

policies of trademark law, as set forth in their respective expert reports, then fundamental fairness dictates that Complaint Counsel be allowed to call Professor Tushnet to address these points in rebuttal. Alternatively, if Respondent intends to limit Mr. Hogan and Professor Landes to testimony that does not contain opinions or conclusions regarding trademark law, then Complaint Counsel proposes that we call Professor Tushnet in our rebuttal case—after the Court has heard Mr. Hogan’s and Professor Landes’s opinions and ruled on their admissibility as appropriate—so that we can pare down Professor Tushnet’s testimony accordingly.

I. BACKGROUND

As his expert report discloses, Mr. Hogan, a practicing lawyer, intends to instruct this Court regarding his erroneous view of the “well-settled principles of trademark law.” Expert Report of Howard S. Hogan ¶ 5, attached as Exhibit A (RX0734). According to Mr. Hogan, “[m]any courts throughout the country have concluded that this use of trademarks as keywords constitutes actionable trademark infringement” as well as “unlawful trademark dilution, false advertising, and unfair competition.” *Id.* ¶ 6. He adds that “[m]any courts also have found that the likely irreparable harm to trademark owners caused by the unauthorized use of their trademarks by third parties as keywords can justify an injunction preventing those third parties from purchasing the trademark owners’ marks as keywords.” *Id.* Not only are Mr. Hogan’s opinions plainly erroneous, they also amount to conclusions of law. His expert report is replete with other legal opinions and conclusions, including analyses of over 40 publicly available court decisions, the majority of which are consent or default judgments and settlement agreements.

According to his expert report, Professor Landes also intends to provide this Court with a primer on the law of trademark protection and enforcement (as well as the economics). Expert Report of William M. Landes ¶ 8, attached as Exhibit B (RX0737). For example, he plans to

describe the types of consumer confusion that give rise to trademark infringement and the types of trademark harm that give rise to dilution under the law. *Id.* ¶¶ 38–39, 42–44, & n.27. He also plans to address how “limiting a trademark owner’s ability to settle trademark litigation raises the costs of trademark protection,” which “are more likely to reflect the full costs of litigating the case to trial.” *Id.* ¶ 48.

The expert reports of Mr. Hogan and Professor Landes confirm Complaint Counsel’s prior concern that Respondent intends to instruct this Court on trademark law principles and policies. In opposing Respondent’s motion for leave to call six expert witnesses at trial, Complaint Counsel pointed out, among other objections, that this Court can interpret federal trademark law without the aid of any expert testimony, and therefore does not need to hear from one—much less four—experts on this subject:

First, the claim that an assessment of the Bidding Agreements requires an understanding of both antitrust and trademark law does not justify additional experts. Indeed, the fact that Respondent offers one such defense here, based in trademark law, does not make this case extraordinary. If anything, the fact that Respondent’s defense is based on trademark law suggests *fewer* experts are needed in this case than in others. Expert testimony on an “area of law” is unnecessary. This Court can interpret federal law without reliance on expert testimony. The Court does not require four experts (or even one) to explain the procompetitive benefits of trademark protection, the fact that confusing uses of a trademark can violate a trademark holder’s rights, or the proper use of surveys in trademark lawsuits.

02/22/17 CC’s Opp. to Resp.’s Mot. to Call Six Expert Witnesses at Trial, at 6.¹

¹ The other two experts that Complaint Counsel have identified as potentially offering opinions on trademark law and policy are Professors Ronald C. Goodstein and Kevin Murphy. CC’s Opp. to Resp.’s Mot. to Call Six Expert Witnesses at Trial at 6 n.2. Neither one is a lawyer by education and training, and both have indicated in their depositions that they are not offering any opinions on the law. *See* Goodstein Dep. at 41:25–42:12, 195:25–198:8, 209:10–210:3, 225:4–19; 243:2–244:8; Murphy Dep. at 4:5–16, 5:5–15, 10:2–18, 18:19–20:6, 23:4–32:8. Complaint Counsel expects them to adhere to their disclaimers at trial.

This Court granted Respondent's motion over Complaint Counsel's objections, noting that "[e]mploying the safety valve is no less justified in the instant case, where the Complaint involves 14 Challenged Agreements that are broadly challenged as both unjustified under trademark law and anticompetitive. Resolution of these issues involves technical areas of both antitrust law and trademark law." 02/22/17 Order Granting Resp.'s Mot. to Permit Resp. to Call Six (6) Expert Witnesses at 4. Based on this Court's ruling, Complaint Counsel retained Professor Tushnet as a rebuttal expert, timely served her expert report on March 8, 2017, and made her available for deposition by Respondent's counsel on March 21, 2017.

Inexplicably, Respondent has waited until now to raise these objections to Professor Tushnet's testimony. Respondent did not need to see Professor Tushnet's proposed demonstratives to discern that her opinions in rebuttal to Mr. Hogan's and Professor Landes's opinions would necessarily address principles and policies of trademark law in order to rebut their own erroneous conclusions regarding the same.

II. ARGUMENT

Complaint Counsel agrees with Respondent that it is generally improper for experts to testify about the law, as Complaint Counsel already pointed out in its Opposition to Respondent's Motion to Call Six Expert Witnesses at Trial. The recent order in *FTC v. Abbvie, Inc.*, No. 14-cv-05151-HB (D. Del. Mar. 27, 2017), attached to Respondent's Trial Brief as Exhibit C, serves as an example of a pretrial ruling that the Commission has sought and obtained in federal court.

Furthermore, *Sheet Metal Workers Local 441 Health & Welfare Plan v. GlaxoSmithKline, PLC (In re Wellbutrin SR Antitrust Litig.)*, cited by Respondent on page 4 of its Trial Brief, is on all fours with the posture of this case. In that case, the plaintiffs sought to

present testimony from two patent law experts. The district court agreed to exclude the testimony of these two patent law experts, explaining:

It is clear that patent law is a complex area that lends itself to expert testimony. However, the ultimate issue in this case is not patent infringement. Rather, the issues litigated at trial will be whether GSK's suit alleging infringement of the '798 patent was objectively baseless. This court cannot simply admit the proposed expert reports and testimony because they relate to patent law....

No. 04-5525, 04-5898 & 05-396, 2010 U.S. Dist. LEXIS 144271, at *16–17 (E.D. Pa. Mar. 31, 2010).

Likewise, the ultimate issue in this case is not trademark infringement (or trademark dilution). Rather, the issue is whether Respondent's Bidding Agreements exceeded the scope of its trademark rights. Under the reasoning of *Wellbutrin*, Respondent does not need to call a practicing lawyer like Mr. Hogan or a law professor like Professor Landes to offer opinions regarding trademark law.

That said, fundamental fairness dictates that Complaint Counsel be allowed to call Professor Tushnet as a rebuttal witness if Respondent intends to call Mr. Hogan and Professor Landes to offer opinions regarding trademark law, and this Court determines in its discretion to admit such opinions.² See 16 C.F.R. § 3.43(d) (“A party is entitled to present its case or defense by sworn oral testimony and documentary evidence, to submit rebuttal evidence, ...”).

² Expert testimony on the law may be appropriate in cases such as this one where, as this Court has held, “[r]esolution of [the] issues involves technical areas of both antitrust law and trademark law.” 02/22/17 Order Granting Respondent's Motion to Permit Respondent to Call Six (6) Expert Witnesses at 4. See, e.g., *Flores v. Ariz.*, 516 F.3d 1140, 1166 (9th Cir. 2008) (finding no error with admission of expert testimony on federal educational funding law) (“In this hearing, which was, in large part, an inquiry into education law and policy, the expert testimony may well have been helpful. It was, in any event, not prejudicial in this bench trial, where there was no danger that a jury might give too much credence to a legal expert.”), *rev'd and remanded on other grounds sub nom. Horne v. Flores*, 557 U.S. 433 (2009); *Nieves-Villanueva v. Soto-Rivera*, 133 F.3d 92, 101 (1st Cir. 1997) (“We can also hypothesize instances in rare, highly complex and technical matters where a trial judge, utilizing limited and controlled mechanisms, and as a

A. Professor Tushnet Should Be Allowed to Rebut Mr. Hogan’s Opinions, Which Consist Entirely of Legal Conclusions

Even a cursory examination of Mr. Hogan’s expert report shows that his opinions consist entirely of legal conclusions, derived from the witness’s own reading of relevant trademark statutes, case law, and secondary legal sources. For example, Mr. Hogan bases his opinion that Respondent had “a common and good faith basis for asserting its claims against the advertisers” on “the portions of the record in this case that [he has] reviewed, *the case law*, scholarship, and studies in this area, and [his] extensive experience bringing and resolving trademark disputes, including disputes related to the use of trademarks as keywords.” Hogan Report ¶ 8 (emphasis added). Moreover, he (wrongly) criticizes Complaint Counsel’s position on Respondent’s keyword-based trademark claims as “not consistent with *trademark law* generally, or *the analysis adopted by many courts* who have considered these types of claims”—also a legal opinion. *Id.* (emphases added).

Similarly, Mr. Hogan’s erroneous opinion that the settlement agreements between Respondent and rival online contact lens retailers are “standard trademark-related settlements” is based on his purported comparison of the terms of those agreements with “injunctions and settlement agreements entered in similar trademark disputes based on the sale and use of trademarks as keywords for paid advertising.” Hogan Report ¶ 9. Based on his comparison of the settlement agreements at issue with remedies ordered in the case law, Mr. Hogan wrongly concludes they “contain terms that are commonly used and accepted in trademark disputes, correlate to remedies issued by courts in trademark disputes, and advance the aims of trademark law and public policy.” *Id.* This is legal analysis through and through.

matter of trial management, permits some testimony seemingly at variance with the general rule.”).

Last but not least, Mr. Hogan offers his perspective as a lawyer that Complaint Counsel's antitrust challenge of Respondent's settlement agreements "would only encourage trademark litigation and frustrate the purpose of settlement." Hogan Report ¶ 10. This too is a legal opinion regarding policies underlying trademark enforcement.

In his deposition, Mr. Hogan confirmed that he intends to offer a number of legal opinions regarding trademark law and policy. ("Q: Is it your legal opinion that the use of trademarks as keywords can give rise to actionable trademark and unfair competition claims? A: It is my opinion. Q: Is it your legal opinion? A: I do not know what you are distinguishing between legal and my opinion.") Hogan Depo. at 54:17–54:23; *see also id.* at 67:3–68:7, 126:14–127:8, 191:21–192:10, attached as Exhibit C (CX 9047).

If Mr. Hogan is allowed to offer legal opinions and conclusions regarding trademark law to this Court, then Professor Tushnet should be permitted to offer legal opinions and conclusions in rebuttal. Certainly, Professor Tushnet should be allowed to testify regarding the fact that the Bidding Agreements at issue in this case are not "traditional" or "commonplace"; nor have courts in keyword bidding cases ordered the incredibly broad restrictions obtained by Respondent through its Bidding Agreements.

B. Professor Tushnet Should Be Allowed to Rebut Any Legal Opinions Offered by Professor Landes

As noted above, there are clearly portions of Professor Landes's expert report that delve into the legal aspects of trademark protection (e.g., legal standards of confusion and dilution). At one point, he erroneously conflates dilution with confusion. Landes Report at 14–15. Setting

aside whether Professor Landes, as an economist, is qualified to offer any legal opinions,³ Professor Tushnet should be permitted to respond to them.

III. CONCLUSION

For the reasons stated above, Respondent's objections to Professor Tushnet's testimony on the ground that they constitute inadmissible legal opinions should be overruled because Professor Tushnet's testimony is strictly in rebuttal to the legal opinions and conclusions offered by Mr. Hogan and Professor Landes. Alternatively, if Respondent intends to limit Mr. Hogan and Professor Landes to testimony that does not contain opinions or conclusions regarding trademark law, then Complaint Counsel proposes that we call Professor Tushnet in our rebuttal case so that we can pare down her testimony to respond more specifically to what Mr. Hogan and Professor Landes actually offer this Court.

Dated: April 24, 2017

Respectfully submitted,

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³ *Cf. Matter of Certain Elec. Devices with Image Processing Sys., Components Thereof, and Associated Software*, No. 337-TA-724, 2011 ITC LEXIS 833, at *6–10, (I.T.C. Mar. 4, 2011) (striking the expert report of Dr. Jerry A. Hausman on patent licensing and exhaustion because it expresses legal conclusions and because Dr. Hausman is not an attorney and is therefore not qualified to give legal opinions).

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EXHIBIT A

**UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION
OFFICE OF ADMINISTRATIVE LAW JUDGES**

In the Matter of)	
)	Docket No. 9372
)	
1-800 Contacts, Inc.,)	
a corporation)	
)	
)	
)	

Expert Report of Howard S. Hogan

February 23, 2017

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I. SUMMARY OF OPINIONS

1. For more than thirteen years, lawyers and academics have been debating the legal status of the use of trademarks in Internet search engines, and trademark owners have steadily developed a body of case law by bringing claims that attempt to apply well-established principles of trademark law and theories of liability to the context of search engine advertising.

2. The trademarks at issue in this lawsuit are the core marks used by 1-800 Contacts to identify its goods and services to consumers. Other companies paid search engines to use 1-800 Contacts' trademarks as keywords, so that when Internet users searched for 1-800 Contacts' marks, the search engine would display not only a list of links to websites that the search engine algorithms identified as most relevant to those marks, but also links to other websites that were in fact paid advertisements, designed to induce Internet users to click on such "sponsored links" rather than the algorithmic search results.

3. Like many other trademark owners, 1-800 Contacts asserted that this conduct infringed and diluted its trademarks and otherwise violated its rights. After asserting these claims through informal demand letters and formal litigation, 1-800 Contacts entered into several settlement agreements with advertisers restricting each company's ability to use the other's trademarks to display keyword advertising on search engines.

4. My understanding is that Complaint Counsel initiated this proceeding to seek a determination that 1-800 Contacts' conduct in asserting these claims and entering these agreements violates the antitrust laws of the United States. Complaint Counsel argues that these settlement agreements restrain "the availability of truthful, non-misleading advertising." Complaint Counsel has also alleged that the settlement agreements "go well beyond prohibiting trademark infringing conduct" and, as such, are "overbroad . . . exceed[ing] the scope of any property right that 1-800

Contacts may have in its trademarks, and they are not reasonably necessary to achieve any procompetitive benefit.”

5. Complaint Counsel’s theory, however, ignores well-settled principles of trademark law, extensive caselaw that makes clear that the use of trademarks as keywords can give rise to actionable trademark and unfair competition claims, and terms and restrictions contained in court orders and private agreements that are analogous to those found in the 1-800 Contacts settlement agreements at issue.

6. 1-800 Contacts is not the first or only trademark owner to assert rights based on the unauthorized sale and use of its trademarks as keywords in search engine advertising. In fact, search engines themselves have explicitly disclosed to investors the risk of litigation over the sale of trademarks as keywords, and have either explicitly or implicitly encouraged trademark owners to raise these issues with the third-party advertisers who paid the search engines to use those marks as keywords. Many courts throughout the country have concluded that this use of trademarks as keywords constitutes actionable trademark infringement or at least creates enough of an issue to prevent summary judgment or judgment on the pleadings. In some cases, courts have also concluded that trademark owners have stated viable claims that this practice constitutes unlawful trademark dilution, false advertising, and unfair competition. Many courts also have found that the likely irreparable harm to trademark owners caused by the unauthorized use of their trademarks by third parties as keywords can justify an injunction preventing those third parties from purchasing the trademark owners’ marks as keywords.

7. I understand that the debate over the legality of this practice continues, but I am aware of the existence of consumer surveys conducted by trademark owners, academics, and even search engines themselves, as well as other evidence that is precisely the sort of evidence that

trademark owners would use—and that courts rely on—to support a finding of trademark infringement and other trademark-related claims. The conditions precedent for trademark infringement and dilution claims, moreover, are well established. There is substantial evidence, of the type on which courts regularly rely, that a significant percentage of the consuming public have difficulty distinguishing between the sponsored links and the organic links that appear in response to a search query. The FTC recognized this confusion when it twice reminded search engines of the obligation to differentiate between advertisements and organic search results. I am also aware of substantial evidence that the appearance of unrelated or competing sponsored links in response to searches for trademarks confuses consumers and creates associations between the trademark owner and the advertiser, often referred to as a “halo effect,” that can blur or tarnish the trademarks at issue.

8. Based on the portions of the record in this case that I have reviewed, the case law, scholarship, and studies in this area, and my extensive experience bringing and resolving trademark disputes, including disputes related to the use of trademarks as keywords, it is my opinion that 1-800 Contacts had, at a minimum, a common and good faith basis for asserting its claims against the advertisers. To the extent that Complaint Counsel argues that trademark owners are required to conduct consumer surveys or engage in detailed textual analysis of sponsored links before asserting trademark claims, that position is not consistent with trademark law generally, or the analysis adopted by many courts who have considered these types of claims.

9. Moreover, having compared the settlement agreements at issue with injunctions and settlement agreements entered in similar trademark disputes based on the sale and use of trademarks as keywords for paid advertising, I conclude that the settlement agreements 1-800 Contacts entered into to resolve its claims with those advertisers are standard trademark-related

settlements. The 1-800 Contacts settlements contain terms that are commonly used and accepted in trademark disputes, correlate to remedies issued by courts in trademark disputes, and advance the aims of trademark law and public policy.

10. I am further aware that Complaint Counsel takes the position that some of the settlement terms are unnecessary and restrict competition. In my view as a trademark lawyer, however, if that position were to be adopted, it would only encourage trademark litigation and frustrate the purpose of settlement: to eliminate risk and conflict and to minimize the use of judicial resources to resolve such disputes.

II. QUALIFICATIONS

11. I am a Partner and Co-Chair of the Fashion, Retail and Consumer Products Group at Gibson, Dunn & Crutcher LLP and based in its Washington, D.C. office. I have a B.S. from Georgetown University and a J.D. from New York University. My curriculum vita is attached as Exhibit A.

12. I have been a practicing lawyer for over 17 years, the vast majority of which has been devoted to litigating trademark and other intellectual property matters. I have authored or co-authored numerous articles, as well as two annually updated chapters of a treatise produced in coordination with the American Intellectual Property Law Association to summarize *Intellectual Property Law in Cyberspace*, and a separate treatise on *Fashion Law and Business: Brands & Retailers*, which was published by the Practising Law Institute and has several chapters devoted to intellectual property legal issues. I am a regular speaker on intellectual property issues, and I have taught other lawyers about these issues, including in forums organized by the United States Intellectual Property Rights Center, Department of Commerce, and Patent and Trademark Office. I am an active member of the International Trademark Association, where I have addressed the

group's annual conference on search engine trademark issues. I have been designated by the *World Trademark Review* as one of the "World's Leading Trademark Professionals."

13. In my work as a trademark lawyer, I advise clients on all aspects of trademark creation, development, and protection. This includes assisting clients with evaluating threats to their trademarks, policing potential infringers, attempts at resolving disputes without resort to formal litigation, as well as formal arbitration and litigation of trademark disputes. I have assisted in resolving hundreds of trademark disputes, both in private negotiations and in arbitrations or formal court proceedings.

14. Over the course of my career, I have represented a wide variety of clients from traditional brick-and-mortar retailers to Internet, social media, and other e-commerce focused companies. Many of my legal matters related to the application of traditional legal principles to new forms of technology, such as issues of Internet jurisdiction, online contracting, and the application of trademark and copyright law to search engines, social media, and online sales. In particular, I have been counsel of record in a number of matters regarding the use of a trademark to trigger Internet advertising, including but not limited to, *Gucci America, Inc. v. Alibaba Group Holding Ltd., et al.* (S.D.N.Y. 2014, 2015); *Gary's Auto Insurance Agency, LLC v. Insurancestep.com, et al.* (D.N.J. 2014); *Rosetta Stone v. Google Inc.* (E.D. Va. 2009); *American Airlines, Inc. v. Yahoo! Inc.* (N.D. Tex. 2008); *American Airlines, Inc. v. Google Inc.* (N.D. Tex. 2007); *Aspen University Inc. v. Warren National University LLC, et al.* (E.D.Va 2007); and *WeightWatchers.Com, Inc. v. Diet Patch, Inc., et al.* (S.D.N.Y. 2004). I have also counseled many more clients and negotiated settlements regarding the use of trademarks as Internet keywords in disputes that did not result in formal litigation. The vast majority of these disputes are confidential and not in the public record.

15. 1-800 Contacts is paying Gibson, Dunn & Crutcher LLP for my time, at a rate of \$1,095 an hour and the time of research staff working on this matter. Gibson, Dunn & Crutcher LLP, of which I am a partner, will in turn compensate me. Neither its compensation nor mine depend on the outcome of this matter.

