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Implications Of Google AdWords Class Actions

Law360, New York (July 30, 2009) -- In an unusual move, perhaps brought on by a recent Second Circuit opinion in the *Rescuecom v. Google*[1] case, two trademark infringement class actions were recently filed in federal court against Google based on its AdWords and Keyword Suggestion Tool programs.

If all the procedural hurdles are cleared and the cases proceed as class actions, the potential damage claims could amount to hundreds of millions of dollars, change the way trademarks are sold for Internet advertising and affect the rights of hundreds of thousands of owners of federally registered U.S. trademarks.

In addition to Google, named in at least one of the actions as defendants are You Tube LLC (a Google company), AOL LLC, Turner Broadcasting System Inc., Rupert Murdoch's My Space Inc. and the Internet Web site conglomerate IAC/InteractiveCorp.[2] The common nexus among these parties is their use of Google's keyword-based advertising program AdWords.

While the two actions filed have different plaintiffs named as class representatives, both were actually filed by the same attorneys in the same court — the U.S. District Court for the Eastern District of Texas, located in Marshall, Texas.

The Eastern District of Texas has been the venue for a number of high-profile intellectual property cases and has commonly been considered a court where cases can be filed and proceed to trial relatively quickly.[3]

However, this timing can vary among cases as a result of the high number of filings in that district over the past few years. U.S. District Judge John Ward is presiding in both actions.

Both actions claim that Google and the other defendants infringe and trade upon the reputation and goodwill of the registered trademarks of the plaintiffs and members of the class.

Specifically, the allegations assert that the acts of defendants in selling to competitors advertising triggered by keywords — that are also federally registered trademarks of the plaintiffs — are uses of the trademarks by the defendants that are likely to result in consumer confusion.

This article seeks to provide a reference tool and discussion points for trademark owners and purchasers of keywords (referred to herein as “Competitors”), as to the potential effect of these two actions on each group’s respective rights.

In seeking to accomplish this, the article first explains Google’s advertising programs and how the Second Circuit’s opinion in *Rescuecom v. Google* likely provided the impetus for the plaintiffs to bring these two class actions.

It then provides an overview of the allegations contained in the complaints, discusses some of the hurdles the plaintiff class members must overcome in these actions — both class action and trademark, and then summarizes some of the potential issues and consequences of the two actions for trademark owners and their Competitors.

Google’s AdWords and Keywords Suggestions Tool Programs

AdWords allows Competitors to purchase preferred advertising space and placement on the Web pages that display Google’s search results. The Competitors’ ads are triggered by “keywords,” which are selected by the advertiser.[4] Under the programs, the keywords can be a generic word (like “blenders”) or a trademark (like “Oster”).

Based on the keywords selected by the Competitor for association with the advertising,

Google's Keywords Suggestions Tool may recommend other keywords, including other registered trademarks, for purchase. Thus, a Competitor can purchase advertising space from Google that is triggered by a keyword consisting of another's trademark.

The display of the Competitor's ad occurs when a Google user uses the keyword as a search term. Google then displays the Competitor's advertisement and Internet link on the user's search results page.

The Competitor's advertisement actually appears in a list separate from the normal search result list and typically under the heading "Sponsored Links" at the top of the search results page or on the right hand side.

The Competitor provides the text that accompanies the Sponsored Link to Google. Generally the owner's trademark does not appear in the Competitor's ad, but some owners have complained that some Competitors' ads do list registered trademarks.

Google is paid by Competitors for the advertising triggered by the keywords and for display of the Competitor's link and advertising content on the search results page.

Google also charges the Competitor a fee based on the number of times that Google users "click" on the Sponsored Link and are directed to the Competitor's Web page. It is these revenue streams that the plaintiffs in the two actions seek to disgorge from Google and the other defendants.

Rescuecom v. Google: The Watershed Opinion

The allegations contained in the complaints in these two actions and their respective theories of liability rely, in large part, on the decision and reasoning of the U.S. Court of Appeals for the Second Circuit's recent opinion in *Rescuecom Corp. v. Google Inc.*[5]

In *Rescuecom*, the Second Circuit held that the plaintiff, *Rescuecom*, had adequately alleged that Google "uses" *Rescuecom*'s mark "in commerce" as required by the Lanham Act by displaying it — and even suggesting it — to potential purchasers of advertisements through the Google AdWords and Keywords Suggestions Tool programs.

The Rescuecom court rejected Google's argument that it never "used" the plaintiff's mark "in commerce" because consumers were not privy to the transaction where Google sold the keywords to Rescuecom's rival. Thus, the Rescuecom court rejected a threshold defense that Google had asserted as a universal bar to such suits.

While the Rescuecom decision is not binding on the federal district court in Texas, and leaves open the issue of likelihood of consumer confusion for the trial court, the timing of these two class actions suggests that the plaintiffs' class counsel viewed the Rescuecom v. Google opinion as providing a basis to press forward with an all-encompassing lawsuit on behalf of all trademark owners.

