect to “function of indicating origin,” the adverse effect depends upon the exact presentation made to the searcher, or how clear the advertisement is regarding its sponsor evaluated on a case-by-case basis.⁹² The court expounded upon this test stating:

In the case where a third party's ad suggests that there is an economic link between that third party and the proprietor of the trade mark, the conclusion must be that there is an adverse effect on the function of indicating origin. In the case where the ad, while not suggesting the existence of an economic link, is vague to such an extent on the origin of the goods or services at issue that normally informed and reasonably attentive internet users are unable to determine, on the basis of the advertising link and the commercial message attached thereto, whether the advertiser is a third party vis-à-vis the proprietor of the trade mark or, on the contrary, economically linked to that proprietor, the conclusion

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ *Id.*

⁹² *Id.*

must also be that there is an adverse effect on that function of the trade mark.⁹³

In specifically addressing Google’s AdWords campaign, the court held that there was not an adverse effect on the “advertising function” of the marks because the listing for the mark’s proprietor would appear unaltered high in the relevant search results presented to the searcher.⁹⁴ Further, an advertiser who bought a keyword in connection with a keyword such as “copy” or “imitation,” and then used the resulting advertising to sell the same type of merchandise as offered under that mark was acting illegally.⁹⁵ But, Google was not acting illicitly because it was not “involved in using” the mark.⁹⁶ Further, the court held that Google could not be held liable for the actions of advertisers who used its keyword service unless Google was found to have “played an active role” in the content of the advertisement or, if Google was aware of the unlawful nature of the advertiser’s activities and failed to “act expeditiously to remove or to disable access to the data concerned.”⁹⁷ Therefore, Google was protected from infringement violations because it was not involved in the use of trademarks, and could only be found liable if it knew a third party advertiser was using a mark which resulted in an adverse effect on one of the mark’s essential functions.

Although seemingly different, *Google France* is not at odds with *Rosetta Stone*. Rather, it provides a clearer standard to identify trademark violations than those cases that discuss “use” and “likelihood of confusion.” More specifically, the numerous counterfeit products sold in *Rosetta Stone*, is exactly the type of behavior that *Google France* makes illicit and seeks to

⁹³ See *supra* note 88.

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ *Id.*

⁹⁷ See *supra* note 88.

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provide indirect liability for Google. *Google France* does not propose that Google should be afforded the functionality doctrine as a way to avoid trademark violation, which is what *Rosetta Stone* specifically rejects, but rather sets out the standard that courts should look to any adverse effect on the function and purpose of a trademark by a *third party advertiser*, and Google can only be indirectly liable if it knew of this infringement and did nothing to correct it. Therefore, *Rosetta Stone* and *Google France* are easily reconciled in order to provide a clear standard to evaluate potential trademark violations for AdWords.

IV. Implementing the European Union's test to fit American laws as a defense

Google France has provided the clearest and best standard to determine trademark violations through AdWords, and would best be implemented in the United States as a nominative functional fair use defense. Here, there is no question by either the European Union court or the court in *Rosetta Stone* that Google uses plaintiff's marks through its AdWords' program.⁹⁸ However, Google should not be responsible for direct violations of trademark and should instead be afforded protection under a "nominative functional fair use defense," as Google only allows third parties to use trademarks as needed to identify their products. Section A first addresses why a nominative functional fair use defense squarely fits into American jurisprudence. Section B addresses a nominative functional fair use defense's positive effects on the economy by discussing: competition, searcher sophistication, and product proximity as it relates to Google's AdWords. Conforming to established American law and providing positive effects on competition demonstrate that a nominative functional fair use defense is the best way to address possible trademark infringements by AdWords.