16. 1-800 Contacts asked me to address the following topics related to the settlement agreements between 1-800 Contacts and several other parties:

- a. How 1-800 Contacts' legal position with respect to the use of its trademarks in search advertising compares to the views of other trademark owners and trademark practitioners.
- b. Whether or not 1-800 Contacts' steps to protect its trademark rights in the context of search advertising are similar to the steps taken by other trademark owners.
- c. Whether or not 1-800 Contacts' settlement agreements protect trademark rights recognized by trademark owners and practitioners.
- d. Whether or not 1-800 Contacts' settlement agreements are substantially similar to other settlements and injunctions used to resolve analogous trademark disputes by other entities.
- e. The likely effect that the Federal Trade Commission's position will have on trademark settlements, if adopted.

III. OVERVIEW OF TRADEMARK LAW

17. The opinions offered in this report are made based on the concepts and principles inherent in trademark law, as developed over time through legislation and case law. An understanding of those opinions requires an understanding of trademark law. The following section thus provides the necessary explanation and support for the opinions contained in this report.

A. Trademarks and The Purposes of Trademark Protection

18. A “trademark” is a designation (*e.g.*, a word, name, symbol, or device, or any combination thereof) used to identify a person’s products and distinguish them from products made or sold by another.¹ A “service mark” is a designation used to identify a person’s services and distinguish them from services of others.² Trademarks and service marks (hereinafter, collectively referred to as “trademarks” or “marks”) signify the source of a particular good or service, which can be the manufacturing source, the selling source, and/or the source of sponsorship or authorization.³ A trademark also signifies that all goods bearing the trademark come from or are controlled by one source, and are of an equal level of quality.⁴ Trademarks are also important commercial communication tools, in that they are key instruments used by manufacturers to advertise goods and services.⁵

¹ 15 U.S.C. § 1127 (definition of “Trademark”: “includes any word, name, symbol, or device, or any combination thereof—(1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown”).

² *Id.* (definition of “Service Mark”: “means any word, name, symbol, or device, or any combination thereof—(1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish the services of one person, including a unique service, from the services of others and to indicate the source of the services, even if that source is unknown.

³ *See, e.g., Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 428 (2003).

⁴ *Manhattan Med. Co. v. Wood*, 108 U.S. 218, 222–23 (1883) (a trademark helps to “notify the public of the origin of the article” and is “both a sign of the quality of the article and an assurance to the public that it is the genuine product of [the trademark holder’s] manufacture”); *Old Dearborn Distrib. Co. v. Seagram-Distillers Corp.*, 299 U.S. 183, 194 (1936) (a trademark “bears as evidence of [the producer’s] origin and of the quality of the commodity for which the brand or trade-mark stands”); *Thomas Pride Mills, Inc. v. Monsanto Co.*, 1967 WL 7489, at *4 (N.D. Ga. June 14, 1967) (“The primary functions of a trademark are to indicate a single source of origin of the articles to which it refers and to offer assurance to ultimate consumer that articles so labeled will conform to quality standards established and, when licensed to others, controlled by the trademark proprietor.”).

⁵ *Moseley*, 537 U.S. at 428.

19. Trademarks are protected under both federal and state law. Federal trademark rights are codified as part of the Lanham Act of 1946, 15 U.S.C. § 1501 *et seq.*, which drew on and updated protections dating back to an earlier 1881 statute.⁶

20. Trademark protection serves two purposes, both of which are relevant to my analysis as discussed further below. The first is to “protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get.”⁷ The second is to ensure that, “where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.”⁸ Trademark law thus serves to protect trademark owners and consumers—to “secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers.”⁹

21. “Preservation of the trademark as a means of identifying the trademark owner’s products, implemented both by the Lanham Act and the common law,” is “grounded in the public policy favoring a free, competitive economy.”¹⁰ Trademarks “make[] effective competition possible in a complex, impersonal marketplace by providing a means through which the consumer

⁶ Trademark Act of 1881, 21 Stat. 502 (Mar. 3, 1881).

⁷ S. Rep. No. 1333, 79th Cong., 2d Sess., 3 (1946).

⁸ *Id.*; see also *Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 213 (1985) (Stevens, J., dissenting) (“Congress enacted the Lanham Act to secure trade-mark owners in the goodwill which they have built up.”) (citation and internal quotation marks omitted).

⁹ *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774 (1992) (quoting *Park ‘N Fly, Inc.*, 469 U.S. at 198); see *Horphag Research Ltd. v. Pellegrini*, 337 F.3d 1036, 1040 (9th Cir. 2003) (“Federal trademark law addresses the dual purposes of infringement law: ensuring that owners of trademarks can benefit from the goodwill associated with their marks and that consumers can distinguish among competing producers.”) (citation and internal quotation marks omitted).

¹⁰ *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968).

can identify products which please him and reward the producer with continued patronage.”¹¹ Trademarks also encourage sellers “to produce goods and services of high quality, for a seller will know that the quality of his good or service will be recognized by consumers through its label and that the seller will therefore be able to charge a price reflecting true quality.”¹² “Without some such method of product identification, informed consumer choice, and hence meaningful competition in quality, could not exist.”¹³

22. The law’s protection of this source-identifying function of trademarks creates competition among manufacturers in the marketplace because it “encourages the production of quality products, and simultaneously discourages those who hope to sell inferior products by capitalizing on a consumer’s inability quickly to evaluate the quality of an item offered for sale.”¹⁴ Trademark law thus serves to protect the “goodwill” built up by a trademark owner through the use of its trademark, which “includes public confidence in the quality of the product and in the

¹¹ *Id.*; *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 163-64 (1995) (“[B]y preventing others from copying a source-identifying mark, [trademarks] ‘reduce[] the customer’s costs of shopping and making purchasing decisions, for it quickly and easily assures a potential customer that *this* item—the item with this mark—is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past.”) (internal citations omitted); William F. Baxter, Statement before the Senate Committee on the Judiciary concerning S. 2428, Sept. 15, 1982, *reprinted in* J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:3 (4th ed. 2004) (“Trademarks play a crucial role in our free market economic system. By identifying the source of goods or services, marks help consumers to identify their expected quality and, hence, assist in identifying goods and services that meet the individual consumer’s expectations. . . . [T]rademark [confusion] . . . if freely permitted, . . . would eventually destroy the incentive of trademark owners to make the investments in quality control, promotion and other activities necessary to establishing strong marks and brand names. It is this result that would have severe anticompetitive consequences.”).

¹² See STEVE SHAVELL, FOUNDATIONS OF ECONOMIC ANALYSIS OF LAW 169 (Harvard Univ. Press 2004).

¹³ *Chanel*, 402 F.2d at 566.

¹⁴ *Qualitex Co.*, 514 U.S. at 164 (alterations, citation, and internal quotation marks omitted); see *Two Pesos*, 505 U.S. at 774 (“trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation”) (citation and quotation marks omitted); *San Francisco Arts & Athletics, Inc. v. U.S. Olympic Comm.*, 483 U.S. 522, 537 (1987) (noting that Congress grants exclusive control of certain words and other trademarks “to ensure that the [owner] receives the benefit of its own efforts so that the [owner] will have an incentive to continue to produce a quality product that, in turn, benefits the public”) (citation omitted).

warranties made on behalf of the product, and the ‘name recognition’ of the product by the public that differentiates that product from others.”¹⁵

B. Trademark Rights

23. “Rights in a trademark are determined by the date of the mark’s first use in commerce. The party who first uses a mark in commerce is said to have priority over other users,”¹⁶ so long as that party’s use of the mark is “deliberate and continuous.”¹⁷ Being first to conceive of the trademark or register the mark is not enough;¹⁸ to acquire ownership rights in the mark, an owner must be the first to make genuine use the mark in connection with its sale of goods or services.¹⁹ A trademark owner is not required to register its trademark on the federal Principal Register in order to establish ownership and priority of use.²⁰

¹⁵ *Premier Dental Prods. Co. v. Darby Dental Supply Co.*, 794 F.2d 850, 853 n.3 (3d Cir. 1986).

¹⁶ *Hana Fin., Inc. v. Hana Bank*, 135 S. Ct. 907, 909 (2015).

¹⁷ *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.*, 495 F.2d 1265, 1271-72 (2d Cir. 1974) (“To prove bona fide usage, the proponent of the trademark must demonstrate that his use of the mark has been deliberate and continuous, not sporadic, casual or transitory.”).

¹⁸ *See Pan Am. World Airways, Inc. v. Panamerican School of Travel, Inc.*, 648 F. Supp. 1026, 1030 (S.D.N.Y. 1986) (“ownership of the exclusive right to use a mark is not dependent upon registration, but rather upon the use of the mark”) (citing *United Drug Co. v. Theodore Rectanus*, 248 U.S. 90 (1918)).

¹⁹ *See Grupo Gigante SA De CV v. Dallo & Co., Inc.*, 391 F.3d 1088, 1093 (9th Cir. 2004) (“Under the principle of first in time equals first in right, priority ordinarily comes with earlier *use* of a mark in commerce. It is ‘not enough to have invented the mark first or even to have registered it first.’”) (citation omitted); *Allard Enters., Inc. v. Adv. Programming Res., Inc.*, 146 F.3d 350, 358 (6th Cir. 1998) (“[T]he exclusive right to a trademark belongs to the one who first uses it in connection with specified goods.”) (quoting *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1265 (5th Cir. 1975)); *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 292 (3d Cir. 1991) (“With respect to ownership of unregistered marks, the first party to adopt a trademark can assert ownership rights, provided it continuously uses it [sic] in commerce.”), *cert. denied*, 502 U.S. 939 (1991).

²⁰ Registration, however, confers certain benefits, including a legal presumption of ownership and the exclusive right to use the mark in connection with the goods and/or services listed in the registration. 15 U.S.C. § 1057(b) (“A certificate of registration of a mark upon the principal register . . . shall be prima facie evidence of the validity of the registered mark and of the registration of the mark, of the owner’s ownership of the mark, and of the owner’s exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the certificate, subject to any conditions or limitations stated in the certificate.”). If the registration has become “incontestable,” then it serves as “conclusive evidence” of “the validity of the registered mark and of the registration of the mark, of the registrant’s ownership of the mark, and of the registrant’s exclusive right to use the registered mark in commerce.” 15 U.S.C. § 1115(b).

24. The owner of a trademark is entitled to the “exclusive” right to use the mark.²¹ This means that “[t]he user who first appropriates the mark obtains an enforceable right to exclude others from using it,”²² as well as to prevent the use, by unauthorized third parties, of a confusingly similar mark.²³

25. If a trademark owner does not “take reasonable efforts to police infringements of his mark,” “the mark is likely to be deemed abandoned, or to become generic or descriptive (and in either event be unprotectable).”²⁴ “The trademark owner who fails to police his mark both shows that he doesn’t really value it very much and creates a situation in which an infringer may have been unaware that he was using a proprietary mark because the mark had drifted into the public domain.”²⁵ Therefore, once acquired, trademark rights may be lost or weakened as a result of the trademark owner’s failure to enforce its marks.²⁶

26. To protect from this loss, trademark owners are required to “police” their marks.²⁷ Trademark owners are encouraged, for example, to regularly research third-party usage of their

²¹ *La Societe Anonyme des Parfums le Galion*, 495 F.2d at 1271 (“Under familiar trademark principles, the right to exclusive use of a trademark derives from its appropriation and subsequent use in the marketplace.”).

²² *Id.*

²³ *See Emergency One, Inc. v. Am. Fire Eagle Engine Co.*, 332 F.3d 264, 267 (4th Cir. 2003) (“The owner of a mark acquires ‘both the right to use a particular mark and the right to prevent others from using the same or a confusingly similar mark.’ Accordingly, trademark ownership confers an exclusive right to use the mark.”) (citation omitted); *Cartier, Inc. v. Three Sheaves Co., Inc.*, 465 F. Supp. 123, 128 (S.D.N.Y. 1979) (“a trademark owner has the right to protection against third parties using a similar mark on related non-competing goods”).

²⁴ *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179 (7th Cir. 1991).

²⁵ *Id.*

²⁶ *See, e.g., Malaco Leaf, AB v. Promotion In Motion, Inc.*, 287 F. Supp. 2d 355, 364-65 (S.D.N.Y. 2003) (“trade dress may become generic, meaning commonly used and not entitled to protection, as a result of the trademark owner’s failure to police it”) (citation and quotation marks omitted); *Bachelier v. Z. Cavaricci, Inc.*, 762 F. Supp. 1070 (S.D.N.Y. 1991) (failure of plaintiff to enforce its mark against third-party users “diminishes the strength of the mark”).

²⁷ *Saul Zaentz Co. v. Wozniak Travel, Inc.*, 627 F. Supp. 2d 1096, 1110-11 (N.D. Cal. 2008) (“a trademark owner has a duty to police its rights against potential infringers”); *U.S. Polo Ass’n, Inc. v. Polo Fashions, Inc.*, No. 84 Civ. 1142 (LBS), 1984 WL 1309, at *15 (S.D.N.Y. Dec. 6, 1984); *see also* Report to Congress, Trademark Litigation Tactics and Federal Government Services to Protect Trademarks and Prevent Counterfeiting (Apr. 27,

marks, or confusingly similar marks, and proactively review trademark registration applications.²⁸

If a trademark owner uncovers unauthorized uses of its marks, the trademark owner must take prompt action to enforce its trademark rights, “or risk losing those rights entirely.”²⁹

27. A trademark owner may be charged with constructive or inquiry notice of a defendant’s infringing activities.³⁰ Trademark owners face the risk that they can be barred from asserting their rights under the equitable doctrine of laches if a reasonably prudent person would have discovered and acted upon the infringing conduct earlier.³¹ Courts across the country have warned trademark owners of the importance of policing their trademarks against infringers lest

2011), https://www.uspto.gov/ip/TMLitigationReport_final_2011April27.pdf (“Trademark owners have a legal right and an affirmative obligation to protect their trademark assets from misuse. If the owner does not proactively police the relevant market and enforce its rights against violators, the strength of the mark, the owner’s ability to exclude others from using the same or similar marks in the marketplace, and the value of the asset all will diminish.”).

²⁸ See, e.g., Report to Congress, *supra* note 27, at 7; International Trademark Association (INTA), *Loss of Trademark Rights* (Mar. 2016), <http://www.inta.org/TrademarkBasics/FactSheets/Pages/LossofTrademarkRightsFactSheet.aspx>.

²⁹ *Standing Stone Media, Inc. v. Indiancountrytoday.com*, 193 F. Supp. 2d 528, 532 (N.D.N.Y. 2002).

³⁰ See *Miller v. Glenn Miller Prods., Inc.*, 454 F.3d 975, 980-81 (9th Cir. 2006) (“knew or should have known” standard allows laches defense to be based on actual or constructive knowledge); *Armco, Inc. v. Armco Burglar Alarm Co.*, 693 F.2d 1155, 1161-62 (5th Cir. 1982) (test is whether plaintiff “knew or should have known”); see also *Chandon Champagne Corp. v. San Marino Wine Corp.*, 335 F.2d 531 (2d Cir. 1964) (plaintiff may be barred from asserting rights when defendant’s conduct has been open and no adequate explanation is offered for plaintiff’s subjective ignorance of defendant’s activities).

³¹ See, e.g., *Tillamook Country Smoker, Inc. v. Tillamook Cty. Creamery Ass’n*, 465 F.3d 1102, 1109 (9th Cir. 2006) (trademark owner barred by laches from enforcing mark where “the two companies were using similar marks on complementary products in the same geographical area” and owner failed to enforce rights earlier); see also *E-Systems, Inc. v. Monitek, Inc.*, 720 F.2d 604, 607 (9th Cir. 1983) (laches barred injunctive relief because plaintiff “ought to have discovered defendant’s use sooner had it been diligently seeking to enforce its mark,” given that the parties “advertised in the same magazines and exhibited at the same trade fairs” and “plaintiff had constructive notice of [defendant’s] claim of ownership” when defendant registered its mark six years before plaintiff filed suit); *Safeway Stores, Inc. v. Safeway Quality Foods, Inc.*, 433 F.2d 99, 103 (7th Cir. 1970) (charging plaintiff with “the information it might have received had due inquiry been made” for the 16 years defendant was using plaintiff’s mark without any knowledge of plaintiff’s use); *Saul Zaentz*, 627 F. Supp. 2d at 1113 (charging plaintiff “with constructive notice of its potential causes of action against the defendant beginning at least as early as 1988,” and deeming plaintiff barred by laches from bringing the claims 18 years later, in 2006).

they risk losing their rights.³² Courts have also warned that failure to police a mark may diminish the strength of the mark even if it does not result in a total loss of rights in the mark,³³ and that proactive efforts by trademark owners to enforce their marks against third-party users will serve to preserve the marks' strength in the marketplace.³⁴ As explained in numerous court decisions, the obligation to enforce trademark rights commences once the trademark owner "receives or should have gathered reliable information establishing the basis for a claim."³⁵

28. This obligation to police extends to policing use on the Internet as well.³⁶ For example, in *Hard Rock Cafe International (USA) Inc. v. Morton*,³⁷ the court found that the defendants had infringed the plaintiff's trademark, yet denied the plaintiff any form of monetary relief because of its acquiescence to the infringement. In particular, evidence showed that the plaintiff was aware of at least 220 Hard Rock-related sites, "all of which [were] borderline embarrassing, and below [plaintiff's] standards,"³⁸ yet failed to take action to address the infringement. The court concluded that the plaintiff "did not have an adequate program of

³² See, e.g., *E. I. Du Pont de Nemours & Co. v. Yoshida Int'l, Inc.*, 393 F. Supp. 502, 512 (E.D.N.Y. 1975) (policing efforts important "to ensure that whatever distinctiveness or exclusivity has been achieved is not lost through neglect, inattention or consent to infringing use").

³³ See, e.g., *Jose Armando Bermudez & Co. v. Bermudez Int'l*, No. 99 Civ. 9346 (AGS), 2000 WL 1225792, at *10 (S.D.N.Y. Aug. 29, 2000) (noting that "failure to police" a mark "may diminish the strength of the mark," but does not necessarily demonstrate that the mark has become generic and not deserving of trademark protection).

³⁴ See *Morningside Grp. Ltd. v. Morningside Capital Grp., L.L.C.*, 182 F.3d 133 (2d Cir. 1999) (observing that successful policing of a mark adds to its strength by preventing weakening of the mark's distinctiveness in the relevant market); *Dictaphone Corp. v. Dictamatic Corp.*, 199 U.S.P.Q. 437 (D. Or. 1978) (same).

³⁵ *Cellularm, Inc. v. Bay Alarm Co.*, No. C-89-3409 DLJ, 1991 WL 332052, at *9 (N.D. Cal. Apr. 11, 1991).

³⁶ See Thomas D. Fortenberry, *Online Trademark Infringement—Specialized Issues of Prevention and Enforcement*, 45 THE ADVOC. (TEXAS) 65 (2008) (noting that trademark owners have "an affirmative duty" to "police the use of their marks on the Internet if the owners hope to hold others liable for infringement").

³⁷ No. 97 Civ. 9483 (RPP), 1999 WL 717995 (S.D.N.Y. Sept. 9, 1999).

³⁸ *Id.* at *16.

trademark control, policing, or due diligence in place regarding third-party use of its trademarks on the Internet.”³⁹

29. Thus, if a senior trademark user (*i.e.*, the first user to adopt and use the mark in commerce) delays in diligently monitoring third-party conduct and enforcing its rights, it risks losing those rights to a junior user (*i.e.*, a later user to adopt and use the mark in commerce) who may acquire a valid trademark in a related field.⁴⁰ This is why it is critical that trademark owners take affirmative steps to protect their marks against infringement by third parties. In particular, a trademark owner is required to “conduct an *effective* policing effort” and, “[a]t the very least, the effort must involve actually contacting the alleged infringer about the use of a trademark.”⁴¹

30. If a senior trademark user fails to monitor third-party conduct in a reasonably diligent fashion or delays in acting to enforce its rights, there is a well-recognized risk that its trademark may be deemed generic.⁴² Indeed, it is well established that once-protectable marks can

³⁹ *Id.* at *17.

⁴⁰ See *Patsy’s Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209, 216-17 (2d Cir. 2003); *Hot Wax, Inc. v. Turtle Wax, Inc.*, 191 F.3d 813, 820 (7th Cir. 1999) (“those who sleep on their rights, lose them”).