Whether this strategy will result in large fee awards for class counsel remains to be determined but it certainly raises issues for trademark owners and Competitors.

The Two Class Action Complaints

Plaintiff PFX LLC, which does business as Firepond, brought the first of the class actions. Firepond is a small software company residing in Marshall, Texas, and the class it purports to represent comprises all Texas-based owners of federally registered trademarks.

The plaintiff in the second action, brought just three days after the first, is John Beck Amazing Profits LLC, a small company located in Van Nuys, Calif., that offers educational materials for a real estate investment system.

John Beck purports to represent a much larger class — all U.S.-based owners of federally registered trademarks. Both classes are limited to trademark owners that have a federally registered trademark that Google has sold as a keyword for advertising during the four year period (2005–2009).

Class counsels' rationale for bringing two separate actions consisting of two different but overlapping classes, one for all Texas U.S. trademark holders and one for all U.S. trademark holders, is unclear.

At their core, the two class action complaints' allegations are similar. Both contain detailed allegations concerning the workings of the Google AdWords program.

These descriptions are augmented with allegations that Google's act of allowing Competitors to buy advertising space triggered by "AdWords" (keywords) consisting of a registered trademark is to allow Competitors to intercept and divert consumers who were looking for the trademark owner's Web site or goods.

The complaints posit that Google's purpose is to maximize its advertising revenue by trading on the goodwill associated with the classes' trademarks by allowing Competitors to purchase those trademarks and sometimes even suggesting trademarks for purchase through Google's Keyword Suggestion Tool. The plaintiffs allege that such use is likely to result in consumer confusion.

The plaintiffs in the actions seek to hold Google (and the other named defendants) directly liable for trademark infringement, as well as liable for contributory trademark infringement, inducement of trademark infringement and related claims.

The putative class seeks a declaration and an injunction against any likely confusing use by Google of any of the classes' trademarks as AdWords and keywords. The putative classes also seek money for corrective advertising, actual damages, punitive damages, treble damages, an accounting and disgorgement of defendants' profits, attorneys' fees, interest and costs.

Key Substantive and Procedural Issues in These Purported Class Action Suits

Even if the court entertaining these putative class actions were to follow the Rescucom decision, it would have to resolve several other substantive issues in the classes' favor for the classes to prevail in their claims of direct trademark infringement. At least three significant issues come to mind.

First, a plaintiff in trademark cases must prove that it owns a protectable mark. That is, it must prove that it (and not somebody else) owns the mark and that the mark

functions as an indicator of the source of their goods or services, as opposed to simply describing the product in some way.

Second, it must prove that the contested use (here, the “Sponsored Link” ad triggered by their mark) is likely to cause consumer confusion as to the source of the goods or services.

This, in turn requires a detailed assessment of the marks, the Sponsored Links, the businesses of the mark owner and of the party that placed the Sponsored Link (the Competitor) and their respective consumer groups — all with an eye toward how these factors bear on the likelihood of confusion.

Third, Google (and possibly one or more intervening defendants) could raise a “fair use” defense, claiming, for example, that the individual AdWords and keywords at issue are being used only for nonconfusing comparative advertising or other permissible uses.

An additional issue is implicated in the separate claims that Google is secondarily liable for the infringement of its AdWords purchasers (the Competitors), as opposed to the claims that Google itself infringed.

In these secondary liability claims, the issues are whether Google “intentionally induced” the Competitors to infringe or whether Google continued to display the Sponsor Link after obtaining knowledge that it was being used for infringing purposes.[6]

Assuming the actions go forward, this theory of liability will be hotly contested because it appears that the content of the Sponsored Link — which is likely to be the source of any resulting confusion — is not something that Google currently exerts control over.

Generally, courts assessing this indirect liability theory focus on the extent of control exercised by the defendant over the means of infringement, which in these cases would likely focus on Google’s degree of involvement in the triggering, placement and content of the Sponsor Link ads.[7]

These substantive issues may have procedural repercussions for the putative class as

well. For a case to proceed as a class action, rule 23(c)(1) requires that the district court before whom the cases are pending must “certify” that the case is appropriate to proceed as a class action.

To certify a class, the court must find that all four requirements of rule 23(a) are satisfied and that the case falls into one of the established categories of class actions in rule 23(b). This typically requires a detailed assessment of the types of facts and legal issues that will likely arise in the case.

Rule 23(a)(3)’s “typicality” requirement may prove a substantial, and possible insurmountable, hurdle in this case.

Courts dealing with individual cases of trademark infringement over the decades have been in agreement that the substantive issue listed above — the distinctiveness of the mark that is alleged to be infringed, whether the allegedly infringing ad is likely to cause confusion as to the source of the product, and whether the challenged use is a “fair use” — are all uniquely fact-intensive issues that are to be decided on a case-by-case basis. [8]

It is easy to foresee that these cases will be subject to strong attacks that there cannot, in these circumstances, be any finding that any class members’ claim is “typical” of the claims of the rest of the class. For similar reasons, whether the class is certifiable under rule 23(b)(3) appears to be highly questionable.