⁹⁸ *Id.*

A. Nominative Functional Fair Use Defense and American Jurisprudence

A nominative functional fair use defense fits with already established American law. Fair use allows advertisers to utilize other's marks in a non-trademark sense. Nominative fair use provides a three-pronged test, which allows parties to use other's trademarks for purely descriptive purposes, or to demonstrate product attributions. Functionality distinguished trademark from patent law by allowing third parties to utilize other's marks in order to protect competition. Thus, instituting a nominative functional fair use defense properly affords Google's AdWords protection against potential trademark violations.

A *fair use* defense can be easily applied to AdWords. The traditional fair use defense is an affirmative defense to trademark infringement, utilized only after a finding that a defendant has used the plaintiff's mark.⁹⁹ Section 115(b)(4) sets out the defense mandating that fair use requires the use of another's trademark in a non-trademark sense, including for purposes of criticism or comparison.¹⁰⁰ A successful fair use defendant either does not use a mark as a trademark, or only uses the mark as needed to identify its own product.¹⁰¹ An example of this is *Volkswagenwerk*, where the Ninth Circuit held that Volkswagen could not prevent an automobile repair shop from using its mark.¹⁰² The court recognized that in "advertising [the repair of Volkswagens, it] would be difficult, if not impossible, for [defendant] to avoid altogether the use of the word 'Volkswagen' or its abbreviation 'VW,' which are the normal

⁹⁹ 15 U.S.C. § 1115.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² *Volkswagenwerk Aktiengesellschaft v. Church*, 411 F.2d 350 (9th Cir.1969).

terms which, to the public at large, signify appellant's cars.”¹⁰³ Similarly, Google’s AdWords only allows third parties to use others’ trademarks as needed to identify their own products, and thus a fair use defense is properly applied.

Similarly, the *nominative* fair use defense is easily applied to AdWords. The Ninth Circuit first enunciated the *nominative* fair use defense, which allows a person to use the trademark of another as a reference to describe or compare his or her own product, in *New Kids on the Block*.¹⁰⁴ The nominative fair use defense requires: (1) the product or service in question must be one not readily identifiable without use of the trademark; (2) only as much of the mark may be used as is reasonably necessary to identify the product or service; and (3) the user must do nothing in conjunction with the mark that would suggest sponsorship or endorsement by the trademark holder.¹⁰⁵ As to the first and second elements, Google’s AdWords allows third parties to utilize trademarks only for descriptive purposes or to demonstrate product attribute worth. Google only allows third parties to purchase keyword terms as needed to identify its own products. The final element reflects the European Union’s test that finds Google liable only if it knows that a third party is using another’s trademark that negatively affects an essential function of the mark, such as suggesting ownership or sponsorship. Consequently, the three-pronged nominative test is properly applied to Google AdWords.

Further, naming this defense nominative *functional* fair use defense is congruent with settled American jurisprudence and is fitting for AdWords. Trademarks are used typically for four purposes: to identify goods and distinguish them from goods sold by others; to demonstrate that goods bearing a trademark are controlled by a single entity; to demonstrate goods bearing

¹⁰³ *Id.*

¹⁰⁴ *New Kids on the Block v. News Am. Pub., Inc.*, 971 F.2d 302 (9th Cir. 1992) (The court examined a “New Kids on the Block survey” crafted by the defendant and held that there was no way to formulate a survey about New Kids on the Block without using its name.).

¹⁰⁵ *Id.*

the same trademark are of equal quality; and for marketing.¹⁰⁶ A unique distinction of trademark law is the functionality doctrine.¹⁰⁷ This doctrine prevents manufacturers from protecting specific features of a product by means of trademark law, and contains two branches: utilitarian functionality¹⁰⁸ and aesthetic¹⁰⁹ functionality.¹¹⁰ The rationale for the functionality doctrine was interest in free competition.¹¹¹ For example, if there is demand for an item's function, then allocating trademark status would "confer an improper monopoly on a needed configuration or structure."¹¹² Moreover, "the purpose of the rule precluding trademark significance for functional features is to prevent the grant of a perpetual monopoly to features which cannot be patented."¹¹³ Looking only to this individual section of the law, "one could ascribe to the patent laws protection of those utilitarian features which Congress has chosen to protect, and to the trademark law protection of fanciful or arbitrary features which have achieved recognition as indicia of origin."¹¹⁴ Those trademarks that do not receive patent protection but are still functional are available for third parties to imitate or copy.¹¹⁵ Consequently, "[o]ur natural inclination to disapprove of such conduct must give way to the public policy favoring competition, even by slavish copying, of products not entitled to federal patent protection."¹¹⁶