⁴¹ *ATM Exp., Inc. v. ATM Exp., Inc.*, Civ. No. 07cv1293-L(RBB), 2009 WL 2973034, at *5 (S.D. Cal. Sept. 11, 2009) (quoting *Grupo Gigante SA de CV*, 391 F.3d at 1102) (quotation marks omitted); see also *Internet Specialties West, Inc. v. Milon-DiGiorgio Enters., Inc.*, 559 F.3d 985, 997 (9th Cir. 2009) (finding that laches applies because “Specialties chose not to contact ISPWest during the 6 years that ISPWest developed its business around its trademark. . . . [T]he larger firm gambled on the smaller firm’s failure, so that it would not need to send a letter and deal with whatever discussion might ensue. . . . [T]he plaintiff cannot simply wait without explanation to see how successful the defendant’s business will be and then ask for an injunction to take away the good will developed by defendant in the interim. In other words, we should not cover the larger firm’s losing bet.”) (citation and internal quotation marks omitted); Report to Congress, *supra* note 27, at 6 (“A trademark owner is not required to object to all unauthorized uses that might conflict However, widespread unauthorized uses may cause the mark to lose its trademark significance altogether and fall into the public domain.”).

⁴² See, e.g., *Hickory Farms, Inc. v. Snackmasters, Inc.*, 500 F. Supp. 2d 789, 800-01 (N.D. Ill. 2007) (considering evidence that plaintiff “allowed competitors to use the terms and that it was no vigilant in enforcing its rights in the registered marks” in ruling that the marks had become generic and unprotectable); *In re Styleclick.com Inc.*, 58 U.S.P.Q.2d (BNA) 1523 (T.T.A.B. 2001) (noting that the term “virtual” as in VIRTUAL FASHION has gone from suggestive to descriptive in a short time because “a year or two is an eternity in computer, or ‘Internet,’ time given the rapid advancement of computers and the Internet into every facet of daily life”); *Continental Airlines, Inc. v. United Air Lines, Inc.*, 53 U.S.P.Q.2d (BNA) 1385 (T.T.A.B. 1999) (use of letter “e” as a prefix for E-TICKET “has become a common descriptive term for the electronic abbreviation for electronic”).

lose their distinctive status as their use becomes more universal, including through the Internet and including as a result of the trademark owner's failure to police the mark.⁴³ Once a mark has "entered the public domain beyond recall, policing is of no consequence to a resolution of whether a mark is generic" and, thus, undeserving of trademark protection.⁴⁴

31. For these reasons, trademark lawyers regularly advise clients to monitor their trademarks and to make diligent efforts to protect their marks from infringement and other misuse.⁴⁵ To that end, trademark lawyers advise clients to enforce their trademark rights through various legal means, including by (i) sending demand letters; (ii) initiating opposition or cancellation proceedings with administrative entities; (iii) initiating litigation in the court system; and (iv) entering into licensing, coexistence, or other forms of dispute resolution agreements with third parties, depending on the circumstances.⁴⁶

C. Legal Protections Related to Trademarks

32. U.S. trademark law creates protections for trademark owners, including protection from infringement, dilution, false representations, false advertising, and unfair competition. This

⁴³ See, e.g., *Am. Online, Inc. v. AT&T Corp.*, 243 F.3d 812, 816-17 (4th Cir. 2001) (jury question of whether the phrase "Buddy List," as used in reference to an AOL user's list of people selected for "instant messaging," has become generic through use by AOL's competitors); *King-Seely Thermos Co. v. Aladdin Indus.*, 321 F.2d 577, 579 (2d Cir. 1963) (genericide of "thermos"); *Bayer Co. v. United Drug Co.*, 272 F. 505 (S.D.N.Y. 1921) (genericide of "aspirin").

⁴⁴ *Murphy Door Bed Co., Inc. v. Interior Sleep Sys., Inc.*, 874 F.2d 95, 101 (2d Cir. 1989) (internal quotation marks and citation omitted).

⁴⁵ See Oliver Herzfeld, *Failure to Enforce Trademarks: If You Snooze, Do you Lose?*, Forbes (Feb. 28, 2013), <http://www.forbes.com/sites/oliverherzfeld/2013/02/28/failure-to-enforce-trademarks-if-you-snooze-do-you-lose/#75d175777189>; USPTO, *Public Meeting: Continuing Legal Education Programs on Trademark Policing Measures and Tactics* (Nov. 29, 2011), <https://www.uspto.gov/trademark/laws-regulations/public-meeting-continuing-legal-education-programs-trademark-policing> ("Participants stated that both bar associations and Intellectual Property (IP) associations to the IP bar currently provide continuing legal education focused on trademark policing measures and tactics to their members.").

⁴⁶ See INTA, *supra* note 28.

section provides an overview of key federal trademark and unfair competition laws, in order to explain the underpinnings for my opinions contained herein.

1. Trademark Infringement

33. Trademark infringement occurs when someone other than the trademark owner uses the trademark in commerce in a manner that is likely to cause consumer confusion about a product's or service's source, affiliation, connection, or sponsorship. Consumer confusion does not have to occur before a consumer purchases the product or service to be actionable.⁴⁷ Trademark infringement is a cause of action under federal law—15 U.S.C. § 1114 (Section 32 of the Lanham Act) for marks that have been formally registered with the U.S. Patent and Trademark Office, and 15 U.S.C. § 1125(a) (Section 43(a) of the Lanham Act), which provides a parallel cause of action whether a mark is registered or not.

34. To succeed on a trademark infringement claim under federal law, a plaintiff must prove (i) that it has a protectable mark, and (ii) that the defendant used the mark without the plaintiff's consent in a manner that is likely to cause consumer confusion.⁴⁸

⁴⁷ *Infra* Part III(C)(1)(iii).

⁴⁸ See *Cross Commerce Media, Inc. v. Collective, Inc.*, 841 F.3d 155, 168 (2d Cir. 2016) (“In this Circuit, claims for infringement must be analyzed under a two-prong test that looks first to whether the allegedly infringed mark is entitled to protection, and second to whether use of the allegedly infringing mark is likely to cause consumers confusion as to the origin or sponsorship of the products to which it is attached.”) (citations and internal quotation marks omitted); *FN Herstal SA v. Clyde Armory Inc.*, 838 F.3d 1071, 1080 (11th Cir. 2016) (same); *Amazing Spaces, Inc. v. Metro Mini Storage*, 608 F.3d 225, 235–36 (5th Cir. 2010) (same); *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 102 (2d Cir. 2010) (same); *Packman v. Chicago Tribune Co.*, 267 F.3d 628, 638 (7th Cir. 2001) (same). Different Circuits break up the elements of an infringement claim in different ways, see, e.g., *Utah Lighthouse Ministry v. Found. for Apologetic Info. & Research*, 527 F.3d 1045, 1050 (10th Cir. 2008) (noting that the three elements of trademark infringement are (1) the mark is protectable; (2) defendant used the trademark in connection with goods or services; and (3) that use is likely to cause confusion); *People for Ethical Treatment of Animals v. Doughney*, 263 F.3d 359, 364 (4th Cir. 2001) (noting that in a trademark infringement claim, plaintiff must prove “(1) that it possesses a mark; (2) that the defendant used the mark; (3) that the defendant’s use of the mark occurred ‘in commerce’; (4) that the defendant used the mark ‘in connection with the sale, offering for sale, distribution, or advertising’ of goods or services; and (5) that the defendant used the mark in a manner likely to confuse consumers”) (citations omitted), but they essentially all boil down to the same two “basic elements” of protectability and likelihood of confusion. *S. Cal. Darts Ass’n v. Zaffina*, 762 F.3d 921, 929 (9th

i. A Protectable Mark

35. For a trademark to be protectable, it must be “distinctive.” A trademark’s distinctiveness measures the strength of its association in the public mind with the mark’s owner. Trademark distinctiveness is generally measured on a spectrum from least distinctive to most distinctive: (i) generic terms; (ii) descriptive terms; (iii) suggestive terms; and (iv) arbitrary or fanciful terms.⁴⁹ A generic term is the common name for the good or service in connection with which it is used (*e.g.*, “washing machine” when used in connection with a washing machine) and can never be a protectable trademark.⁵⁰ By contrast, suggestive, arbitrary or fanciful terms are automatically regarded as “inherently distinctive” and capable of being protected.⁵¹ A fanciful trademark is invented for the sole purpose of functioning as a trademark (*e.g.*, EXXON[®] and KODAK[®]);⁵² an arbitrary trademark has a common meaning, but the meaning is unrelated to the goods or services in connection with the mark’s use (*e.g.*, APPLE[®] for computers);⁵³ and a suggestive trademark tends to indicate, but does not describe, the nature, quality, or a characteristic

Cir. 2014) (referring to these two “basic elements” of trademark infringement, but noting that the first element can be broken into sub-parts that test for the mark’s protectability and the plaintiff’s ownership of the mark).

⁴⁹ See *Abercrombie & Fitch Co. v. Hunting World*, 537 F.2d 4 (2d Cir. 1976).

⁵⁰ *Heroes, Inc. v. Boomer Esiason Hero’s Found., Inc.*, No. CIV. A. 96-1260 (TAF), 1997 WL 335807, at *2 (D.D.C. June 6, 1997) (“[A] generic term refers to ‘the genus of which the particular product is a species.’ For example, washing machine is a generic term; MAYTAG is a trademark for a particular brand of washing machine. Because the generic name of a product or service cannot identify its source, generic terms may not be registered as trademarks or service marks.”) (quoting *Park ‘N Fly, Inc.*, 469 U.S. at 194).

⁵¹ *George & Co. LLC v. Imagination Entm’t Ltd.*, 575 F.3d 383, 394 (4th Cir. 2009).

⁵² *Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 464 (4th Cir. 1996) (“Fanciful marks are, in essence, made-up words expressly coined for serving as a trademark. Some examples of fanciful marks are Clorox[®], Kodak[®], Polaroid[®], and Exxon[®].”); *Champions Golf Club, Inc. v. Champions Golf Club, Inc.*, 78 F.3d 1111, 1117 (6th Cir. 1996) (“‘A “fanciful” mark is a combination of letters or other symbols signifying nothing other than the product or service to which the mark has been assigned,’ such as EXXON or KODAK.”) (citation omitted).

⁵³ *George & Co.*, 575 F.3d at 394 (“Arbitrary marks . . . typically involve common words that have no connection with the actual product, as they do not suggest or describe any quality, ingredient, or characteristic, so the mark can be viewed as arbitrarily assigned.”) (citation and internal quotation marks omitted); *Flynn v. AK Peters, Ltd.*, 377 F.3d 13, 19 (1st Cir. 2004) (“Apple” arbitrary when used in connection with computers).

of the goods or services in connection with its use (*e.g.*, COPPERTONE® sun tan lotion).⁵⁴ Courts have previously ruled that the 1-800 CONTACTS® mark is “suggestive” and thus, “inherently distinctive.”⁵⁵

36. A descriptive term is capable of being protected if it acquires distinctiveness through “secondary meaning”—*i.e.*, if consumers associate the term not only with the original, or “primary” dictionary meaning, but also as an indicator of a single commercial source.⁵⁶ Thus, for designations that are not inherently distinctive, distinctiveness must be acquired in the marketplace in order for the designation to be protectable. Secondary meaning can be shown in various ways, including through direct evidence (*e.g.*, trademark surveys and direct consumer testimony) and/or circumstantial evidence (*e.g.*, sales volume, number of customers, length of time used, exclusivity of use, manner of use, and the amount and manner of advertising and promotion that would have

⁵⁴ *George & Co.*, 575 F.3d at 394 (“Suggestive marks . . . do not describe a product’s features but merely suggest them. In other words, the exercise of some imagination is required to associate a suggestive mark with the product.”); *Sara Lee*, 81 F.3d at 464 (examples of suggestive marks include “Coppertone®, Orange Crush®, and Playboy®”).

⁵⁵ *1-800 Contacts, Inc. v. WhenU.com*, 309 F. Supp. 2d 467, 496 (S.D.N.Y. 2003) (“Plaintiff’s 1–800 CONTACTS mark is clearly suggestive since, although it may take some imagination to grasp that what Plaintiff markets is contact lenses (as opposed to electrical contacts or business contacts), the mark suggests Plaintiff’s product. Thus, the Court finds that since Plaintiff’s mark is suggestive, it is inherently distinctive . . .”), *rev’d on other grounds*, 414 F.3d 400 (2d Cir. 2005).

⁵⁶ *Sara Lee*, 81 F.3d at 464 (noting that “secondary meaning” exists when, “in the minds of the public, the primary significance of a product feature or term is to identify the source of the product rather than the product itself”); *Perini Corp. v. Perini Constr., Inc.*, 915 F.2d 121, 125 (4th Cir. 1990) (“Secondary meaning is the consuming public’s understanding that the mark, when used in context, refers, not to what the descriptive word ordinarily describes, but to the particular business that the mark is meant to identify.”).

exposed consumers to the mark).⁵⁷ Examples of acquired distinctiveness marks include AMERICAN AIRLINES[®] and KENTUCKY FRIED CHICKEN[®].⁵⁸

ii. Likelihood of Confusion

37. Plaintiffs in trademark infringement cases bear the burden of proving that the defendant's use of a mark creates a likelihood of confusion about the origin of the defendant's goods or services.⁵⁹

38. Federal courts across the country utilize multifactor tests to aid in the likelihood of confusion analysis. While the tests vary slightly among the 13 federal circuits, each test generally includes some iteration of the following non-exhaustive factors (the first five being the ones courts in all circuits examine in a trademark infringement action, and the last three being the most common additional factors that courts will consider):⁶⁰

⁵⁷ See *Cont'l Lab. Prods., Inc. v. Medax Int'l, Inc.*, 114 F. Supp. 2d 992, 999-1000 (S.D. Cal. 2000); see also *adidas Am., Inc. v. Skechers USA, Inc.*, 149 F. Supp. 3d 1222, 1237 (D. Or. 2016) ("[D]irect survey evidence of purchaser perception is not required" to successfully demonstrate secondary meaning.) (quoting *Art Attacks Ink, LLC v. MGA Entm't Inc.*, 581 F.3d 1138, 1145-46 (9th Cir. 2009)); *Bretford Mfg., Inc. v. Smith Sys. Mfg. Co.*, 116 F. Supp. 2d 951, 956 n.7 (N.D. Ill. 2000) (noting that a plaintiff need not provide a consumer survey to establish inherent distinctiveness or secondary meaning).

⁵⁸ *OBX-Stock, Inc. v. Bicast, Inc.*, 558 F.3d 334, 340 (4th Cir. 2009) ("KENTUCKY fried chicken and AMERICAN airlines are geographically descriptive marks that have established secondary meaning in consumers' minds, causing consumers to recognize a brand or source of fried chicken or air travel, rather than the places, Kentucky and America.").

⁵⁹ *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 124 (2004) ("a plaintiff claiming infringement of an incontestable mark must show likelihood of consumer confusion as part of the prima facie case, while the defendant has no independent burden to negate the likelihood of any confusion") (internal citation omitted).

⁶⁰ First Circuit: *I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 43 (1st Cir. 1998).
Second Circuit: *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961).
Third Circuit: *Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460, 462-63 (3d Cir. 1983).
Fourth Circuit: *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1527 (4th Cir. 1984).
Fifth Circuit: *Roto-Rooter Corp. v. O'Neal*, 513 F.2d 44, 45 (5th Cir. 1975).
Sixth Circuit: *Frisch's Rests., Inc. v. Elby's Big Boy*, 670 F.2d 642, 648 (6th Cir. 1982).
Seventh Circuit: *Helene Curtis Indus., Inc. v. Church & Dwight Co.*, 560 F.2d 1325, 1330 (7th Cir. 1977).
Eighth Circuit: *SquirtCo v. Seven-Up Co.*, 628 F.2d 1086, 1091 (8th Cir. 1980).
Ninth Circuit: *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979).
Tenth Circuit: *Sally Beauty Co. v. Beautyco, Inc.*, 304 F.3d 964, 972 (10th Cir. 2002).
Eleventh Circuit: *Alliance Metals, Inc. v. Hinely Indus., Inc.*, 222 F.3d 895, 907 (11th Cir. 2000).
D.C. Circuit: *Basile, S.p.A. v. Basile*, 899 F.2d 35, 37 (D.C. Cir. 1990).

- the similarity in the overall impression created by the two marks (including the marks’ look, phonetic similarities, and underlying meanings);
- the similarities of the goods and/or services in connection with which the marks are used (including an examination of the marketing channels for the products);
- the strength of the plaintiff’s mark;
- any evidence of actual confusion by consumers;
- the intent of the defendant in adopting its mark;
- the physical proximity of the goods in the retail marketplace;
- the degree of care likely to be exercised by the consumer; and
- the likelihood of expansion of the product lines.

“Courts should not treat any one factor as dispositive, nor apply a ‘mechanical process’ awarding judgment to ‘the party with the greatest number of factors weighing in its favor.’”⁶¹ Rather, the application and outcome of these likelihood of confusion tests depend on the particular circumstances of a given case.⁶²

39. This standard does not require a plaintiff to show that consumers have actually been confused by the infringing mark, only that consumers are *likely to be confused*.⁶³ Courts uniformly

Federal Circuit: *In re E. I. Du Pont de Nemours & Co.*, 476 F.2d 1357, 1361 (Fed. Cir. 1973).

⁶¹ *Guthrie Healthcare Sys. v. ContextMedia, Inc.*, 826 F.3d 27, 37 (2d Cir. 2016) (quoting *Nabisco, Inc. v. Warner-Lambert Co.*, 220 F.3d 43, 46 (2d Cir. 2000)); *Interstellar Starship Servs., Ltd. v. Epix, Inc.*, 304 F.3d 936, 942 (9th Cir. 2002) (“This eight factor test is pliant, and the relative import of each factor is case specific.”).

⁶² *Interactive Prods. Corp. v. a2z Mobile Office Solutions*, 326 F.3d 687, 695 (6th Cir. 2003) (internal quotation marks and citation omitted) (“[E]ach case presents its own complex set of circumstances and not all of these factors may be particularly helpful in any given case.”).

⁶³ 15 U.S.C. § 1114(1)(a) (creating a cause of action for the “use in commerce” by any person of “any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is *likely to cause confusion, or to cause mistake, or to deceive*”) (emphasis added); Restatement (Third) of Unfair Competition § 23 cmt. b (Am. Law Inst. 1995) (“Evidence of actual confusion is not necessary in order to prove infringement, but

hold that the question of whether there has already been a manifestation of actual consumer confusion is just one factor of the analysis, and showing actual confusion is not necessary to prevail on a trademark infringement claim.⁶⁴ Courts generally give little weight in an infringement analysis to the absence of evidence of actual confusion, particularly because evidence of actual confusion is “difficult to produce and frequently discounted as unclear or insubstantial.”⁶⁵ Such evidence is even more difficult to obtain where “the goods are relatively inexpensive and their actual properties are exactly identical.”⁶⁶

40. A trademark plaintiff is not required to show that *all* consumers are likely to be confused, only that a “significant percentage” of consumers are likely to be confused. A showing of 10-15% confusion is generally considered by courts to be sufficient to establish liability for trademark infringement.⁶⁷

the existence of actual confusion is frequently included in judicial enumerations of the factors to be considered in determining the likelihood of confusion.”); *see, e.g., Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 263 (4th Cir. 2007) (it is “well established that no actual confusion is required to prove a case of trademark infringement”).

⁶⁴ *See, e.g., Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 483 (5th Cir. 2008) (“It is well established, however, that evidence of actual confusion is not necessary for a finding of likelihood of confusion.”); *Herbko Int’l, Inc. v. Kappa Books, Inc.*, 308 F.3d 1156, 1165 (Fed. Cir. 2002) (the test “is likelihood of confusion, not actual confusion” and thus “a showing of actual confusion is not necessary to establish a likelihood of confusion”).

⁶⁵ *Bandag, Inc. v. Al Bolser’s Tire Stores, Inc.*, 750 F.2d 903, 914 (Fed. Cir. 1984) (failure to show actual confusion “neither dispositive nor of great weight” on infringement analysis); *Cohn v. Petsmart, Inc.*, 281 F.3d 837, 842 (9th Cir. 2002) (“Because evidence of actual confusion can be difficult to obtain, its absence is ‘generally unnoteworthy’ and is given little probative weight.”).

⁶⁶ *Beer Nuts, Inc. v. Clover Club Foods Co.*, 805 F.2d 920, 928 (10th Cir. 1986) (“Purchasers are unlikely to bother to inform the trademark owner when they are confused about an inexpensive product.”).

