

On Appeal Alert

Google's Sale of a Trademark as a Keyword is a "Use In Commerce" That May Constitute Trademark Infringement

Alert

The Second Circuit's decision in *Rescuecom Corp. v. Google Inc.*, 2009 WL 875447 (Apr. 3, 2009) (Leval, J.), is a major new decision on the meaning of "use in commerce" under the Lanham Act. It brings the Second Circuit into harmony with most of the rest of the country after its much-criticized decision in *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2005). *Rescuecom* should have major repercussions on enforcement of trademark rights on the Internet.

The case arose on a motion to dismiss, so the decision dealt with the threshold issue of whether Google's sale of trademarks as keywords under its AdWords and Keyword Suggestion Tool programs constitutes a "use in commerce" on which to premise a claim of trademark infringement. The AdWords program, alleged by *Rescuecom* to constitute 97% of Google's revenue,¹ sells keywords (frequently trademarks) to advertisers that trigger a "sponsored link," either above or to the side of the search results, containing an advertisement and a link to the advertiser's own website.

1-800, an opinion authored by then-Chief Judge Walker in 2005, concerned the use of pop-up ads. Defendant *WhenU* provided free software to computer users that monitored the user's internet activity. As the user typed in a certain word or words, the software would cause a pop-up ad (which was relevant to the typed-in word) to appear. *Avis*, for example, might buy space for a pop-up advertisement; when a user typed certain words into the computer, such as "rental cars" or "Hertz.com," the software would cause the *Avis* pop-up ad to appear. While *Avis* did not "buy" the *Hertz* trademark, it knew that its ad would appear whenever *WhenU* customers typed in a name such as "Hertz.com" on their computers.

The Second Circuit held that this practice did not constitute a "use in commerce" under the Lanham Act's infringement provisions for three reasons: (1) *WhenU*'s pop-up ads did not display the plaintiff's trademark and "have absolutely no tangible effect on the appearance or functionality of the [plaintiff's] website"; (2) the appearance of a pop-up ad resulted from the "happenstance" that "1-800 chose to use a mark similar to its trademark" as its website address; and (3) plaintiff's URL was not the only keyword that could trigger a competitor's pop-up ad — it could also be triggered by an innocuous generic or descriptive term. 414 F.3d at 410.

Believing *Rescuecom*'s case to be on "all fours" with *1-800*, the district court dismissed its complaint. The Second Circuit, however, held that *Rescuecom* "contrasts starkly" with the *1-800* decision because (1) in contrast to *1-800*, where the defendant made no literal use of the plaintiff's trademark, Google was affirmatively recommending and selling to its advertisers the *Rescuecom* trademark; and (2) in contrast to *1-800*, where the defendant did not "use or display," much less sell, trademarks as search terms to its advertisers, Google actually displays, offers, and sells *Rescuecom*'s mark to its advertising customers. 2009 WL 875447 at p. 5.

Rescuecom also addressed two issues that it characterized as misunderstandings of the *1-800* decision. First, it rejected Google's (and amici's) contention that *1-800* had suggested that use of a trademark in a software program's "internal directory" precludes a finding of trademark use. Second, it rejected the argument that the sponsored links were analogous to a retailer's placing its generic store-brand product next to a trademarked product on store shelves in order to induce a customer seeking the trademarked product to buy the generic version. Product

placement, the court held, was not "a magic shield against liability 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." *Id.* at pp. 5-6.

Aside from *Rescuecom's* contribution to trademark law jurisprudence, the opinion is interesting from the perspective of appellate jurisprudence due to the difficult path the Court took to get to its resolution. A basic tenet of the rules governing federal appellate courts is that a precedential decision of one three-judge panel within the Circuit binds subsequent panels. Only a decision of the court en banc, or an intervening decision of the Supreme Court casting doubt on a prior panel decision, permits rejection of the prior decision. E.g., *Consub Delaware LLC v. Schahin Engenharia Limitada*, 543 F.3d 104, 109 (2d Cir. 2008). Neither had occurred with respect to the *1-800* decision.

Rescuecom therefore walked a very thin line: It stated that the recent but much-criticized decision authored by its then-Chief Judge was correct on its facts, but took pains to limit it. What is highly unusual – indeed we have never seen it before – is that the panel added an Appendix longer than the opinion itself that contains a lengthy discussion of the meaning of the phrase "use in commerce" in the Lanham Act. That discussion states that at least one of the rationales of *1-800* concerning the definition of "use in commerce" had followed the "questionable" reasoning of two district courts outside the Second Circuit. Put more bluntly, at least one of the *1-800* panel's rationales for its decision was wrong.

The Appendix states that, although its discussion of "use in commerce" "does not affect the result of this case," "The judges of the *1-800* panel have read this Appendix and have authorized us to state that they agree with it." The Appendix concludes on the odd note that, although not just the unanimous panel but two judges from the *1-800* panel agree with its discussion of "use in commerce,"² it is "dictum and not a binding opinion of the court" and that it would be helpful for Congress "to study and clear up" the issue.

Endnotes

¹ Neither we nor the Second Circuit can vouch for the accuracy of this allegation, though another commentator quoted in an article on the case states that the sale of keyword advertising is a multi-billion-dollar-a-year industry.

² *1-800* was decided by two judges because the third passed away after argument but before the decision was written.

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