¹⁰⁶ Jennifer Rudis Deschamp, *Has the Law of Products Liability Spoiled the True Purpose of Trademark Licensing? Analyzing the Responsibility of A Trademark Licensor for Defective Products Bearing Its Mark*, 25 ST. LOUIS U. PUB. L. REV. 247, 249 (2006).

¹⁰⁷ *Id.*

¹⁰⁸ Utilitarian functionality provides grounds to deny trademark protection for useful features.

¹⁰⁹ Aesthetic functionality provides grounds to deny trademark protection to design features intended to make a product more aesthetically pleasing and commercially desirable.

¹¹⁰ Dan L. Burk, *Cybermarks*, 94 MINN. L. REV. 1375, 1408 (citing Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 7:65 (4th ed. 2007)).

¹¹¹ *Id.*

¹¹² *Id.*

¹¹³ Donald S. Chisum & Michael A. Jacobs, *Understanding Intellectual Property Law* § 5C(2)(c)(v) (2d ed. 1992) (citing *Keene Corp. v. Paraflex Industries, Inc.*, 653 F.2d 822, 824 (3d Cir. 1981)).

¹¹⁴ *Id.* This language is notably similar to *Google France's* "origin of function" standard.

¹¹⁵ *Id.*

¹¹⁶ *Id.*

Thus, affording protection to Google's AdWords from settled functional law provides protection of competition and dissuades monopolization.

Hence, a nominative functional fair use defense fits with already established American law and is easily applicable to AdWords. Fair use provides third party advertisers a way to utilize other's marks in a either a descriptive or comparative way. Nominative fair use provides a three-pronged test, which emulates the standard set out by *Google France*. Functionality allows third parties to utilize other's marks in order to protect competition. Thus, instituting a nominative functional fair use defense properly affords Google's AdWords protection against potential trademark violations, and easily fits within American case law precedent.

B. Nominative Functional Fair Use Defense's positive effects on the Economy

Implementing a nominative functional fair use defense for Google's AdWords and disallowing direct liability for trademark infringement is reasonable because it provides positive effects on the economy. Competition is served by preventing monopolization while still protecting businesses' goodwill. Searchers are sophisticated and not likely confused by AdWords, but in fact are better able to compare products. Products should be allowed close proximity in AdWords, as proximity in physical relation is not only allowed, but occurs frequently, and again, provides for better comparison shopping. Thus, the positive effects on competition, searcher sophistication, and product proximity demonstrate instituting a nominative functional fair use defense is the best way to address AdWords' possible trademark infringements.

From a competition perspective, the rule that trademark law does not give mark owners the right to monopolize their marks applies with even more force on a search engine results page (“SERP”),¹¹⁷ where consumers exert substantial influence over which trademarks they wish to see.¹¹⁸ On the SERP, a brand's goodwill comes not only from the brand's own paid and organic results, but also comes from consumer word-of-mouth like social media. Additionally, in paid searches, consumers exert influence over ads.¹¹⁹ Providing brand owners the legal power to control search results is not in the consumers' best interests, but rather, it demonstrates an effort to monopolize and control the market.¹²⁰ Moreover, many court cases have demonstrated that by looking at the amount of money brand owners have lost from competitive keyword advertising as opposed to the cost of litigation, it simply was not worth it.¹²¹ Furthermore, trademark law does not provide mark owners the right to exclude SERP competition.¹²² Giving absolute control over trademarks on the SERP can stifle competition by erecting barriers to entry. Competitors often¹²³ have the right to use others' trademarks to divert consumer attention to their own products.¹²⁴ Consequently, those parties who argue that Google is infringing trademark rights because they are taking advantage of other brands' goodwill are incorrect.¹²⁵ Brand spillover has always occurred, third parties often take advantage of another companies' goodwill.¹²⁶ This free-rider argument is nothing more than fair competition providing consumers with better market access. Google only created the medium. The advertisers' consumers use the medium in