⁶⁷ *IDV N. Am., Inc. v. S & M Brands, Inc.*, 26 F. Supp. 2d 815, 829 (E.D. Va. 1998); *BellSouth Corp. v. Internet Classifieds of Ohio*, No. 1:96-CV-0769-CC, 1997 WL 33107251, at *20 (N.D. Ga. Nov. 12, 1997) (“[I]t is widely recognized that a percentage of confused respondents equal to 15% of a total base is probative of a likelihood of confusion. Percentages in excess of 25% are viewed as very probative of confusion. Thus, a percentage of confused respondents exceeding 35% is substantial evidence of a likelihood of confusion.”) (internal citations omitted); *see, e.g., Mut. of Omaha Ins. Co. v. Novak*, 836 F.2d 397, 400 (8th Cir. 1987) (ten percent persuasive evidence of likely confusion); *RJR Foods, Inc. v. White Rock Corp.*, 603 F.2d 1058, 1061 (2d Cir. 1979) (15 to 20 percent); *Sears Roebuck & Co. v. Johnson*, 219 F.2d 590, 592 (3d Cir. 1955) (74 percent); *Int’l Milling Co. v. Robin Hood Popcorn Co.*, 110 U.S.P.Q. 368 (Comm’r Pat. & Trademarks 1956) (61.5 percent); *McDonald’s Corp. v. McBagel’s, Inc.*, 649 F. Supp. 1268, 1277 (S.D.N.Y. 1986) (25 percent); *see also* Jacob Jacoby, Ph.D.,

41. At the same time, though, courts do not require trademark owners to conduct formal consumer confusion surveys—surveys conducted using social science techniques to test whether a defendant’s conduct will cause consumer confusion—in order to prove likelihood of confusion in a trademark infringement lawsuit.⁶⁸ Courts regularly find that a likelihood of confusion, and in turn trademark infringement, can be established without a trademark survey.⁶⁹ For example, where the marks are identical, there is a presumption of confusion.⁷⁰ Where it is shown that a defendant’s intent was to trade on a plaintiff’s mark, likelihood of confusion is also presumed.⁷¹

42. The standards of proof differ depending on whether, in the litigation, the trademark infringement plaintiff seeks injunctive relief versus monetary damages under the Lanham Act. A trademark infringement plaintiff seeking injunctive relief “need not prove specific damage” to

Are Sponsored Links that Advertise Contact Lenses Likely to Cause Confusion When Offered Up with the Search Term 1-800 Contacts? 10 (Feb. 6, 2017) (noting that many courts rely on a “threshold of 15 percent” for a finding of likely confusion).

⁶⁸ See *infra* Part VIII; see *Tools USA & Equip. Co. v. Champ Frame Straightening Equip. Inc.*, 87 F.3d 654, 661 (4th Cir. 1996) (“surveys are not required to prove likelihood of confusion”) (citation and quotation marks omitted); see also *Int’l Kennel Club of Chi., Inc. v. Mighty Star, Inc.*, 846 F.2d 1079, 1086 (7th Cir. 1988) (trademark survey not required to prove likelihood of confusion at the preliminary injunction stage).

⁶⁹ See, e.g., *Boston Athletic Ass’n v. Sullivan*, 867 F.2d 22, 31-35 (1st Cir. 1989) (finding likelihood of confusion—and ordering trial court to issue judgment for plaintiff, including a permanent injunction—without survey evidence); *Smack Apparel Co.*, 550 F.3d at 477 n.35 (agreeing with the district court that the trademark infringement issues can be reached without considering the survey evidence); *Charles Jacquin Et Cie, Inc. v. Destileria Serralles, Inc.*, 921 F.2d 467 (3d Cir. 1990) (affirming the district court’s ruling and rejecting defendant’s argument that a survey was necessary); *Tools USA & Equip. Co.*, 87 F.3d at 661 (same); *Getty Petroleum Corp. v. Island Transp. Corp.*, 878 F.2d 650, 656-57 (2d Cir. 1989) (same).

⁷⁰ *Polo Fashions, Inc. v. Craftex, Inc.*, 816 F.2d 145, 148 (4th Cir. 1987) (finding that defendant’s use of a symbol “substantially identical” to plaintiff’s mark created a presumption of confusion); *Mun. Credit Union v. Queens Auto Mall, Inc.*, 126 F. Supp. 3d 290, 299 (E.D.N.Y. 2015) (noting that consumer confusion is presumed where the marks are identical); *Coach, Inc. v. D & N Clothing, Inc.*, No. 10-12813, 2011 WL 2682969, at *3 (E.D. Mich. July 11, 2011) (presuming likelihood of confusion where defendants produced “counterfeit” goods that were identical to plaintiff’s mark).

⁷¹ *Ford Motor Co. v. Lloyd Design Corp.*, 22 F. App’x 464, 468 (6th Cir. 2001) (presuming likelihood of confusion “when a defendant intentionally copies a trademark design”) (citation omitted); *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235, 1243 (6th Cir. 1991) (same); *Acad. of Motion Picture Arts & Scis. v. Creative House Promotions, Inc.*, 944 F.2d 1446, 1456 (9th Cir. 1991) (same); *Bauer Lamp Co. v. Shaffer*, 941 F.2d 1165, 1172 (11th Cir. 1991) (intentional copying creates a rebuttable presumption of likelihood of confusion); *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 258 (2d Cir. 1987) (“Intentional copying gives rise to a presumption of a likelihood of confusion.”).

obtain relief. “In contrast, courts require a heightened level of proof of injury in order to recover money damages.”⁷²

iii. Types of Trademark Confusion

43. Courts have long recognized that several different types of consumer confusion are actionable under the Lanham Act. The most traditional form of trademark confusion is generally known as “source confusion,” which is confusion as to the source of a good or service.⁷³ In addition, courts also recognize confusion as to affiliation, connection, or sponsorship as actionable.⁷⁴ “A consumer ‘need not believe that the owner of the mark actually produced the item and placed it on the market’ in order to satisfy [the Lanham Act’s] confusion requirement” (*i.e.*, source confusion), because the Lanham Act also prohibits activity likely to cause “[t]he public’s belief that the mark’s owner sponsored or otherwise approved the use of the trademark” (*i.e.*, endorsement confusion).⁷⁵

44. Courts have also established that both “forward” and “reverse” confusion give rise to liability for trademark infringement. “Forward confusion” occurs when customers mistakenly believe that a junior user’s product originates with or is affiliated with the senior user.⁷⁶ “Reverse

⁷² *Porous Media Corp. v. Pall Corp.*, 110 F.3d 1329, 1335 (8th Cir. 1997); *see also Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186, 192 (2d Cir. 1980) (“Sound policy reasons exist for not requiring proof of actual loss as a prerequisite to 43(a) injunctive relief. Failure to prove actual damages in an injunction suit, as distinguished from an action for damages, poses no likelihood of a windfall for the plaintiff.”); *Vitamins Online, Inc. v. Heartwise, Inc.*, No. 2:13-CV-982-DAK, 2016 WL 538458, at *7 (D. Utah Feb. 9, 2016).

⁷³ *Therma-Scan, Inc. v. Thermoscan, Inc.*, 295 F.3d 623, 630 (6th Cir. 2002) (“In the first and most common type of infringement, similar marks on directly competing goods or services cause confusion over their origin.”).

⁷⁴ *See Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 204–05 (2d Cir. 1979) (consumer “need not believe that the owner of the mark actually produced the item and placed it on the market” in order to satisfy Lanham Act Section 43(a)’s confusion requirement; “[t]he public’s belief that the mark’s owner sponsored or otherwise approved the use of the trademark satisfies the confusion requirement”).

⁷⁵ *Famous Horse Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 109 (2d Cir. 2010) (quoting *Dallas Cowboys Cheerleaders*, 604 F.2d at 204).

⁷⁶ *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 957 (7th Cir. 1992).

confusion,” by contrast, occurs where rather than trying to profit from the senior user’s mark, the “junior user saturates the market with a trademark similar or identical to that of a smaller, senior user.”⁷⁷ Courts recognize “reverse confusion” as actionable under the Lanham Act due to the potential harm faced by the senior user—loss of the value of its trademark and identity, loss of the ability to move into new markets, and loss of the ability to control its reputation.⁷⁸

45. In addition, courts have recognized that confusion can be actionable under the Lanham Act even if it occurs at different points during the purchasing process. The most common type of confusion in the trademark infringement context is “point-of-sale confusion”—confusion that occurs at the time of purchase as to a product’s origin or sponsorship.⁷⁹ But because Congress “intended to protect the reputation of the manufacturer as well as to protect purchasers, the [Lanham] Act’s protection is not limited to confusion at the point of sale.”⁸⁰ Thus, in addition to “point-of-sale confusion,” it is well settled that confusion that occurs prior to the time of purchase (“initial interest confusion”) and confusion that occurs after the point of purchase (“post-sale confusion”) is actionable under the Lanham Act.

⁷⁷ *Id.* (“In such a case, the junior user does not seek to profit from the good will associated with the senior user’s mark. Nonetheless, the senior user is injured because the public comes to assume that the senior user’s products are really the junior user’s or that the former has become somehow connected to the latter.”) (alterations, citations, and internal quotation marks omitted); *THOIP v. Walt Disney Co.*, 788 F. Supp. 2d 168, 177 (S.D.N.Y. 2011) (“Reverse confusion is the misimpression that the junior user is the source of the senior user’s goods.”) (internal quotation marks omitted).

⁷⁸ *See Banff, Ltd. v. Federated Dep’t Stores, Inc.*, 841 F.2d 486, 490 (2d Cir. 1988) (“[T]he objectives of the [Lanham] Act—to protect an owner’s interest in its trademark by keeping the public free from confusion as to the source of goods and ensuring fair competition—are as important in a case of reverse confusion as in typical trademark infringement.”).

⁷⁹ *See Gen. Motors Corp. v. Keystone Automotive Corp.*, 453 F.3d 351, 355 (6th Cir. 2006).

⁸⁰ *Id.* at 356; *see Lois Sportswear U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 872 (2d Cir. 1986) (noting that labeling of Lois Sportswear jeans may prevent “confusing consumers at the point of sale into believing that [Lois Sportswear] manufactured and marketed [Levi]’s jeans, the labeling does nothing to alleviate other forms of likely confusion that are equally actionable”).

46. Initial interest confusion, also known as “foot in the door” confusion, refers to the use of another’s trademark in a manner calculated to capture initial consumer attention.⁸¹ Initial interest confusion occurs “when a manufacturer improperly uses a trademark to create initial customer interest in a product, even if the customer realizes, prior to purchase, that the product was not actually manufactured by the trademark-holder.”⁸² Such use may constitute infringement even if the “initial interest confusion . . . is dispelled by the time of purchase” and no actual sale is completed.⁸³ This is because “[i]nitial-interest confusion gives the junior user credibility during the early stages of a transaction and can possibly bar the senior user from consideration by the consumer once the confusion is dissipated.”⁸⁴ Under these circumstances, courts have held that a defendant’s misappropriation of the goodwill of an established mark to divert consumers who are searching for the mark owner’s goods or services can constitute an actionable Lanham Act violation.⁸⁵

⁸¹ *Lois Sportswear*, 799 F.2d at 872; see also *McNeil Nutritionals, LLC v. Heartland Sweeteners, LLC*, 511 F.3d 350, 358 (3d Cir. 2007) (“We reaffirm the holding that initial interest confusion is an independently sufficient theory that may be used to prove likelihood of confusion.”); *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1238 (10th Cir. 2006) (“Initial interest confusion results when a consumer seeks a particular trademark holder’s product and instead is lured to the product of a competitor by the competitor’s use of the same or a similar mark.”); *Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP*, 423 F.3d 539, 550 n.15 (6th Cir. 2005) (“[E]vidence of initial-interest confusion comes into the [likelihood of confusion] test as a substitute for evidence of actual confusion.”); *Promatek Indust., Ltd. v. Equitrac Corp.*, 300 F.3d 808, 812 (7th Cir. 2002) (“Initial interest confusion, which is actionable under the Lanham Act, occurs when a customer is lured to a product by the similarity of the mark, even if the customer realizes the true source of the goods before the sale is consummated.”); *Elvis Presley Enters., Inc. v. Capece*, 141 F.3d 188, 204 (5th Cir. 1998) (holding initial interest confusion actionable); *adidas-Am., Inc. v. Payless Shoesource, Inc.*, 546 F. Supp. 2d 1029, 1058 (D. Or. 2008) (observing the Ninth Circuit’s explicit recognition that initial interest confusion can be actionable).

⁸² *Groeneveld Transport Efficiency, Inc. v. Lubecore Int’l, Inc.*, 730 F.3d 494, 518 (6th Cir. 2013) (citation and quotation marks omitted).

⁸³ *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1053 (9th Cir. 1999) (citation omitted); see *Playboy Enters., Inc. v. Netscape Commc’ns, Corp.*, 354 F.3d 1020 (9th Cir. 2004).

⁸⁴ *Elvis Presley Enters.*, 141 F.3d at 204.

⁸⁵ See, e.g., *Checkpoint Sys. Inc. v. Check Point Software Techs., Inc.*, 269 F.3d 270, 294-95 (3d Cir. 2001) (“Without initial interest protection, an infringer could use an established mark to create confusion as to a product’s source thereby receiving a ‘free ride on the good will’ of the established mark.”) (citation omitted); *Brookfield Comm’ns, Inc.*, 174 F.3d at 1057.

47. As discussed in greater detail below, courts that have evaluated trademark claims in the context of keyword advertising often focus on initial interest consumer confusion. But the concept is not new to e-commerce and sounds in the traditional application of trademark policy and legal principles. For example, in applying the concept of initial interest confusion to the Internet, the Ninth Circuit described the concept by reference to a more traditional fact pattern:

Suppose West Coast’s competitor (let’s call it “Blockbuster”) puts up a billboard on a highway reading—“West Coast Video: 2 miles ahead at Exit 7”—where West Coast is really located at Exit 8 but Blockbuster is located at Exit 7. Customers looking for West Coast’s store will pull off at Exit 7 and drive around looking for it. Unable to locate West Coast, but seeing the Blockbuster store right by the highway entrance, they may simply rent there. Even consumers who prefer West Coast may find it not worth the trouble to continue searching for West Coast since there is a Blockbuster right there. Customers are not confused in the narrow sense: they are fully aware that they are purchasing from Blockbuster and they have no reason to believe that Blockbuster is related to, or in any way sponsored by, West Coast. Nevertheless, the fact that there is only initial consumer confusion does not alter the fact that Blockbuster would be misappropriating West Coast’s acquired goodwill.⁸⁶

This description of initial interest confusion has a long history in trademark law.⁸⁷

48. In the Internet context, courts have explained that initial interest confusion “arises when a consumer who searches for the plaintiff’s website with the aid of a search engine is directed

⁸⁶ *Brookfield Commc’ns*, 174 F.3d at 1064.

⁸⁷ See, e.g., *Checkpoint Sys.*, 269 F.3d at 294–95 (describing how initial interest protection is necessary to prevent an infringer from receiving a “free ride on the goodwill” of an established mark”) (citation omitted); *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 382 (7th Cir. 1996) (analogizing initial interest confusion to a “bait and switch” of the producers, thereby influencing consumers’ decisions and allowing the infringer to “get its foot in the door by confusing consumers”); *Mobil Oil Corp.*, 818 F.2d at 260 (describing initial interest confusion as misleading potential purchasers to being interested in the infringer’s product); *W. Chem. Pumps, Inc. v. Superior Mfg., Inc.*, 989 F. Supp. 1112, 1128 (D. Kan. 1997) (noting how the harm from initial interest confusion is from allowing an infringer to “get its foot in the door” and potentially “foreclose consideration of the primary trademark holder’s products” even after the confusion dissipates); *SecuraComm Consulting, Inc. v. SecuraCom Inc.*, 984 F. Supp. 286, 298 (D.N.J. 1997) (describing confusion that creates initial customer interest as being actionable, even if no sale is completed as a result of the confusion), *rev’d on other grounds*, 166 F.3d 182 (3d Cir. 1999); *Koppers Co. v. Krupp-Koppers GmbH*, 517 F. Supp. 836, 844 (W.D. Pa. 1981) (noting how it is wrongful to secure an initial business contact through confusing the consumer, even if the mistake is later rectified).

instead to the defendant's site because of a similarity in the parties' website addresses."⁸⁸ "[T]he concern is that potential customers of one website will be diverted and distracted to a competing website. The harm is that the potential customer believes that the competing website is associated with the website the customer was originally searching for and [the customer] will not resume searching for the original website."⁸⁹

49. Post-sale confusion, also referred to as "post-purchase confusion" or "downstream" confusion, occurs among persons who see an infringing mark in use by another—*i.e.*, confusion among those other than the purchaser of an infringing product.⁹⁰ For example, while a purchaser of an imitation Gucci handbag may know it is not a genuine Gucci handbag, casual observers of the imitation handbag might assume that the handbag of inferior quality is somehow associated with the Gucci brand.⁹¹ Thus, even if the immediate consumer is not confused as to the source of the defendant's product, a plaintiff may be able to demonstrate that the "person on the street" is likely to be confused as to the origin of defendant's product.⁹²

⁸⁸ *Savin Corp. v. Savin Grp.*, 391 F.3d 439, 462 n.13 (2d Cir. 2004).

⁸⁹ *Bihari v. Gross*, 119 F. Supp. 2d 309, 319 (S.D.N.Y. 2000). Legal commentators also advise clients that "[e]ven if the confusion ends once the consumer reaches the wrong website and figures out their mistake, the advertisement may have caused actionable initial interest confusion." Stephen Horace, *IP: Using a competitor's trademark in marketing*, Inside Counsel (Nov. 8, 2011), <http://www.insidecounsel.com/2011/11/08/ip-using-a-competitors-trademark-in-marketing> (last visited Feb. 23, 2017).

⁹⁰ *See, e.g., Lois Sportswear USA*, 799 F.2d at 872-73 (labeling of defendants' jeans prevented point-of-sale confusion but not confusion when jeans' similar stitching designs were viewed by others outside the retail environment—which could cause a loss of sales by the trademark owner, diverted to the infringer).

⁹¹ *See, e.g., Acad. of Motion Picture Arts & Scis.*, 944 F.2d 1446 (finding infringement because while purchaser of OSCAR look-alike award would know it is not a genuine OSCAR, "a large secondary audience" of recipients and viewers "might conceivably assume the [defendant's] Award was somehow associated with the Oscar"); *United States v. Torkington*, 812 F.2d 1347, 1351-53 (11th Cir. 1987) (confusion by direct purchaser is not needed; likelihood of post-purchase confusion by observers of wearers of counterfeit ROLEX watches is sufficient).

⁹² *See, e.g., Fortune Dynamic, Inc. v. Victoria's Secret Store Brand Mgmt.*, 618 F.3d 1025, 1032 (9th Cir. 2010) (holding that, while knowledgeable consumers are unlikely to confuse a footwear designer's trademark on a tank top in a Victoria's Secret store, observers of a tank top worn outside the store could be confused about its source).

50. In light of the foregoing and as discussed in greater detail below, any view of trademark rights that fails to recognize all actionable forms of trademark confusion would be inconsistent with well-established trademark law.

2. Trademark Dilution

51. Furthermore, both Congress and courts around the country have also recognized that trademark owners are not only harmed when there is immediate trademark confusion. Rather, a trademark owner's investment of resources, time, and effort to building a successful brand—and thus the incentives for such investment—are also harmed by activities that diminish the value of a trademark over the long term. This is precisely why Congress created an additional cause of action for owners of famous trademarks that is separate and apart from trademark infringement: trademark dilution.

52. Trademark dilution occurs when someone other than the trademark owner uses the trademark, even in connection with noncompeting goods, in a way that weakens the strength of the association between a famous mark and the goods or services that the mark is used to promote.⁹³ “Dilution occurs when consumers form new and different associations with the plaintiff's mark,” because of the defendant's unauthorized use of the mark.⁹⁴ The “quintessential harm addressed by anti-dilution law” occurs when a trademark is no longer used to identify just one source of goods or services, and thus loses its ability to communicate a specific source.⁹⁵ The issue of dilution is directly relevant to the case at hand, because allowing multiple parties to buy rights to use another party's trademarks as keywords raises the precise kind of associational concerns that dilution law was designed to address.

⁹³ 15 U.S.C. § 1125(c).

⁹⁴ *Visa Int'l Serv. Ass'n v. JSL Corp.*, 610 F.3d 1088, 1090 (9th Cir. 2010).

⁹⁵ *Id.* at 1091.

53. A cause of action for trademark dilution does not require a showing of likelihood of confusion. Dilution law “protect[s] famous marks from subsequent uses that blur the distinctiveness of the mark or tarnish or disparage it, even in the absence of a likelihood of confusion.”⁹⁶ As the legislative history for the federal dilution statute makes clear, “[c]onfusion leads to immediate injury, while dilution is an infection, which if allowed to spread, will inevitably destroy the advertising value of the mark.”⁹⁷ Dilution thus “represents a slow, gradual type of harm”⁹⁸—the “gradual ‘whittling away’ of a party’s distinctive mark through unauthorized use by another,” which, over time, “lessens that mark’s capacity to identify the true owner’s goods and services.”⁹⁹

i. History of Dilution Protection

54. Frank I. Schechter is credited with bringing the concept of trademark dilution to the courts and legislators.¹⁰⁰ In his 1927 article, *The Rational Basis of Trademark Protection*,¹⁰¹ Schechter argued that the most distinctive trademarks create the most favorable impressions in the minds of the consuming public, prompting them to buy more products and services sold under that mark. He reasoned, therefore, that the unauthorized use of the mark on other goods would cause

⁹⁶ H.R. Rep. N. 104-374, at 3 (1995).