Given the extraordinarily fact-intensive assessment required to determine infringement, any attempt to demonstrate that class-wide issues “predominate” over individual issues and that a class action is “superior” to individual suits would face almost insurmountable hurdles.

While not unheard of, trademark class actions are highly unusual. But in one of the few recent decisions concerning whether a trademark infringement suit was suitable for class-wide treatment (coincidentally concerning another aspect of Google’s business), a federal court in Illinois refused to certify a class action because the individual issues outlined above (protectability, likelihood of confusion, possible fair use defenses) were

so staggering that class action treatment would have been unmanageable.[9]

Potential Implications for Registered Trademarks Owners and Competitors

While there is no doubt that these two class actions are highly unusual and subject to substantial procedural hurdles before the court can address the cases on their substantive merits, all registered trademark owners should watch the development of these actions carefully for a number of reasons.

First, these actions could adjudicate the rights of all Texas, or perhaps even all U.S., trademark owners, if a class is successfully certified and the owners do not thereafter opt out.

Certainly, many trademark owners, especially owners of multiple and well-recognized marks, are likely to determine that staying in the class is simply not an option owing to the loss of control over the litigation by virtue of being one of many class members.

Even if the majority of U.S.-based owners of registered trademarks did opt out in the action purporting to be brought on their behalf, that would still leaves thousands (and maybe tens of thousands) of class members.

Of course, for trademark owners who opt in, the lawsuit seeks to obtain a finding of liability and damages on behalf of the entire class. If successful, any damages would then be split between the class members on some equitable basis.

On the other hand, by remaining in the class, those trademark owners run a substantial risk that they would be bound by any final adverse decisions in these cases, which might later preclude enforcement of their trademarks in separate actions against Google or the other defendants based on use of the owners' trademarks in keyword advertising.

As to Competitors, who are purchasers of trademarks through Google's AdWords program and who might also be owners of other trademarks, they might object to the classes' efforts to enjoin Google's use of trademarks in the AdWords program, or

otherwise limit AdWords' use of trademarks as keywords. Those Competitors are certainly likely to want to opt out of the class.

As to all Competitors who purchase trademarks for keyword advertising, they also face the possibility of being named as defendants in future litigation if the class members here succeed against Google for trademark infringement.

Some Competitors, especially those with significant purchasing power, may also attempt to negotiate indemnification provisions into keyword purchasing agreements to minimize this risk.

While the eventual outcome of these two class actions is open to debate and likely will involve intense litigation, the cases could enhance trademark protection for owners, or give Competitors what amounts to a broad license to purchase and use others' trademarks as triggers for keyword advertising.

At the appropriate time, each trademark owner will need to decide whether to undertake its own due diligence analysis to determine how these actions might affect their rights. Similarly, Competitors will need to decide whether to undertake a similar due diligence to determine what, if any, measures to take to minimize risks.

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[1] 562 F.3d 123 (2d Cir. 2009).

[2] The other defendants are alleged to have incorporated the Google AdWords program

into their own Web sites.

[3] According to the Administrative Office of the U.S. Courts' most recent official statistics, as of March 31, 2008, the filing-to-trial period for cases in the Eastern District of Texas averaged about 18 months. See Table C-5, Federal Judicial Caseload Statistics (March 31, 2008), available at www.uscourts.gov/caseload2008/tables/C05Mar08.pdf. The trial settings assigned to more recently filed cases, however, suggest that the filing-to-trial period may be expanding as a result of the number of intellectual property cases filed in the Eastern District over the last few years.

[4] Google states publicly they do not sell keywords, only advertising space triggered by keywords.

[5] 562 F.3d 123 (2d Cir. 2009); See Influential New York Federal Appeals Court Revives Lanham Act Trademark Infringement Suit Against Google's "AdWords" and "Keyword Suggestion Tool" Programs, April 6, 2009, Client Alert, Locke Lord Bissell & Liddell LLP.

[6] See *Inwood Labs. Inc. v. Ives Labs. Inc.*, 456 U.S. 844, 854 (1982) (discussing the elements of a claim of secondary liability under the trademark laws).

[7] See, e.g., *Lockheed Martin Corp. v. Network Solutions Inc.*, 194 F.3d 980, 984-85 (9th Cir. 1999).

[8] See, e.g., *Johnny Blastoff v. Los Angeles Rams Football*, 188 F.3d 427, 436 (7th Cir. 1999) (likelihood of confusion fact-intensive); *Vulcan Golf LLC v. Google Inc.*, 254 F.R.D. 521 (N.D. Ill. 2008) (denying class certification of a trademark suit in part because the defenses, which included a "fair use" defense, were so fact-intensive for each defendant).

[9] See *Vulcan Golf LLC v. Google Inc.*, 254 F.R.D. 521 (N.D. Ill. 2008).

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