¹¹⁷ See *supra* note 110.

¹¹⁸ *Id.*

¹¹⁹ *Id.*

¹²⁰ See *supra* note 110.

¹²¹ *Id.*

¹²² *Id.*

¹²³ See e.g. *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968) (The Ninth Circuit allowed a knock-off perfume manufacturer to advertise a comparison with Chanel No.5. Such comparative uses do not confuse consumers. This is nearly identical to other fair use defenses, which allow the use of other trademarks when simply comparing or to indicate a third party advertiser's own brand or product.).

¹²⁴ *Id.*

¹²⁵ *Id.*

¹²⁶ *Id.*

droves because it provides the most relevant answers to their queries.¹²⁷ Thus, the responsible advertiser must follow its consumer to Google. Thus, trademark law's goals are to prevent consumer confusion and encourage competition, which spurs innovation.¹²⁸ The threat of direct liability for keyword-based advertising services chills innovation against the best interests of consumers.¹²⁹ As stated by the Supreme Court in *Samara*: "Competition is deterred, however, not merely by successful suit but by the plausible threat of successful suit."¹³⁰ For Google's AdWords, trademark law should not be used to restrict competition and innovation, especially in the absence of consumer confusion.¹³¹

Turning to the absence of consumer confusion, another reason for adopting a nominative functional fair use defense for Google's AdWords is that online searchers are sophisticated. Consumers often base their purchase decisions on trademarks by using them as quality indicators.¹³² Brands provide value to consumers by reducing search costs; if a consumer recognizes a brand and associates it with good quality, they need look no further.¹³³ Therefore, some have argued that consumers are more likely to shop online because they rely on trademarks as a purchasing guide.¹³⁴ Consumers are reassured that the goods or products will be of the same quality as previously purchased items bearing the same trademark.¹³⁵ Most of the search information provided that addresses online shoppers and Google constituents is obtained by plaintiff's counsel, so inherently most of the studies are skewed and present searchers as

¹²⁷ *Id.*

¹²⁸ *Id.*

¹²⁹ *Id.*

¹³⁰ *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 214 (2000).

¹³¹ *See supra* note 110.

¹³² Jennifer Rudis Deschamp, *Has the Law of Products Liability Spoiled the True Purpose of Trademark Licensing? Analyzing the Responsibility of A Trademark Licensor for Defective Products Bearing Its Mark*, 25 ST. LOUIS U. PUB. L. REV. 247 (2006).

¹³³ WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 168 (2003).

¹³⁴ *See supra* note 100.

¹³⁵ *Id.*

incompetent and easily confused. However, of those few unbiased studies, it has been revealed that searchers are seemingly sophisticated.¹³⁶ For example, consumers deploy many search strategies, including using a well-known brand as a proxy for the class of goods.¹³⁷ This means that although a consumer types in the term “Nike,” they are open to any result that appears including those that come from Adidas. Consumers use search engines to comparison shop, which includes evaluating different brands. Thus, the nominative functional fair use defense should be adopted because consumers are sophisticated enough to distinguish between different brands on the SERP, and “[i]f they see trademarks that overlap, they will adapt and deal with that environment.”¹³⁸