⁹⁷ *Id.* at 2.

⁹⁸ Paul Edward Kim, Preventing Dilution of the Federal Trademark Dilution Act: Why the FTDA Requires Actual Economic Harm, U. PENN. L. REV. 719, 751 (2001) (citation and quotation marks omitted).

⁹⁹ *Gruma Corp. v. Mexican Restaurants, Inc.*, 497 F. App’x 392, 399-400 (5th Cir. 2012) (citation omitted); *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002, 1011 (9th Cir. 2004) (“Dilution refers to the whittling away of the value of a trademark when it’s used to identify different products.”) (citation and quotation marks omitted); *Deere & Co. v. MTD Prods., Inc.*, 860 F. Supp. 113, 118 (S.D.N.Y. 1994) (“[t]he underlying rationale of the dilution doctrine is that a gradual attenuation or whittling away of the value of a trademark, resulting from use by another, constitutes an invasion of the senior user’s property right”) (quoting MCCARTHY, *supra* note 11, at § 24:13).

¹⁰⁰ See MCCARTHY, *supra* note 11, at § 23:7.

¹⁰¹ Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

a “gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods.”¹⁰² In so doing, Schechter introduced a concept different from trademark infringement—one that does not depend on actual diversion of trade or consumer confusion.

55. In 1947, Massachusetts passed the first state dilution legislation, allowing injunctions against a “[l]ikelihood of . . . dilution of the distinctive quality of a mark . . . or a trade name” regardless of the “absence of competition between the parties or the absence of confusion”¹⁰³ Six years later, Illinois passed a state dilution law, followed by New York¹⁰⁴ and Georgia.¹⁰⁵ In 1964, the Model State Trademark Bill promoted by the United States Trademark Association (now known as the International Trademark Association or “INTA”) was amended to add a dilution provision: “Likelihood of injury to business reputation or of dilution of the distinctive quality of a mark registered under this Act, or a mark valid at common law, or a trade name valid at common law, shall be a ground for injunctive relief notwithstanding the absence of competition between the parties or the absence of confusion as to the source of goods or services.”¹⁰⁶

56. In 1995, Congress passed a Federal Trademark Dilution Act (FTDA), which for the first time established federal dilution protection to owners of famous marks.¹⁰⁷ The FTDA was

¹⁰² *Id.* at 825.

¹⁰³ MASS. GEN. LAWS ANN. ch. 110H, § 13 (West 2011).

¹⁰⁴ Act of April 18, 1955, ch. 453 § 1 (codified at N.Y. GEN. BUS. LAW § 360-1).

¹⁰⁵ 1955 Ga. Laws 453 (codified at GA. CODE ANN. § 10-1-451(b)).

¹⁰⁶ MODEL STATE TRADEMARK BILL § 12 (1964), *reprinted in* MCCARTHY, *supra* note 11, at § 24:78.

¹⁰⁷ Federal Trademark Dilution Act, Pub. L. No. 104-98, 109 Stat. 985 (enacted and effective Jan. 16, 1996); *see Moseley*, 537 U.S. 418.

strengthened and clarified in 2006, when Congress passed the Trademark Dilution Revision Act of 2006 (TDRA), which established the framework for federal dilution law discussed in this report.

ii. The Current State of Dilution Law

57. Today, the federal trademark dilution statute is codified at 15 U.S.C. § 1125(c).

58. The elements of a trademark dilution claim are: (i) the plaintiff owns a famous mark that is distinctive; (ii) the defendant commenced using a mark in commerce that allegedly is diluting the famous mark; (iii) similarity between the defendant’s mark and the famous mark gives rise to an association between them; and (iv) that association is likely to impair the distinctiveness of the famous mark or harm its reputation.¹⁰⁸ “In cyberspace, dilution occurs when a defendant’s use of a mark lessens the plaintiff’s ability to identify and distinguish its goods and services by means of the Internet.”¹⁰⁹

59. Trademark dilution “occurs when consumers perceive two identical (or very similar) marks as referring to *different* sources,” unlike trademark infringement which occurs “when consumers perceive two similar marks as referring to the same source.”¹¹⁰ The owner of a famous mark therefore may have a viable dilution claim against a defendant using the same mark even where the defendant’s goods or services bear no relation to the goods or services associated with the plaintiff’s mark. This is because the dilution doctrine protects famous marks from the encroachment of similar marks “regardless of the presence of actual or likely confusion, of competition, or of actual economic injury.”¹¹¹

¹⁰⁸ *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 168, 171 (4th Cir. 2012) (“Under the FTDA, Rosetta Stone must show only a *likelihood* of dilution and need not prove actual economic loss or reputational injury.”).

¹⁰⁹ *Avlon Indus. v. Robinson*, No. 01 C 3615, 2003 WL 22025004, at *2 (N.D. Ill. Aug. 27, 2003).

¹¹⁰ *Malletier v. Dooney & Bourke, Inc.*, 525 F. Supp. 2d 558, 598 (S.D.N.Y. 2007).

¹¹¹ 15 U.S.C. § 1125(c)(1) (“Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at

60. Federal dilution also differs from infringement in that it requires that the owner's mark be famous.¹¹² Without fame, the federal remedy of dilution is unavailable.¹¹³

61. The federal dilution statute defines "famous mark" as one that is "widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner."¹¹⁴ Under this standard, marks like "Budweiser beer, Camel cigarettes, Barbie Dolls, and the like" have been deemed famous.¹¹⁵

62. Trademark surveys are not required to establish fame. In many cases, courts have made findings of fame based on extensive third-party media attention alone.¹¹⁶ In this case, my understanding is that Complaint Counsel's survey expert has provided evidence of the fame of the 1-800 Contacts mark.¹¹⁷

any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, *regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.*") (emphasis added).

¹¹² 15 U.S.C. § 1125(c)(1) & (c)(2) (federal trademark dilution law protects an owner's "famous" mark from being used in commerce by another "any time after the owner's mark has become famous, in a manner likely to cause dilution).

¹¹³ *See Savin Corp. v. Savin Grp.*, 391 F.3d 439, 449 n.5 (2d Cir. 2004) ("[A] plaintiff owning less-than-famous marks will receive no protection under the FTDA, even if that plaintiff can prove that the use of an identical junior mark has in fact lessened the capacity of the senior mark to identify and distinguish the plaintiff's goods or services—i.e., that actual dilution has occurred.").

¹¹⁴ 15 U.S.C. § 1125(c)(2).

¹¹⁵ *Luv N' Care Ltd. v. Regent Baby Prods. Corp.*, 841 F. Supp. 2d 753, 758 (S.D.N.Y. 2012).

¹¹⁶ *See, e.g., adidas Am.*, 546 F. Supp. 2d at 1062-63 (finding "three stripe" mark on shoe famous based on similar findings in prior cases, as well as "extrinsic evidence" presented by the plaintiff—including advertising and sales figures and articles in the media demonstrating widespread knowledge of the mark, which evidence obviated for the court any need for a survey); *Pepsico, Inc. v. #1 Wholesale, LLC*, No. 07-CV-367, 2007 WL 2142294, at *4 (N.D. Ga. July 20, 2007) (deeming PepsiCo Marks "unquestionably famous" for purposes of dilution analysis purely "as a result of their long use and PepsiCo's extensive sales of products under the marks").

¹¹⁷ *Compare Jacoby, supra* note 67, at 33 ("86% of . . . respondents reported knowing about 1-800 Contacts before participating in the survey . . .") with *7-Eleven Inc. v. Wechsler*, 2007 WL 1431084, at *3 (T.T.A.B. 2007) (finding BIG GULP for a large sized beverage was famous based on a survey showing awareness by 73% of consumers), and *Nasdaq Stock Market, Inc. v. Antartica, S.R.L.*, 2003 WL 22021943, at *12 (T.T.A.B. 2003) (finding NASDAQ famous based in part on a survey showing awareness by 80% of consumers).

63. In 2003, the Supreme Court held under the previous federal dilution statute, that a plaintiff was required to prove “actual dilution” to succeed on a dilution claim.¹¹⁸ Just three years later, Congress passed the TDRA to ease the burden on trademark owners to succeed on a dilution claim; under the TDRA, the plaintiff need only show that the defendant’s mark is *likely* to cause dilution.¹¹⁹ Thus, direct evidence of actual dilution, such as a trademark survey or expert testimony, is not required to prevail on a dilution claim.¹²⁰ Courts have emphasized that “a plaintiff seeking to establish a likelihood of dilution is not required to go to the expense of producing expert testimony or market surveys; it may rely entirely on the characteristics of the marks at issue.”¹²¹ In particular, courts have uniformly held that “where there is an identity of marks, actual dilution may be presumed.”¹²² Even under the older dilution statute that required proof of actual dilution

¹¹⁸ *Moseley*, 537 U.S. 418.

¹¹⁹ 15 U.S.C. § 1125(c)(1); *see, e.g., Levi Strauss & Co. v. Abercrombie & Fitch Trading Co.*, 633 F.3d 1158, 1165 (9th Cir. 2011) (noting that “[i]n 2006, largely in response to the *Moseley* decision, Congress enacted the TDRA,” which “provide[d] relief for ‘likely,’ as opposed to actual, dilution”).

¹²⁰ *See, e.g., Univ. of Kan. v. Sinks*, 644 F. Supp. 2d 1294 (D. Kan. 2008) (upholding jury finding of actual dilution based on the testimony of one of plaintiff’s employees and blog entries showing that people had negative reactions to the defendant’s use of the plaintiff’s marks, and not survey evidence or expert testimony).

¹²¹ *Visa Int’l Service Ass’n v. JSL Corp.*, 610 F.3d 1088, 1091 (9th Cir. 2010); *see also Super Duper, Inc. v. Mattel, Inc.*, 382 F. App’x 308, 313 (4th Cir. 2010) (“Our precedent does not support the proposition that the successful prosecution of a trademark dilution claim mandates the production of survey evidence or expert testimony. Of course, such evidence may prove helpful to the jury, but it is not required.”) (internal citation omitted); *Hershey Co. v. Art Van Furniture, Inc.*, No. 08-14463, 2008 WL 4724756, at *15 (E.D. Mich. Oct. 24, 2008) (“reasonable likelihood” of showing dilution, even in absence of evidence of association, where there was intent to cause association”).

¹²² *See, e.g., Rolex Watch U.S.A., Inc. v. Rolex Deli Corp.*, No. 11 cv 9321(BSJ), 2012 WL 5177517, at *4 (S.D.N.Y. Oct. 18, 2012) (holding that a likelihood of dilution was shown through the defendant’s use of an “exact reproduction of the ROLEX mark[,]” as “courts have viewed . . . use of an *identical* mark” as constituting sufficient evidence of dilution) (emphasis in original); *Assyrian Am. Nat’l Fed’n, Inc. v. Assyrian Am. Nat’l Fed’n, Inc.*, No. CV F 13-0890 LJO SAB, 2013 WL 12073473, at *7-8 (E.D. Cal. July 23, 2013) (finding that, as there was “no question” that the parties’ names were identical and trademarks “highly similar,” plaintiff had presented sufficient evidence of dilution); *George Nelson Found. v. Modernica, Inc.*, 12 F. Supp. 3d 635, 650-51 (S.D.N.Y. 2014) (noting that the plaintiff had satisfied the dilution standard by alleging the defendant’s trademark was identical to the plaintiff’s mark); *J&B Wholesale Distribs. v. Redux Beverages, LLC*, 621 F. Supp. 2d 678, 689 (D. Minn. 2007) (noting that, “where there is an identity of marks, actual dilution may be presumed,” and finding that plaintiff had demonstrated a likelihood of success for its dilution claim as defendant did not rebut the presumption that its use of an identical mark tarnished the distinctive quality of plaintiff’s mark) (citing *Savin Corp.*, 391 F.3d at 454).

and not just likely dilution, the Supreme Court indicated that dilution could “reliably be proved” if the marks at issue were identical.¹²³

64. The federal trademark dilution statute describes two types of dilution—dilution by “blurring” and dilution by “tarnishment.”¹²⁴ A finding of either one is sufficient to establish liability for dilution. Courts often find that the use of an identical mark by lesser products both blurs and tarnishes the plaintiff’s mark.

iii. Dilution by Blurring

65. Dilution by blurring is “the whittling away of the established trademark’s selling power and value through its unauthorized use by others.”¹²⁵ Dilution by blurring occurs when the third party’s unauthorized use of a trademark owner’s famous mark reduces the public’s association of the mark with the mark’s owner.¹²⁶

66. Courts consider the following non-exhaustive statutory factors in determining whether use of a mark is likely to cause dilution by blurring:¹²⁷

- the degree of similarity between the mark or trade name and the famous mark;¹²⁸

¹²³ *Moseley*, 537 U.S. at 434.

¹²⁴ 15 U.S.C. § 1125(c).

¹²⁵ *Tiffany (NJ) Inc.*, 600 F.3d at 111.

¹²⁶ See 15 U.S.C. § 1125(c)(2)(B) (“dilution by blurring” is the “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark”); *Nabisco, Inc. v. PF Brands, Inc.*, 50 F. Supp. 2d 188, 201 (S.D.N.Y. 1999) (blurring occurs “when there is a possibility that the mark will lose its ability to serve as a unique identifier of an owner’s products, due to another party’s use”); see, e.g., *Aztar Corp. v. MGM Casino*, No. 00-833-A, 2001 WL 939070, at *4 (E.D. Va. Apr. 9, 2001) (finding trademark dilution because “Defendant’s use of Plaintiff’s mark via its ‘Tropicana Casino’ web site and ‘tropicanacasino.com’ domain name has lessened the TROPICANA mark’s power to exclusively identify Plaintiff Aztar as its owner.”).

¹²⁷ See 15 U.S.C. § 1125(c)(2)(B); see, e.g., *N.Y.C. Triathlon, LLC v. NYC Triathlon Club, Inc.*, 704 F. Supp. 2d 305 (S.D.N.Y. 2010) (considering each statutory factor in determining that plaintiff, the company that runs the “New York City Triathlon,” was likely to prove dilution by blurring based on defendant’s use of plaintiff’s NYC TRIATHLON marks in connection with its NYC Triathlon Club).

¹²⁸ When this first factor is established, courts routinely find that there is a likelihood of dilution. See, e.g., *adidas Am.*, 149 F. Supp. 3d at 1248 (finding likelihood of dilution due to, *inter alia*, the similarity of the marks, which

- the degree of the famous mark’s inherent or acquired distinctiveness;
- the extent to which the owner of the famous mark is engaged in substantially exclusive use of the mark;
- the degree of recognition of the famous mark;
- whether the user of the mark or trade name intended to create an association with the famous mark; and
- any actual association between the mark or trade name and the famous mark.

“Not every factor will be relevant in every case, and not every blurring claim will require extensive discussion of the factors.”¹²⁹

67. For example, in *Visa International Service Association v. JSL Corp.*,¹³⁰ the Ninth Circuit focused on two of the statutory factors—the strength and similarity of the marks—in affirming summary judgment for plaintiff, the holder of the VISA trademark, on its dilution by blurring claim based on defendant’s use of the name “eVisa” and the domain name “eVisa.com”

also suggested an intent to create an association between the marks); *Rolux Watch U.S.A.*, 2012 WL 5177517, at *4 & n.10 (“exact similarity of the mark in this case [is] especially persuasive” evidence of likelihood of dilution); *Dallas Cowboys Football Club v. Am.’s Team Properties*, 616 F. Supp. 2d 622, 643 (N.D. Tex. 2009) (finding dilution by blurring where there was a “high degree of similarity” between the two marks, and that defendant intended to associate with plaintiff’s mark). Even where there are differences between the marks, dilution can be established in the context of the other statutory factors. *See Horphag Research Ltd. v. Garcia*, 475 F.3d 1029, 1037 (9th Cir. 2007) (“Even if the conflicting marks were not identical, Garcia (the junior user) would still not prevail because Horphag presented additional evidence of dilution.”). Indeed, since enactment of the TDRA, certain courts have departed from their prior practice of requiring “substantial similarity” between the marks to obtain dilution protection. *See Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009) (rejecting existing dilution framework, requiring “substantial similarity” between marks, because TDRA lists “degree of similarity” as one factor, without specifying “substantial” similarity); *see also Levi Strauss & Co.*, 633 F.3d at 1171-73 (adopting Second Circuit reasoning in *Starbucks*, 588 F.3d 97). And even where the marks are identical, the dilution analysis takes account of the other factors as well. *See Levi Strauss & Co.*, 633 F.3d at 1172.

¹²⁹ *Louis Vuitton*, 507 F.3d at 266.

¹³⁰ 610 F.3d 1088 (9th Cir. 2010).

in connection with its education and information business.¹³¹ The defendant argued that its eVisa mark could not cause dilution because “visa” is a common word with a dictionary definition—a travel document. The Ninth Circuit rejected this argument, noting that the “significant factor is not whether the word itself is common, but whether the way the word is used in a particular context is unique enough to warrant trademark protection.”¹³² The “particular context” that matters for the anti-dilution doctrine is use of the word in commerce to identify a good or service, and “the introduction of the eVisa mark to the marketplace means that there are now two products . . . competing for association with that word.” That is “the quintessential harm addressed by anti-dilution law,” because it weakens the mark’s ability to bring to mind the plaintiff’s goods or services with which it had been readily associated.¹³³

68. Although many dilution by blurring cases focus on the similarity of the two marks at issue, the TDRA “does not require that a plaintiff establish that the junior mark is identical, nearly identical or substantially similar to the senior mark” in order to prevail on a dilution by blurring claim.¹³⁴ Rather, the holder of a famous trademark need only show that the defendant has used “a ‘look-alike’ mark, one that is close enough to the famous mark that consumers will recall the famous mark and be reminded of it . . . even if they do not believe that the goods come from the famous mark’s owner,” to prevail on a dilution by blurring claim.¹³⁵

¹³¹ *Visa Int’l Service Ass’n*, 610 F.3d at 1090 (noting (i) that the marks are “effectively identical,” and (ii) the strength of the VISA mark, a word that would not ordinarily make people think of credit cards, but that consumers have readily come to associate with credit cards because of the goodwill built up by plaintiff’s Visa brand).

¹³² *Id.* at 1091.

¹³³ *Id.* (citation and internal quotation marks omitted).

¹³⁴ *Levi Strauss & Co.*, 633 F.3d at 1172; *see also Starbucks Corp.*, 588 F.3d at 109.

¹³⁵ *Nike, Inc. v. Maher*, 100 U.S.P.Q.2d 1018, 2011 WL 3828723, at *14 (T.T.A.B. Aug. 9, 2011).

iv. Dilution by Tarnishment

69. Tarnishment occurs when a third party's unauthorized use of the plaintiff's famous mark creates an association between the famous mark and "something unsavory or degrading"¹³⁶— e.g., when plaintiff's famous trademark is linked to products of "shoddy quality, or is portrayed in an unwholesome or unsavory context" such that "the public will associate the lack of quality or lack of prestige in the defendant's goods with the plaintiff's unrelated goods."¹³⁷

70. The TDRA does not outline factors for courts to consider in evaluating whether a defendant's use of the plaintiff's famous mark is likely to harm the mark's reputation. Courts tend to find tarnishment in situations where the defendant causes an association between the senior mark and unwholesome activity, such as graphic sexuality, pornography, or illicit narcotics.¹³⁸ But a finding of tarnishment is not limited to these extreme circumstances.

71. Courts have also found tarnishment when a defendant uses the plaintiff's mark in association with goods or services of an inferior quality. For example, in *New York City Triathlon*, the district court cited "Defendant's reputation of trading on others' goodwill and providing poor customer service," as reason for the "high likelihood that the NYC TRIATHLON Mark's [sic] will suffer a negative association through Defendant's use of them."¹³⁹ In *Gideon's International, Inc.*

¹³⁶ *Toho Co., Ltd. v. Sears, Roebuck & Co.*, 645 F.2d 788, 793 (9th Cir. 1981).

¹³⁷ *Rosetta Stone*, 676 F.3d at 167; see 15 U.S.C. § 1125(c)(2)(C) (dilution by tarnishment is the "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark").

¹³⁸ See, e.g., *V Secret Catalogue, Inc. v. Moseley*, 558 F. Supp. 2d 734, 750 (W.D. Ky. May 21, 2008) (plaintiff prevailed on tarnishment claim against company that used its mark in connection with sex-toy shop); *Pepsico, Inc.*, 2007 WL 2142294, at *4 (same, against company that converted Pepsi and Mountain Dew containers into "bottle safes" marketed to conceal illegal drugs); see, e.g., *Kraft Foods Holdings, Inc. v. Stuart Helm a/k/a "King Velveeda*, 205 F. Supp. 2d 942, 950 (N.D. Ill. 2002) (defendant's use of "VelVeeda" in conjunction with graphic sexuality, nudity, and drug use "corrodes [plaintiff's] mark, because the association of Velveeta," plaintiff's mark for cheese products, "with 'VelVeeda' likely causes the former to lose the reputation and goodwill that it once had").

¹³⁹ 704 F. Supp. 2d at 323 (holding that plaintiff was likely to succeed on its dilution by tarnishment claim).

v. Gideon 300 Ministries, Inc., the court found tarnishment based on defendant’s solicitation of donations, given that plaintiff’s members do not solicit donations.¹⁴⁰ And in *Dan-Foam A/S v. Brand Named Beds, LLC*, the district court found tarnishment based on its finding that there were “material differences” in the plaintiff’s goods and defendant’s gray market goods, such that the gray market goods could harm the reputation of the famous mark.¹⁴¹ In particular, unauthorized use of a trademark to sell inferior products online has been held to constitute dilution by tarnishment.¹⁴²

3. False Advertising Under the Lanham Act

72. In addition to trademark infringement, Section 43(a) of the Lanham Act proscribes false statements or representations made in “commercial advertising or promotion” that “misrepresent[] the nature, characteristics, qualities, or geographic origin” of the advertiser’s or another person’s goods, services for commercial activities.¹⁴³ The definition of commercial advertising or promotion under the Lanham Act is broad, encompassing print or media advertisements, Internet advertising, labels, and even sales presentations to groups of consumers or potential consumers.¹⁴⁴

73. The Lanham Act’s prohibition against false advertising protects “the rights of consumers to receive only truthful commercial information and the rights of competitors to

¹⁴⁰ 94 F. Supp. 2d 566 (E.D. Pa. 1999).

¹⁴¹ 500 F. Supp. 2d 296 (S.D.N.Y. 2007).

¹⁴² See *Dallas Cowboys Football Club*, 616 F. Supp. 2d at 643 (finding dilution by tarnishment where defendant sold “shoddy goods” of “inferior quality” on its website that utilize plaintiff’s trademark, thereby harming the reputation of plaintiff’s trademark); see also *Scott Fetzer Co. v. House of Vacuums Inc.*, 381 F.3d 477, 489 (5th Cir. 2004) (“Tarnishing occurs when a trademark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context, with the result that the public will associate the lack of quality or lack of prestige in the defendant’s goods with the plaintiff’s unrelated goods.”) (quotation marks omitted).

¹⁴³ 15 U.S.C. § 1125(a)(1)(B).

¹⁴⁴ See 12 CHAD S. HUMMEL & CLAYTON S. FRIEDMAN, BUS. & COM. LITIG. FED. CTS. § 124:3 (4th ed. 2016).

compete in a market free from untruthful information.”¹⁴⁵ Examples of Lanham Act false advertising claims include a defendant’s false representation that a product is created, designed, or authorized by someone other than the true creator,¹⁴⁶ or a defendant’s use of a picture of the plaintiff’s product to advertise and solicit sales of the defendant’s different or inferior product.¹⁴⁷

74. To prevail on a false advertising claim, a plaintiff must prove the following elements: (i) the defendant made false or misleading statements as to its own goods or services (or those of another); (ii) actual deception, or at least a tendency to deceive a substantial portion of the intended audience; (iii) the deception is material in that it is likely to influence purchasing decisions; (iv) the defendant caused the false advertisements to enter interstate commerce; and (v) a likelihood of injury to the plaintiff, either by direct diversion of sales from itself to the defendant or by a lessening of the goodwill of its products.¹⁴⁸ There are two types of advertising claims that are actionable under the Lanham Act: (a) “advertisements that are false on their face, known as ‘literally false’ claims,” and (b) “advertisements that, though literally true, are likely to mislead and confuse consumers, known as ‘implied claims.’”¹⁴⁹ A false advertising plaintiff is not

¹⁴⁵ *Tire Kingdom, Inc. v. Morgan Tire & Auto, Inc.*, 915 F. Supp. 360, 364 (S.D. Fla. 1996).

¹⁴⁶ *See, e.g., Johnson v. Jones*, 149 F.3d 494, 502-03 (6th Cir. 1998) (affirming district court’s finding of a violation of Section 43(a) of the Lanham Act caused by defendant’s taking credit for plaintiff’s architectural plans).

¹⁴⁷ *See, e.g., Sublime Prods., Inc. v. Gerber Prods., Inc.*, 579 F. Supp. 248, 250-51 (S.D.N.Y. 1984) (holding that defendant’s use of photographs and samples of plaintiff’s product to solicit sales of defendant’s different and less expensive product constituted false advertising under Section 43(a) of the Lanham Act).

¹⁴⁸ *See, e.g., Avid Identification Sys., Inc. v. Schering-Plough Corp.*, 33 F. App’x 854, 855 (9th Cir. 2002); *Sussman-Automatic Corp. v. Spa World Corp.*, 15 F. Supp. 3d 258, 269 (E.D.N.Y. 2014); *Emco, Inc. v. Obst*, No. CV03-6432-R (RZX), 2004 WL 1737355, at * 1 (C.D. Cal. May 7, 2004).

¹⁴⁹ *Stokely-Van Camp, Inc. v. Coca-Cola Co.*, 646 F. Supp. 2d 510, 525 (S.D.N.Y. 2009) (“[I]f the words or images, considered in context, necessarily imply a false message, the advertisement is literally false and no extrinsic evidence of consumer confusion is required. However, where the language of an advertisement is susceptible to more than one reasonable interpretation, the advertisement cannot be literally false. A plaintiff may bring an implied claim on the ground that the advertisement although literally true is nonetheless misleading, but it must offer consumer data or other extrinsic evidence to show that the audience to which the advertisement is directed is in fact misled by the advertisement.”).

required to prove actual injury to obtain injunctive relief, only threatened injury.¹⁵⁰ Only plaintiffs who seek “to recover money damages for false or misleading advertising that is not literally false must prove actual deception.”¹⁵¹

75. Although codified within the same section of the Lanham Act, “a claim for false advertising and a claim for trade dress infringement are not coextensive in scope.”¹⁵² Of course, a claim of false advertising may arise from the same facts as a claim for trademark infringement if a trademark is used in a way that creates a false designation of origin or a false or misleading description or representation of fact.

4. Unfair Competition Under the Lanham Act

76. A federal cause of action for unfair competition also derives from Section 43(a) of the Lanham Act and “goes beyond trademark protection.”¹⁵³ Traditional categories of unfair competition prohibited under the Lanham Act include, for example, false advertising,¹⁵⁴ and passing off (also known as “palming off”), which occurs when a defendant duplicates or simulates a plaintiff’s mark causing consumers to believe that its goods or services derive from the

¹⁵⁰ *ThermoLife Int’l, LLC v. Gaspari Nutrition Inc.*, 648 F. App’x 609 (9th Cir. 2016) (“The Lanham Act permits any person to sue if he believes that he is *likely* to be damaged.”) (alterations, citation, and quotation marks omitted); *Pizza Hut, Inc. v. Papa John’s Int’l, Inc.*, 227 F.3d 489, 497 (5th Cir. 2000) (“Plaintiffs seeking injunctive relief [on Lanham Act false advertising claim] must prove that defendant’s representations ‘have a tendency to deceive customers.’ Although this standard requires less proof than actual deception, plaintiffs must still produce evidence that the advertisement tends to deceive consumers.”) (internal citations omitted).

¹⁵¹ *Pizza Hut*, 227 F.3d at 497; *see also* *Cashmere & Camel Hair Mfrs. Inst. v. Saks Fifth Ave.*, 284 F.3d 302, 314 (1st Cir. 2002) (noting that “it has become the practice of most circuits to apply the presumption [of consumer deception] to all literal falsity claims”).

¹⁵² *Pac. Bioscience Labs., Inc. v. Nutra Luxe MD, LLC*, 2012 WL 12845609, at *4 (W.D. Wash. July 30, 2012) (“[A] claim for false advertising and a claim for trade dress infringement may logically exist concurrent with one another.”).

¹⁵³ *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 29 (2003).

¹⁵⁴ *See supra* Part III(C)(3).

plaintiff.¹⁵⁵ Passing off “may be either express or implied.”¹⁵⁶ For example, implied passing off occurs when an infringer, “in selling its own product, makes use of another’s product for advertising purposes, but does not sell the misbranded product itself.”¹⁵⁷

5. State Law Trademark and Unfair Competition Claims

77. Trademark law does not pre-empt equivalent state law claims, as the federal copyright and patent laws do. Thus, a plaintiff may bring trademark infringement, trademark dilution, and/or unfair competition claims under both federal and state law.

78. Indeed, certain states recognize more expansive causes of action than are recognized under the Lanham Act. For example, certain state laws permit dilution claims based on marks that are famous within one state or in a “niche” market, rather than the kind of nationally famous trademarks required for liability under federal law.¹⁵⁸ Indeed, certain state anti-dilution regimes do not even require the mark to be famous to garner protection.¹⁵⁹

¹⁵⁵ See *Dastar Corp.*, 539 U.S. at 27 n.1 (“Passing off (or palming off, as it is sometimes called) occurs when a producer misrepresents his own goods or services as someone else’s.”); *Zito v. Steeplechase Films, Inc.*, 267 F. Supp. 2d 1022, 1028 (N.D. Cal. 2003) (“The Ninth Circuit recognizes that misdesignation of origin, or ‘passing off,’ constitutes a violation of Section 43(a). Passing off involves selling a good or service of one person’s creation under the name or mark of another.”) (internal citations omitted).

¹⁵⁶ *Zito*, 267 F. Supp. 2d at 1028.

¹⁵⁷ *Nike, Inc. v. Rubber Mfrs. Ass’n, Inc.*, 509 F. Supp. 919, 924 n.2 (S.D.N.Y. 1981).

¹⁵⁸ For example, Nevada, Nev. Rev. Stat. § 600.435, see *Russell Rd. Food & Beverage, LLC v. Galam*, 180 F. Supp. 3d 724, 742 (D. Nev. 2016) (“[F]ame in a localized trading area may meet the threshold element [of famousness] . . . if plaintiff’s trading area includes the trading area of the defendant.”), and New Jersey, N.J. Stat. § 56:3-13.20, see *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp. 2d 273, 293–94 (D.N.J. 2006) (“[A] mark not famous to the general public is nevertheless entitled to protection from dilution where both the plaintiff and defendant are operating in the same or related markets, so long as the plaintiff’s mark possesses a high degree of fame in its niche market.”).

¹⁵⁹ For example, Georgia, Ga. Code Ann. § 10-1-451(b) (2012) (requires only that the mark be distinctive—at least descriptive with a secondary meaning—for dilution protection), New York, N.Y. Gen. Bus. Law § 360-l (fame not required for dilution protection; statute protects strong marks—marks that either have a distinctive quality or have acquired a secondary meaning capable of dilution), and Florida, Fla. Stat. § 495.151 (anti-dilution statute not limited to “famous” marks).

79. Certain state laws also permit more expansive unfair competition claims than those permitted under federal law. The following examples are illustrative:

- In New York, the common law unfair competition cause of action has “flourished in a variety of factual settings,” and the general “trend of the law . . . has been to extend the scope of the doctrine of unfair competition, whose basic principle is that commercial unfairness should be restrained whenever it appears that there has been a misappropriation, for the advantage of one person, of a property right belonging to another.”¹⁶⁰ Passing off (or “palming off”) was the first theory of unfair competition endorsed by New York courts, and has been extended to situations where the parties are not even in competition.¹⁶¹ New York courts also recognize another theory of common-law unfair competition, misappropriation, which occurs when a defendant misappropriates the fruits of plaintiff’s skill, expenditures, and labors for a commercial advantage.¹⁶² Courts applying New York unfair competition law have emphasized that the tort is “broad and flexible,” and encompasses an “incalculable variety” of unfair practices.¹⁶³ Specifically, unfair competition has been described as encompassing “any form of commercial immorality,”¹⁶⁴ including taking “the skill, expenditures, and labors of a competitor.”¹⁶⁵ The commercial

¹⁶⁰ *ITC Ltd. v. Punchgini Inc.*, 9 N.Y.3d 467 (N.Y. 2007) (citation omitted).

¹⁶¹ *Electrolux Corp. v. Val-Worth, Inc.*, 6 N.Y.2d 556, 567 (N.Y. 1959).

¹⁶² *See, e.g., Out of Box Promotions, LLC v. Koschitzki*, 55 A.D.3d 575, 578 (2d Dep’t 2008).

¹⁶³ *Roy Export Co. v. Columbia Broad. Sys., Inc.*, 672 F.2d 1095, 1105 (2d Cir. 1982); *see also Telecom Int’l Am., Ltd. v. AT&T Corp.*, 280 F.3d 175 (2d Cir. 2001) (“New York’s law of unfair competition is a broad and flexible doctrine that depends more upon the facts set forth . . . than in most causes of action. It has been broadly described as encompassing any form of commercial immorality, or simply as endeavoring to reap where one has not sown; it is taking the skill, expenditures and labors of a competitor, and misappropriating for the commercial advantage of one person . . . a benefit or property right belonging to another.”) (citation and internal quotation marks omitted).

¹⁶⁴ *Metro. Opera Ass’n v. Wagner-Nichols Recorder Corp.*, 101 N.Y.S.2d 483, 492 (Sup. Ct., N.Y. Cty. 1950).

¹⁶⁵ *Electrolux Corp.*, 6 N.Y.2d at 567.

immorality doctrine, which New York courts call a “cavernous cause of action,” may be invoked when a defendant’s conduct violates notions of fair play or ethics in commercial relations.¹⁶⁶ New York’s General Business Law Section 349 (Article 22A) also protects against unfair trade acts by prohibiting “deceptive acts or practices in the conduct of any business, trade or commerce or in the furnishing of any service.”

- In California, “unfair competition” is defined under California Business and Professions Code Section 17200 to include “any unlawful, unfair or fraudulent business act or practice.”¹⁶⁷ As such, California courts have noted that its “unfair competition law’s scope is broad”—that “[i]ts coverage is sweeping, embracing anything that can properly be called a business practice and that at the same time is forbidden by law.”¹⁶⁸ Because California’s relevant statute does not provide an explicit intent requirement, a plaintiff is not required to show that the defendant intended to act unlawfully, unfairly or fraudulently in a business act or practice to prevail,¹⁶⁹ as is required under certain other state law unfair competition regimes (*e.g.*, Montana,¹⁷⁰ Colorado¹⁷¹). California courts have also recognized that a claim

¹⁶⁶ *Demetriades v. Kaufmann*, 698 F. Supp. 521, 528 n.8 (S.D.N.Y. 1988) (citing *Metro. Opera*, 101 N.Y.S.2d at 488-92).

¹⁶⁷ Cal. Bus. & Prof. Code § 17200 *et seq.*

¹⁶⁸ *Cel-Tech Commc’ns, Inc. v. L.A. Cellular Tel. Co.*, 20 Cal. 4th 163, 180 (1999) (citations and internal quotation marks omitted).

¹⁶⁹ *See State Farm Fire & Cas. Co. v. Superior Court*, 45 Cal. App. 4th 1093, 1102 (Cal. App. 1996).

¹⁷⁰ Mont. Code Ann. § 30-14-207 (“It is unlawful for any business, with the intent to destroy the competition of any regular established dealer of any article of commerce or to prevent the competition of any person who in good faith intends or attempts to become such dealer, to discriminate between different localities in this state by selling or furnishing such article at a lower rate in one locality than in another, after making allowance for difference, if any, in the grade, quality, quantity, and actual cost of transportation from the point of production or manufacture of the article.”).

¹⁷¹ Colo. Rev. Stat. § 6-2-103; *see Miller’s Groceteria Co. v. Food Distribs. Ass’n*, 107 Colo. 113, 115 (1941) (“vital element” of an Unfair Practices Act violation is that the acts be undertaken “for the purpose of injuring competitors or destroying competition”).

of unfair competition can encompass a variety of theories, including the tort of common law misappropriation, which requires a plaintiff to prove the following elements: (i) a substantial investment of time and money in the development of property; (ii) that the defendant has appropriated the property at little or no cost; and (iii) that the defendant's conduct has caused injury to the plaintiff.¹⁷²

- In Utah, “unfair competition” is defined under Utah’s Unfair Competition Act as “an intentional business act or practice that: (i)(A) is unlawful, unfair, or fraudulent; and (B) leads to a material diminution in value of intellectual property; and (ii) is one of the following: (A) malicious cyber activity; (B) infringement of a patent, trademark, or trade name; (C) a software license violation; or (D) predatory hiring practices.”¹⁷³ Therefore, Utah’s unfair competition regime is broader than the federal regime as well, in the sense that the defendant’s activity is not required to be “in connection with any goods or services,” but rather includes any “business act or practice” that relates to the categories enumerated in the statute. Also, the defendant’s activity is implicated under the statute if it is “unlawful, unfair, or fraudulent”; it need not be likely to cause confusion or misrepresent the nature or quality of goods or services. For these reasons, Utah courts have described unfair competition as an “open-ended” category that encompasses a number of different torts, noting that “nameless forms of unfair competition may be recognized at any time for the protection of commercial values.”¹⁷⁴

¹⁷² *Self Directed Placement Corp. v. Control Data Corp.*, 908 F.2d 462, 467 (9th Cir. 1990).

¹⁷³ Utah Code Ann. § 13-5a-102.

¹⁷⁴ *Proctor & Gamble Co. v. Haugen*, 947 F. Supp. 1551, 1554 n.4 (D. Utah 1996).

IV. KEYWORD ADVERTISING

80. The following background facts are relevant to and inform my opinions on the application of trademark, false advertising, and unfair competition law, as described above, to keyword advertising.

A. Background

81. When online consumers type relevant terms into a search engine, the search engine returns links to websites that might contain information of the type the user is seeking. Search engines typically do not provide only organic, or natural, search results that are selected objectively based on the search engine's algorithm for identifying websites that are relevant to the given search term.¹⁷⁵ Search engines also display paid advertisements that are designed to appear as organic search results and are posted either above or alongside the unpaid organic search results.¹⁷⁶ Studies over the years have confirmed that significant numbers of consumers often do not or cannot perceive the difference between search results that are posted as the result of a neutral relevance algorithm and search results that are posted because advertisers pay to place their results in response to a given type of search.¹⁷⁷ Paid advertisements garner a significant amount of revenue

¹⁷⁵ *How Google search results differ from ads*, Google https://support.google.com/adwords/answer/1722080?hl=en&ref_topic=3121771 (last visited Feb. 23, 2017).

¹⁷⁶ *See Organic search result*, Google, <https://support.google.com/adwords/answer/6054492?hl=en> (last visited Feb. 23, 2017) (defining the term as “[a] free listing in Google Search that appears because it’s relevant to someone’s search terms”).

¹⁷⁷ *See, e.g.*, Aaron Wall, *Consumer Ad Awareness in Search Results* (SEOBook 2012), <http://www.seobook.com/consumer-ad-awareness-search-results> (“For most search engines, people are generally unaware of ads vs. organic results if there are no ads in the right column . . . most of these yes/no questions came down to about a 50/50 vote.”); Deborah Fallows, *Almost half of all internet users now use search engines on a typical day*, Pew Internet & American Life Project (Aug. 6, 2008); Gord Hotchkiss, *Eye Tracking Study II: Google, MSN and Yahoo! Compared* (Enquiro Search Solutions 2006), <http://pages.mediative.com/1/22222/2013-04-24/qct> (“30% of the participants couldn’t properly identify the sponsored links on a page” and that this confusion level jumped to 43% for non-Google users); Jansen, B.J. & Resnick, M., *Examining Searcher Perceptions of and Interactions with Sponsored Results* (2005) (“[S]earchers trust search engines to present only unbiased results on the first page, not realizing that 41% of selections were sponsored listings.”); Deborah Fallows, *Search Engine Users: Internet Searches are confident, satisfied and trusting – but they are also unaware and naïve*, Pew Internet & American Life Project (Jan. 23, 2005) (62% of consumers cannot differentiate between

for search engines across the United States.¹⁷⁸ That is because the advertiser pays the search engine if its advertisement is “clicked” on, regardless of whether the user who clicks on the advertisement ultimately purchases the item or service advertised—a process known as cost-per-click (CPC) advertising.¹⁷⁹

82. The FTC has described this type of paid placement advertising as “any program in which individual Web sites or URLs can pay for a higher ranking in a search results list, with the result that relevancy measures alone do not dictate their rank.”¹⁸⁰ The principle type of “paid placement” search advertising is based on the use of “keywords” that advertisers select to trigger the display of links to their chosen website.¹⁸¹ When an advertiser pays for a keyword advertisement, a sponsored link to its chosen website will appear when users search for the advertiser’s chosen set of “keywords—the words or phrases that will trigger [the] ad to show.”¹⁸²

sponsored and non-sponsored links); Gord Hotchkiss, *Into the Mind of the Searcher* (Enquiro Search Solutions 2003-2004), http://www.sempo.org/learning_center/research/searcher-mind.pdf; Leslie Marable, *False Oracles: Consumer Reaction to Learning the Truth About How Search Engines Work, Results of an Ethnographic Study*, Consumer WebWatch (June 30, 2003) (“[C]onsumers can’t always discern paid search from pure search results”; searchers did not realize that 41% of links on the search engine results page were sponsored search listings); *A Matter of Trust: What Users Want from Web Sites*, Princeton Survey Research Associates (Jan. 2002) (more than 60% of respondents were unaware that search engines accept payment to list certain sites more prominently than others in search results).