Finally, although some argue that the close proximity of third party advertiser’s to trademark owners’ marks should restrict AdWords, trademark owners frequently and legally pay to appear in close proximity to their competitors in advertisements.¹³⁹ “Physical proximity creates an association between the concepts, but not necessarily an association as to source.”¹⁴⁰ Physical proximity of brands does not confuse the type reasonable and sophisticated consumers who search online, but rather, it is branding that provides customers with the intellect to choose a product. Branding provides economic value to businesses in several ways.¹⁴¹ First, it is a unique way to identify a company and the product quality associated with it, along with the ability to charge a premium price for that quality association.¹⁴² Second, it is more efficient from an

¹³⁶ Eric Goldman, *Newly Released Consumer Survey Indicates that Legal Concerns About Competitive Keyword Advertising Are Overblown*, FORBES.COM (Sept. 12, 2012, 12:25 PM), <http://www.forbes.com/sites/ericgoldman/2012/09/12/newly-released-consumer-survey-indicates-that-legal-concerns-about-competitive-keyword-advertising-are-overblown/>.

¹³⁷ *Id.*

¹³⁸ Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413, 438 (2009).

¹³⁹ Daniel Malachowski, *Search Engine Trade-Marketing: Why Trademark Owners Cannot Monopolize Use of Their Marks in Paid Search*, 22 DEPAUL J. ART, TECH. & INTELL. PROP. L. 369 (2012).

¹⁴⁰ Dan L. Burk, *Cybermarks*, 94 MINN. L. REV. 1375, 1391 (2010).

¹⁴¹ Philip Kotler, *MARKETING MANAGEMENT* 441-49 (7th ed. 1991).

¹⁴² *Id.*

advertising standpoint and as a platform to introduce new products.¹⁴³ Third, it allows for market segmentation, targeting, and product repositioning.¹⁴⁴ Customers who frequent grocery stores recognize that if they are searching for peanut butter, they will likely find all of the brands of peanut butter next to each other on one aisle. If trademark owners can pay to appear next to each other offline, they should be able to do the same online. Thus, the Lanham Act “should not be stretched to cover matters that are typically of no consequence to purchasers.”¹⁴⁵

Thus, implementing a nominative functional fair use defense for Google’s AdWords and disallowing direct liability for trademark infringement is logical because antitrust doctrines and branding demonstrate a nominative functional fair use defense provides better economic policy by providing protection against monopolies while searcher sophistication, and product proximity provide the kind of competitive market that benefits consumer decision making, and is congruent with the American ideology of a capitalist society.

V. Conclusion

Thus, in conclusion, Google’s AdWords does not, directly, infringe third parties’ trademark rights. Although several courts have examined Google’s AdWords, only two major cases have discussed Google’s AdWords from a functionality standpoint. The Supreme Court should adopt a similar approach as the European Union’s approach in addressing any trademark issues with respect to AdWords: finding trademark violations by Google only if a third party’s use of a search term has an adverse effect on the function of a mark and Google knows about this and does not correct it. This method is not at odds with the recent decision in *Rosetta Stone*

¹⁴³ *Id.*

¹⁴⁴ *Id.*

¹⁴⁵ *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33 (2003).

which found the functionality doctrine was not applicable to AdWords. Other courts addressing Google's AdWords focus on a potential "likelihood of confusion" and "use" of trademarks as a potential violation. This methodology is unduly burdensome; however, as it focuses individually on each trademark finding Google liable for third parties' misconduct. Utilizing the functionality test set out by the European Union is a superior method to address trademark disputes because looking mainly to functionality, while still allowing a case-by-case analysis of potential violations, will ensure proper trademark protection. The best way to implement the European Union's standard set out in *Google France* is to adopt a "nominative functional fair use defense" as a way for Google to avoid trademark infringement, as it mirrors other fair use defenses to trademark violations because third party advertisers are only using trademark terms as needed to identify their products. Thus, unless Google has knowledge of and does not remedy third party violations, Google's AdWords cannot infringe trademark rights because it has a nominative functional fair use defense.