¹⁷⁸ Advertising revenue made up 89% of Google’s first quarter revenues in 2016. Google Inc., Quarterly Report (Form 10-Q), at 32 (Apr. 21, 2016), https://abc.xyz/investor/pdf/20160331_alphabet_10Q.pdf. For Yahoo!, the figure is 45%. Yahoo Inc., Q1’16 Financial Highlights, at 10 (Apr. 19, 2016), http://files.shareholder.com/downloads/YHOO/3618016917x0x886676/9DC75ABF-3D57-42F8-BF05-5EBE2BE17D41/1Q16_YHOO_Earnings_Slides_vs_FINAL.pdf; see also Steven Levy, *Secret of Googlenomics: Data-Fueled Recipe Brews Profitability*, Wired (May 22, 2009).

¹⁷⁹ See *Cost-per-click (CPC): Definition*, GOOGLE, <https://support.google.com/adwords/answer/116495?hl=en> (last visited Feb. 23, 2017).

¹⁸⁰ *Id.*; See *How Google search results differ from ads*, *supra* note 175 (“Ads are ordered based on a combination of cost-per-click (CPC) bid and relevance”).

¹⁸¹ See FTC Ltr. to Commercial Alert (June 27, 2002), https://www.ftc.gov/sites/default/files/documents/closing_letters/commercial-alert-response-letter/commercialalertletter.pdf; *Where your ads can appear*, Google, https://support.google.com/adwords/answer/1704373?hl=en&ref_topic=3121763 (last visited Feb. 23, 2017).

¹⁸² See *Where your ads can appear*, *supra* note 181.

“[W]hen people search using the words or phrases [advertisers] picked, . . . text ads can appear alongside or above search results.”¹⁸³ The specific sponsored links that appear in response to an Internet search query in a keyword advertising program are “[not] based on relevancy alone”; they are also based on the amount of “fees” paid by advertisers to have their sites listed “more prominently than others in [the search engine’s] search results.”¹⁸⁴

83. Several different keyword advertising programs exist in the United States. Google’s keyword advertising program is called AdWords;¹⁸⁵ Bing’s program is called Bing ads;¹⁸⁶ and Yahoo’s program is called Yahoo Advertising.¹⁸⁷ Google searches account for over 60% of Internet searches in the United States.¹⁸⁸

84. In connection with their keyword advertising programs, search engines offer different types of keyword matching options, including exact match and broad match.¹⁸⁹ Exact match, like the name suggests, means sponsored links “may show on searches that are an exact term and close variations of that exact term.”¹⁹⁰ Google’s default match type, however, is broad

¹⁸³ *Id.*

¹⁸⁴ See FTC Ltr. to Commercial Alert, *supra* note 181.

¹⁸⁵ See *Welcome to the AdWords Help Center*, Google <https://support.google.com/adwords#topic=3119071> (last visited Feb. 23, 2017).

¹⁸⁶ See *Search Engine Marketing*, Microsoft http://ads.bingads.microsoft.com/en-us/cl/41120/bing-ads-sign-up?s_cid=en-us_smb_a_search_dtba_lm (last visited Feb. 23, 2017).

¹⁸⁷ See *SEARCH: Yahoo Advertising*, Yahoo, <https://advertising.yahoo.com/solutions/search> (last visited Feb. 23, 2017).

¹⁸⁸ *comScore Releases March 2015 U.S. Desktop Search Engine Rankings*, comScore (Apr. 15, 2015), <http://www.comscore.com/Insights/Market-Rankings/comScore-Releases-March-2015-US-Desktop-Search-Engine-Rankings>. Due to Google’s large share of search engine traffic, many of the explanations regarding keyword advertising will reference Google AdWords.

¹⁸⁹ See *About keyword matching options*, Google, <https://support.google.com/adwords/answer/2497836?hl=en> (last visited Feb. 23, 2017).

¹⁹⁰ *Id.* (“Keyword match types help control which searches can trigger your ad. For example, you could use *broad match* to show your ad to a wide audience or you could use *exact match* to hone in on specific groups of customers.”).

match.¹⁹¹ Under broad match, “[a]ds may show on searches that include misspellings, synonyms, related searches, and other relevant variants” of the keywords paid for by the advertiser.¹⁹²

85. Because broad match allows search engine algorithms to display sponsored link advertisements even in response to searches for terms that the advertiser did not select, an intertwined and important feature of search advertising is the use of “negative match,” or “negative keywords.” Negative match allows advertisers to select “negative” keywords that will *not* trigger the display of their sponsored link advertisements when an Internet user searches for those terms.¹⁹³ Google tells advertisers that, “[n]egative keywords are an important part of every campaign because they help make sure that . . . ads appear only to people looking for what [an advertiser] offer[s]. This added level of control can help [advertisers] increase [their] clickthrough rate (CTR), reduce [their] average cost-per-click (CPC), and increase [their] ROI [Return On Investment].”¹⁹⁴ For example, if a hotel in Denver advertises on search engines using keywords, it might purchase the keywords “hotel” and “Denver.” That hotel could also select the term “bed bugs” as a negative keyword to prevent its ad from appearing if someone searched “hotel Denver bed bugs” or another term including “bed bugs” that the search engine algorithm recognized as relevant. Negative matching allows advertisers to better target the searches where their sponsored links will appear and to avoid searches that are less desirable, such as the searches of customers who are not looking for an advertiser’s product.

¹⁹¹ *Id.*

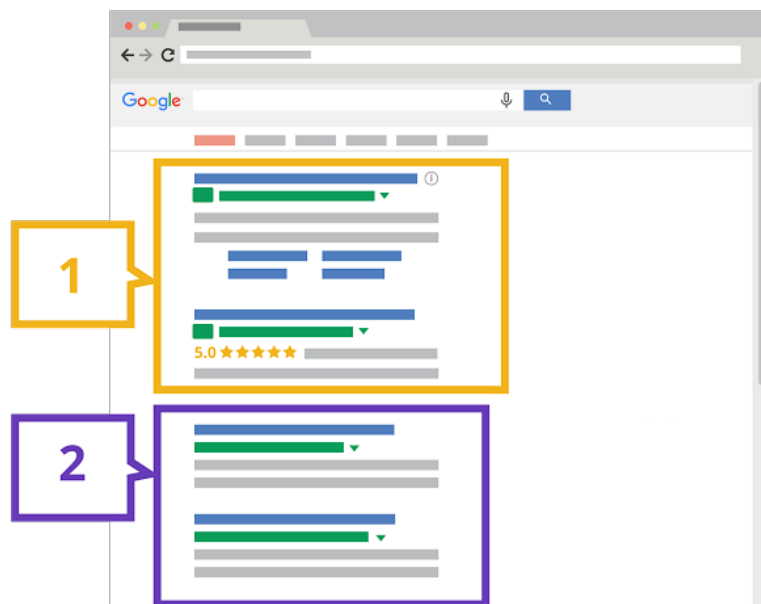
¹⁹² *Id.*

¹⁹³ Negative keywords, GOOGLE, <https://support.google.com/adwords/answer/105671?hl=en-GB> (last visited Feb. 23, 2017) (“For example, when you add ‘free’ as a negative keyword to your campaign or ad group, you tell [Google] not to show your ad for any search containing the term ‘free.’”).

¹⁹⁴ GOOG-LENSE-001215.

86. Sponsored links can appear in several different areas of a search results page. These paid advertisements typically appear “along the edge of the page (*e.g.*, the top, side, or bottom of the search results page).”¹⁹⁵ The “top” of the page refers to the area above organic search results. For example, Figure 1 below shows the relative location of Google’s “ads”¹⁹⁶ to its organic search results.¹⁹⁷ Area 1 represents sponsored links that appear in response to a search inquiry through Google’s AdWords program. Area 2 represents the organic search results that appear in response to that same inquiry. Sponsored Links at the “top” of the page are valuable to marketers because “a pre-dominant amount of clicks occur [at the top] for branded queries.”¹⁹⁸

Figure 1: Google AdWords Placement



¹⁹⁵ *How Google search results differ from ads*, *supra* note 175.

¹⁹⁶ Google today labels its AdWords advertisements as “ads.” Google previously labeled those AdWords advertisements as “sponsored links.” *See* Figure 2.

¹⁹⁷ *Id.*

¹⁹⁸ MSFT-00000133; *see also infra*, note 295.

B. Changes in the Appearance of Keyword Advertising

87. Over the years, Google has changed the appearance of its sponsored link advertisements, resulting in the “ads look[ing] even more like organic listings.”¹⁹⁹ Google’s most recent change was to replace the yellow disclaimer next to sponsored links with a green disclaimer, “which also happen[s] to be green like their organic counterparts.”²⁰⁰ This comes several years after Google did away with different color background shading that distinguished between sponsored links and organic search results. Industry reporters agree that, “[t]rying to see how the ad labeling helps distinguish ads from organic content isn’t as easy as it used to be.”²⁰¹ The chart contained in figure 2 below shows how the appearance of keyword advertising on Google search results pages has changed over time. For example, starting in 2010, Google stopped designating paid advertisements as “Sponsored Links.” In 2011, Google lightened the background shading of its paid advertisements, and in 2013, Google removed all shading completely.

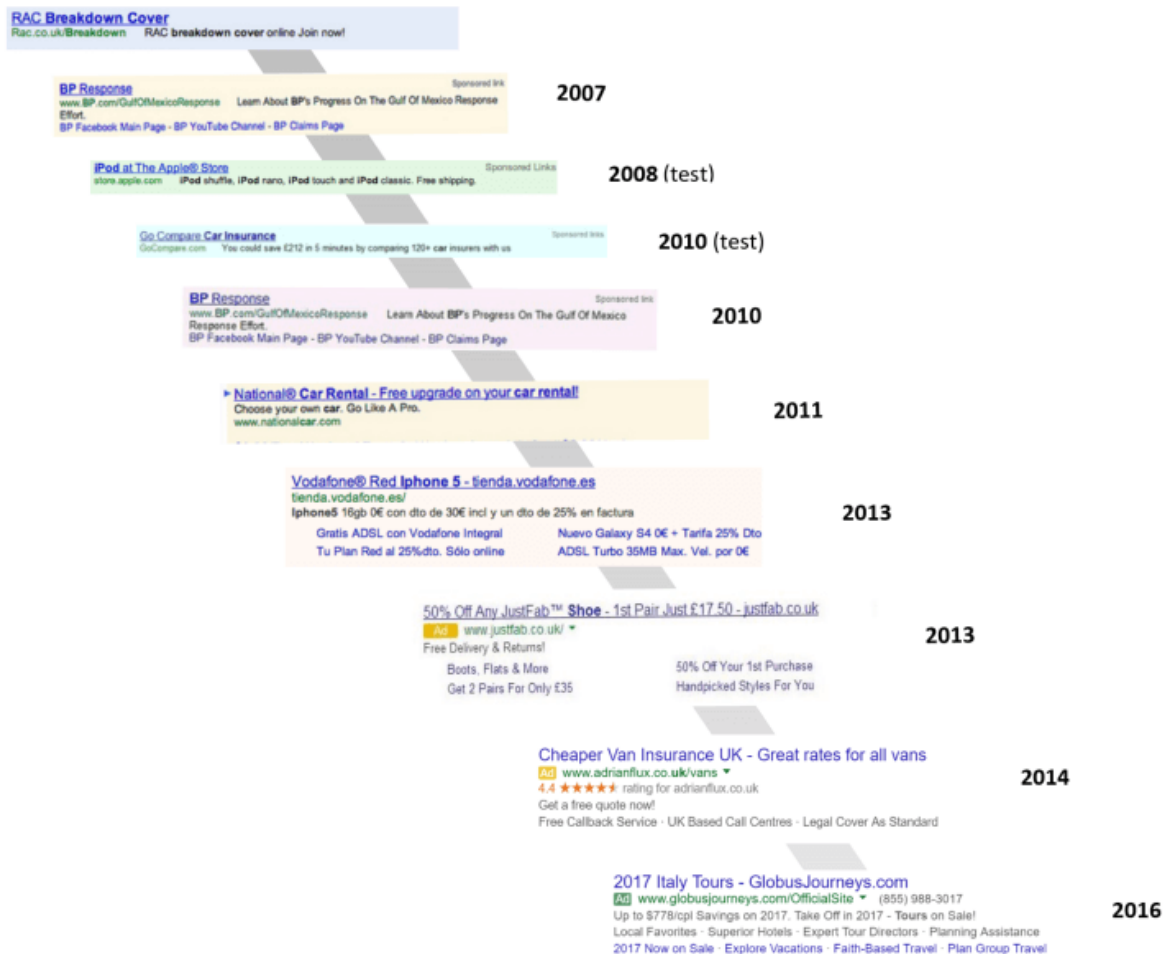
¹⁹⁹ Ginny Marvin, *2016: The year in paid search (A year of massive change!)*, Search Engine Land (Dec. 29, 2016), <http://searchengineland.com/2016-paid-search-biggest-changes-266326> (last visited Feb. 23, 2017).

²⁰⁰ *Id.*

²⁰¹ Ginny Marvin, *Color fade: A visual history of Google ad labeling in search results*, Search Engine Land (July 25, 2016), <http://searchengineland.com/search-ad-labeling-history-google-bing-254332> (last visited Feb. 23, 2017).

Figure 2: History of Google’s Ad Shading and Labeling²⁰²

A (mostly) comprehensive history of Google’s ad shading and labeling



88. Yahoo! and Bing have undergone similar changes in their display of keyword advertising.²⁰³ For example, in 2013, Bing used a colored background for its sponsored links similar to Google’s background that year (reflected in Figure 2). By 2015, Bing had eliminated

²⁰² *Id.*

²⁰³ Compare Ginny Marvin, *After FTC Guidelines, Ad Demarcations In Search Engine Results Have Become More Muted*, Search Engine Land (Nov. 18, 2015), <http://searchengineland.com/ad-demarcations-search-engine-results-muted-236263>, with Ginny Marvin, *The Great Fade Out? How The Search Engines Stack Up On Ad Backgrounds In SERPs*, Search Engine Land (Aug. 7, 2013), <http://searchengineland.com/the-great-fade-out-how-the-search-engines-stack-up-on-ad-backgrounds-in-serps-168922>.

the color background.²⁰⁴ Yahoo! also removed its background coloring for sponsored links over the same period. In 2013, Yahoo! also included two advertising disclaimers above its organic search results: one above the sponsored links and one below. By 2015, the disclaimer beneath the sponsored links had been replaced with a light grey line.²⁰⁵

89. The FTC has repeatedly warned Internet search engines about the importance of adequately disclosing to consumers the difference between a paid advertisement and an organic search result: “[a]lthough the ways in which search engines retrieve and present results, and the devices on which consumers view these results, are constantly evolving, . . . consumers ordinarily expect that natural search results are included and ranked based on relevance to a search query, not based on payment from a third party.”²⁰⁶ The FTC’s concern with consumers’ inability to distinguish between paid advertisements and organic search results dates back to 2002, when as many as “60% of Internet users” were unaware that certain search engines were even “paid fees to list some sites more prominently than others in their search results.”²⁰⁷ “[H]istorically displayed search results [were] based on relevancy to the search query, as determined by algorithms or other objective criteria,” causing users to “reasonably expect that the search results played by individual search engines are ranked in accordance with this standard industry practice”²⁰⁸

²⁰⁴ *Id.*

²⁰⁵ *Id.*

²⁰⁶ See FTC Update Ltr. to Search Engine Companies (June 24, 2013), <https://www.ftc.gov/sites/default/files/attachments/press-releases/ftc-consumer-protection-staff-updates-agencys-guidance-search-engine-industryon-need-distinguish/130625searchenginegeneralletter.pdf>. Despite a decade of technological development, this fundamental expectation of users has not changed. See FTC staff to search engines: Differentiate ads from natural results (June 25, 2013), <https://www.ftc.gov/news-events/blogs/business-blog/2013/06/ftc-staff-search-engines-differentiate-ads-natural-results>.

²⁰⁷ FTC staff to search engines: Differentiate ads from natural results, *supra* note 206.

²⁰⁸ FTC Ltr. to Commercial Alert, *supra* note 181.

90. A survey, updated in 2012, found that “nearly half of searchers did not recognize top ads as distinct from natural search results”²⁰⁹ This result is not surprising given that, within the past five years, “the features traditional search engines use to differentiate advertising from natural search results have become less noticeable to consumers, especially for advertising located immediately above the [organic] results (top ads).”²¹⁰ Search engines have changed the placement of sponsored links and have removed meaningful cues indicating that the top links on a search results page are sponsored links rather than organic or natural links. In addition, “the shading used to identify ads [on search engines] has become less visible over the years” and “appears to be getting fainter.”²¹¹ And as users increasingly use mobile devices, “that box [can get] even harder to see.”²¹² In addition, search engines have used various words to identify ads such as “sponsored links” or, more recently, “ads,” and have made those identifiers more difficult to notice by making them stand out less or blend into a graphic box presentation. The FTC has cautioned that, without proper disclosure, users “might believe that the [web] sites placed higher up in the [search results] list were independently chosen and ranked as being more relevant to the consumer’s search query than those search results placed further down in the list.”²¹³

91. To aid in distinguishing paid search results from organic search results, the FTC recommended that search engines ensure the following: “[i] any paid ranking search results are distinguished from non-paid results with clear and conspicuous disclosures; [ii] the use of paid [links are] clearly and conspicuously explained and disclosed; and [iii] no affirmative statement is

²⁰⁹ FTC Update Ltr. to Search Engine Companies, *supra* note 206.

²¹⁰ *Id.*

²¹¹ FTC staff to search engines: Differentiate ads from natural results, *supra* note 206.

²¹² *Id.*

²¹³ *See* FTC Ltr. to Commercial Alert, *supra* note 181.

made that might mislead consumers as to the basis on which a search result is generated.”²¹⁴ But despite a decade of changes made by search engines to their display of search results, many consumers remain confused about which results are advertisements and which are organic.²¹⁵ In 2013 alone, the FTC sent letters to 24 search engines reminding them of their obligation to “clearly and prominently disclose any advertising” to consumers.²¹⁶

C. Trademark Policies of Search Engines

92. Until 2004, Google did not allow advertisers to use the trademarks owned by others as keyword advertising search terms.²¹⁷ Upon receipt of a complaint from a trademark owner, Google would cease making the complainant’s trademarks available for purchase as part of its keyword advertising programs.²¹⁸ In 2004, however, Google changed its trademark policy in the United States to *allow* users to bid on the trademarks of others as keywords (it continued to restrict such use of trademarks outside of the United States).²¹⁹ That policy remains in effect today, and as a result, “Google won’t investigate or restrict the selection of trademarks as keywords” in the United States, “even if [it] receive[s] a trademark complaint.”²²⁰

²¹⁴ *Id.*

²¹⁵ Fed. Trade Comm., FTC Consumer Protection Staff Updates Agency's Guidance to Search Engine Industry on the Need to Distinguish Between Advertisements and Search Results (June 25, 2013), <https://www.ftc.gov/news-events/press-releases/2013/06/ftc-consumer-protection-staff-updates-agencys-guidance-search> (last visited Feb. 23, 2017) (hereinafter “FTC June 2013 Guidance”) (noting that paid search results have become “less distinguishable as advertising,” and that the distinction between paid advertisements and organic results has blurred).

²¹⁶ *Id.*

²¹⁷ CX0789.

²¹⁸ *Id.*

²¹⁹ See AdWords Trademark Policy (Part 1 of 2), Google Inside AdWords Blog (Dec. 13, 2016), <https://adwords.googleblog.com/2006/12/adwords-trademark-policy-part-1-of-2.html>; CX0789; 1-800F_00080734-737.

²²⁰ Google Advertising Policies Help, Trademarks, https://support.google.com/adwordspolicy/answer/61118?visit_id=0-636224489326943481-1699706732&rd=2.

93. Google’s 2004 trademark policy eliminated all restrictions on the use of trademarks as keyword advertising terms.²²¹ Google even introduced a Keyword Suggestion Tool that will sometimes suggest the use of trademarked terms when companies are considering buying ads for their products and services.”²²² “The underlying reason [Google changed its policy in 2004] was largely financial, as Google’s research showed that about 7% of its total revenue was driven by trademarked keywords.”²²³

94. Yahoo!’s trademark policy regarding keyword advertising changed at different times than Google but followed a similar trajectory. Prior to March 2006, Yahoo! allowed only the following types of advertisers to purchase keywords comprising a third-party’s trademark: (i) authorized resellers of a trademark-bearing product; (ii) information sites that do not compete with the trademark owner; or (iii) competing advertisers offering comparisons of the trademarked product to another product with ad text making clear that the advertiser was not the trademark owner.²²⁴ Effective March 2011, Yahoo! changed its trademark policy to allow all advertisers—including direct competitors—to purchase keywords containing trademarks owned by third parties.²²⁵

²²¹ Dan L. Burk, *Cybermarks*, 94 MINN. L. REV. 1375, 1376–81 (2010).

²²² John Timmer, *Google loses on appeal, will face AdWords trademark suit*, ArsTechnica (Apr. 6, 2009), <https://arstechnica.com/tech-policy/2009/04/google-loses-on-appeal-will-face-adwords-trademark-suit/>.

²²³ Joint Appendix Vol. IX, Tab 41 - Ex 6 - Google Three Ad Policy Changes at 4263, 4265, *Rosetta Stone*, 676 F.3d 144 (No. 10-2007), <http://digitalcommons.law.scu.edu/appendix/33>.

²²⁴ *Raising Trademark Concerns about Sponsored Search Listings*, Yahoo! (Mar. 2, 2009), <http://searchmarketing.yahoo.com/legal/trademarks.php> [<http://web.archive.org/web/20090302153727/http://searchmarketing.yahoo.com/legal/trademarks.php>].

²²⁵ Pamela Parker, *Bing & Yahoo Align With Google’s Trademark Rules For Search Ads*, Search Engine Land (Feb. 15, 2011), <http://searchengineland.com/bing-yahoo-align-with-googles-trademark-rules-64902>. In 2011, Bing made the same policy change. *Id.*

D. Search Engines Encouraged Trademark Owners to Address Legal Concerns Directly with Advertisers

95. Search engines publicly encourage trademark owners to seek remedies, and pursue litigation, against advertisers. In 2004, Google told advertisers that it “encourages trademark owners to resolve their disputes directly with . . . advertisers” and not with Google,²²⁶ and it maintains the same instructions today.²²⁷ Google has explicitly told courts that “it is the advertiser, not Google, who is the putative direct infringer.”²²⁸

V. COURTS ACROSS THE COUNTRY HAVE HELD THAT THE SALE AND USE OF TRADEMARKS AS KEYWORDS CAN GIVE RISE TO ACTIONABLE INFRINGEMENT CLAIMS

96. The following section provides a factual overview of cases involving the use of trademarks as keywords in search engine advertising, in order to help explain the basis and justification for opinions that I offer in this report. An extensive review of these cases is necessary because many court decisions have reached conclusions of fact and law over the years that support 1-800 Contacts’ claims of trademark infringement that are at issue in this case.

97. Trademark infringement lawsuits based on the sale and use of trademarks as keywords for paid advertisements date back to 2004.²²⁹ Many courts have concluded that the use

²²⁶ 1-800F_00080734-737; CX0789; GOOG-LENSE-00002277.

²²⁷ *Help for trademark owners*, Google, <https://support.google.com/adwordspolicy/answer/2562124> (last visited Feb. 23, 2017).

²²⁸ Google’s Brief in Support of Its Motion for Summary Judgment, *Am. Airlines, Inc. v. Google, Inc.*, No. 07-CV-487-A, at *18 (Dkt. 84) (N.D. Tex. July 3, 2008); see Reply in Support of Motion by Google, Ask Jeeves and Earthlink to Dismiss Counterclaims and Third-Party Claims, *Google Inc. v. Am. Blind & Wallpaper Factory, Inc.*, No. C 03-3540-JF, at *3 (Dkt. No. 42) (N.D. Cal. Sept. 3, 2004) (“[I]t is the advertiser who is allegedly a direct infringer, and Google is liable, if at all, only on a theory of indirect infringement.”); see also Google Inc.’s Notion [sic] of Motion for Summary Judgment or, in the Alternative Motion to Dismiss Under Rule 41(b) For Failure to Prosecure, *Jurin v. Google, Inc.*, No. 09-cv-03065, at *5 (Dkt. No. 74) (E.D. Cal. Aug. 9, 2012) (“Google may not be held directly liable for allegedly infringing ads merely because it provides space on which third-parties may advertise.”).

²²⁹ See *Playboy Enters., Inc. v. Netscape Commc’ns*, 354 F.3d 1020 (9th Cir. 2004) (one of the first circuit court opinions in the keyword advertising context: reversing summary judgment for Netscape because genuine issues of material fact exist with respect to Netscape’s sale of Playboy’s trademarks as keywords which, when searched,

of trademarks as keywords constitutes actionable trademark infringement or at least creates enough of an issue to preclude summary judgment or judgment on the pleadings. Many courts also have found that the likely irreparable harm to trademark owners caused by the unauthorized use of their trademarks as keywords by third parties justifies an injunction preventing third parties from purchasing the trademark owners' marks as keywords.

A. The "Use in Commerce" Debate

98. In the early years of keyword advertising lawsuits, much of the debate over the legality of the use of trademarks as keywords focused on whether such use constitutes a "use in commerce" giving rise to liability under the Lanham Act.

99. Defendants argued that their use of others' trademarks as keyword advertising triggers should not constitute commercial use because keyword usage is not public or otherwise visible to consumers.²³⁰ Most courts rejected this argument, finding that by enabling competitors to reach consumers through these keywords, defendants' unauthorized use of the trademarks of others "crossed the line" from purely internal to commercial use.²³¹ For a limited period of time, a minority of courts, mostly based in the Second Circuit, reached the opposite conclusion, based on their application of the Second Circuit's 2005 decision in *1-800 Contacts, Inc. v. WhenU.com*,²³²

resulted in the sponsor's banner advertisement being displayed on the results page, which likely misled consumer into believing they had followed a link to Playboy's website).

²³⁰ See, e.g., *J.G. Wentworth, S.S.C. Ltd. P'ship v. Settlement Funding LLC*, No. CIV.A.06-0597, 2007 WL 30115, at *6 (E.D. Pa. Jan. 4, 2007); *Edina Realty, Inc. v. TheMLSOnline.Com*, No. CIV. 04-4371JRTFLN, 2006 WL 737064, at *3 (D. Minn. Mar. 20, 2006); *Gov't Emps. Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700, 702-03 (E.D. Va. 2004) (hereinafter "*GEICO*").

²³¹ See, e.g., *Wentworth*, 2007 WL 30115, at *6; *Edina Realty, Inc.*, 2006 WL 737064, at *3 (holding that, while "not a conventional 'use in commerce,'" purchasing search terms that include trademarked terms in order to trigger a sponsored-link advertisement, qualifies as utilizing a trademark commercially); *GEICO*, 330 F. Supp. 2d at 703 (finding plaintiff sufficiently pled commercial use of its trademarks by alleging that defendants sold and profited from plaintiff's trademarks as advertising keywords).

²³² 414 F.3d 400 (2d Cir. 2005).

a case specifically about pop-up advertisements.²³³ This went on until the Second Circuit itself distinguished its own decision in *WhenU.com* just four years later in *Rescuecom Corp. v. Google, Inc.*,²³⁴ when it outlined the differences between pop-up and keyword advertising and concluded that the sale of trademarks as keywords does in fact constitute an actionable “use in commerce” under the Lanham Act.

100. The circuits are now in agreement that keyword advertising programs constitute “use in commerce” because search engines make trademarks available for purchase and display them in search results.²³⁵ The infringement analysis in this context has therefore shifted to the issue of the likelihood of consumer confusion.

²³³ See, e.g., *FragranceNet.com, Inc. v. FragranceX.com, Inc.*, 493 F. Supp. 2d 545, 551–52 (E.D.N.Y. 2007) (relying on the Second Circuit’s decision in *WhenU.com*, as well as other courts within the Circuit that had held that the purchase of a trademark as a “Sponsored Link” is not “use” within the meaning of the Lanham Act based on the Second Circuit’s reasoning in *WhenU.com*, to conclude that plaintiff’s trademark claims based on defendant’s alleged use of plaintiff’s mark as a Google keyword could not survive a motion to dismiss); *Merck & Co. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 415 (S.D.N.Y. 2006) (same).

²³⁴ 562 F.3d 127 (2d Cir. 2009).

²³⁵ See, e.g., *Network Automation, Inc. v. Advanced Sys. Concept, Inc.*, 638 F.3d 1137, 1144 (9th Cir. 2011) (“[T]he use of a trademark as a search engine keyword that triggers the display of a competitor’s advertisement is a ‘use in commerce’ under the Lanham Act.”); *Australian Gold*, 436 F.3d at 1239 (use in commerce where advertisers paid search engine to list their advertisements in a preferred position in response to a consumer’s search for plaintiffs’ trademarks); *Playboy Enters., Inc.*, 354 F.3d at 1024 & n.11 (“[n]o dispute exists” over use in commerce where plaintiff alleged that search engine defendants allowed advertisers to purchase plaintiff’s trademarks as keyword search terms to trigger the advertisers’ sponsored links); *1-800 Contacts, Inc. v. Mem’l Eye, P.A.*, No. 2:08-cv-983, 2010 WL 988524, at *6 (D. Utah Dec. 13, 2010) (sufficient pleading of use in commerce based on allegations that defendant purchased keywords related to plaintiff’s trademark); *Transamerica Corp. v. Moniker Online Servs., LLC*, 672 F. Supp. 2d 1353, 1361–62 & n.5 (S.D. Fla. 2009) (“use of a trademark to draw consumers to a particular website not belonging to the trademark holder constitutes use in commerce under the Lanham Act”); *Google, Inc. v. Am. Blind & Wallpaper*, No. C 03-5340JF, 2007 WL 1159950, at *6 (N.D. Cal. Apr. 18, 2007) (defendant’s sale of trademarks as keywords deemed commercial use); *Buying for the Home, LLC v. Humble Abode, LLC*, 459 F. Supp. 2d 310, 323 (D.N.J. 2006) (alleged use of plaintiff’s trademark as keyword “clearly” satisfies Lanham Act’s use requirement); *Int’l Profit Assocs., Inc. v. Paisola*, 461 F. Supp. 2d 672, 677 n.3 (N.D. Ill. 2006) (following “other courts” that “have determined that pursuing a trademarked term as a ‘keyword’ for Google Adwords program meets the Lanham Act’s use requirement”).

B. Likelihood of Confusion

101. The circuits take different approaches in assessing the “likelihood of confusion” in the search engine keyword advertising context. In 2006, the Tenth Circuit held that when an advertiser paid a search engine to list the advertiser “in a preferred position whenever a computer user searched for Plaintiffs’ trademarks,” it was an “attempt[] to divert traffic to Defendants’ web sites” that “used the goodwill associated with Plaintiffs’ trademarks in such a way that consumers might be lured to the” products of the trademark owner’s “competitors” in a way that constituted a “violation of the Lanham Act.”²³⁶ More recently, a difference of opinion has developed among the circuits about how the traditional likelihood of confusion multifactor tests should be utilized in keyword cases.

102. The Fourth Circuit instructs its district courts to use the traditional multifactor likelihood of confusion test in keyword advertising cases.²³⁷ In a case that the language software company Rosetta Stone brought against Google over its sale of trademarks to third parties to trigger search advertising, the Fourth Circuit found that the trademark owner’s evidence on a few of the likelihood of confusion factors—including the defendant’s intent, actual confusion, and the sophistication of the relevant consuming public—was sufficient to create a triable issue of fact on likelihood of confusion, even though the other factors were “of limited value.”²³⁸ Despite the “problems inherent in the robotic application of each and every factor[,]” however, the Fourth Circuit instructed district courts to at least attempt to provide a brief explanation of their reasoning

²³⁶ *Australian Gold, Inc.*, 436 F.3d at 1239.

²³⁷ *Rosetta Stone*, 676 F.3d at 154-55.

²³⁸ *Id.* (the test is “not intended to be exhaustive or mandatory”; applying every likelihood-of-confusion factor “is difficult because often many of the factors are either unworkable or not suited or helpful as indicators of confusion in [the keyword advertising] context”).

for each factor, even if “there is no hard and fast rule that obligates the district court to discuss each non-mandatory factor.”²³⁹ Other courts in the Second, Third, and Eighth Circuits have similarly looked to the balance of all of the traditional likelihood-of-confusion factors in cases involving keywords.²⁴⁰

103. In contrast, the Ninth Circuit articulated a “flexibl[e]” application of the traditional likelihood-of-confusion factors in keyword advertising cases, instructing district courts to prioritize certain factors as more “relevant” than others in this context.²⁴¹ In *Network Automation*, for example, the Ninth Circuit focused on a subset of the traditional likelihood-of-confusion factors as “the most relevant factors” for courts to consider in keyword cases: (i) the strength of the plaintiff’s mark; (ii) the evidence of actual confusion; (iii) the type of goods and degree of care likely to be exercised by the purchaser; and (iv) the labeling and appearance of the advertisements and the surrounding context on the screen displaying the results.²⁴² District courts in the Ninth Circuit have since focused on these four factors when evaluating likelihood of consumer confusion in keyword advertising cases.²⁴³

²³⁹ *Id.* at 154.

²⁴⁰ *See, e.g., Checkpoint Sys.*, 269 F.3d at 280 (no single factor is “determinative” and “each factor must be weighed and balanced one against the other[.]” although the weight given to each factor will depend on the individual circumstances of the specific case); *Edible Arrangements, LLC v. Provide Commerce, Inc.*, No. 3:14-CV-00250, 2016 WL 4074121, at *6 (D. Conn. July 29, 2016) (looking to the balance of all factors); *Zerorez Franchising Sys., Inc. v. Distinctive Cleaning, Inc.*, 103 F. Supp. 3d 1032, 1041 (D. Minn. May 5, 2015) (factual disputes over a single factor are insufficient unless “they tilt the entire balance in favor of such a finding”).

²⁴¹ *Network Automation, Inc.*, 638 F.3d at 1148–49.

²⁴² *Id.* at 1154. Importantly, the Ninth Circuit’s decision in *Network Automation* is not a rejection of all liability for purchases of trademarks as keywords. On its face, the decision merely repudiated a line of cases that previously held that in the Internet context, a trademark owner could establish a likelihood of confusion based on three factors alone: (i) the similarity of the marks; (ii) the relatedness of the goods and services; and (iii) the parties’ simultaneous use of the Internet as a marketing channel. *Id.* at 1148.

²⁴³ *See, e.g., AK Metals, LLC v. Normal Indus. Metals, Inc.*, No. 12cv2595, 2013 WL 417323, at *6 (S.D. Cal. Jan. 31, 2013) (considering the four factors identified in *Network Automation*).

104. Despite the variability in the ways jurisdictions may analyze likelihood of confusion in the keyword advertising context, many courts have found the use of others' trademarks as keywords to constitute actionable trademark infringement. The following are several examples of cases where courts have affirmatively found that the use of others' trademarks as search engine keywords constitutes infringement:

- In *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir. 2006), the Tenth Circuit affirmed a jury verdict concluding that a reseller of suntan products violated the trademark rights of plaintiff Australian Gold by paying a search engine, Overture, for the right to use Australian Gold's trademarks as keywords to guarantee that any Internet user searching for those trademark terms would receive defendants' website as one of the top three search listings.
- In *Zerorez Franchising System, Inc. v. Distinctive Cleaning, Inc.*, 103 F. Supp. 3d 1032 (D. Minn. 2015), the district court granted summary judgment for plaintiff, after finding that the majority of the likelihood of confusion factors favored plaintiff, based on defendant advertiser's purchase of terms "confusingly similar" to plaintiff's trademarks through Google's AdWords program.²⁴⁴
- In *FenF, LLC v. Smarthingz, Inc.*, No. 12-cv-14770, 2014 WL 1304779, at *2 (E.D. Mich. Mar. 28, 2014), the district court granted summary judgment for the plaintiff after finding that the defendant "purchased [the plaintiff's mark] as a Google AdWord, meaning that

²⁴⁴ See MCCARTHY, *supra* note 11, at § 23.4 ("The phrase 'confusingly similar' is shorthand for saying that the concurrent use of conflicting marks will create a likelihood of confusion and hence infringement."); *Fisons Horticulture v. Vigoro Indus., Inc.*, 30 F.3d 466 (3d Cir. 1994) (using "confusingly similar" to refer to the similarity between the marks and the confusion likely to result); *Victoria's Cyber Secret Ltd. P'ship v. V Secret Catalogue, Inc.*, 161 F. Supp. 2d 1339, 1350 (S.D. Fla. 2001) (using "confusingly similar" interchangeably with "likelihood of confusion").

[the defendant's] website would be listed and advertised before [the plaintiff's] website when users search for [the mark] through Google's search engine."

- In *Binder v. Disability Group, Inc.*, 772 F. Supp. 2d 1172 (C.D. Cal. 2011), the district court found for plaintiff, following a bench trial, on plaintiff's infringement, false advertising, and unfair competition claims against a competitor based on the competitor's purchase of the plaintiff's trademarks as keywords through Google's AdWords program.
- In *Soilworks, LLC v. Midwest Industrial Supply, Inc.*, 575 F. Supp. 2d 1118, 1132 (D. Ariz. 2008), the district court granted summary judgment for the plaintiff and held that the defendant "diverts the initial attention of potential Internet customers to its websites by using [the plaintiff's mark] in keywords and metatags."
- In *Storus Corp. v. Aroa Marketing, Inc.*, No. C-06-2454, 2008 WL 449835 (N.D. Cal. Feb. 15, 2008), the district court granted summary judgment in favor of the plaintiff on its trademark infringement claim based on defendant advertiser's use of plaintiff's trademark in connection with Google's AdWords program.
- In *Rhino Sports, Inc. v. Sport Court, Inc.*, No. CV-02-1815-PHX-JAT, 2007 WL 1302745 (D. Ariz. May 2, 2007), a district court refused to amend a permanent injunction prohibiting the defendant from using in commerce the trademark of a competitor, including as a sponsored link or keyword, concluding that "when two competitors both rely on a distributor network composed of multiple distributors with various names and various websites, it is the opinion of this Court that a finding of initial interest confusion may still be possible."

105. Many courts have also held that the irreparable harm prerequisite to injunctive relief is satisfied by use of trademarks as keywords and have entered injunctions preventing third parties

from purchasing others' trademarks as keywords. Courts have repeatedly done so following a resolution on the merits, in the form of a permanent injunction. The following is a non-exhaustive list of permanent injunctions entered in this context to prevent the purchase and use of others' trademarks as keywords:

- In *Global Tel-Link Corp. v. Jail Call Services, LLC*, No. 1:14-cv-1557, 2015 WL 1936502, at *9 (E.D. Va. Apr. 28, 2015), the district court entered a permanent injunction ordering the defendant not to purchase search terms that directly reference plaintiff's trademarks, finding that the injunction would serve the public interest "by prohibiting [defendant] from engaging in conduct that is likely to cause confusion or mistake as to the source, sponsorship, affiliation, or approval of [plaintiff's] services."
- In *Chloe Sas v. Sawabeh Information Services Co.*, No. 11-cv-04147 (Dkt. 728) (C.D. Cal. July 8, 2014), the court enjoined the defendants from "using Plaintiffs' Marks as keywords, adwords, or any other type of metadata."
- In *World Entertainment Inc. v. Brown*, No. 09-5365, 2011 WL 2036686 (E.D. Pa. May 20, 2011), the court enjoined the defendants from "purchasing or using [plaintiff's marks for] any form of advertising, including use of keywords or meta tags in internet advertising...."
- In *Quidgeon v. Olsen*, No. 10-cv-1168, 2011 WL 1480537, at *3 (C.D. Ill. Apr. 19, 2011), the district court enjoined the defendant from using the plaintiff's trademark, "or any similar or confusing variations thereof," as keywords for Internet search engines.
- In *Skydive Arizona, Inc. v. Quattrocchi*, No. CV-05-2656-PHX-MHM, 2010 WL 1743189, at *8 (D. Ariz. Apr. 29, 2010), the district court enjoined the defendants from using the "Skydive Arizona" mark, as well as "Skydiving Arizona" and "Arizona Skydiving," as search keywords.

- In *Young Again Products, Inc. v. Acord*, No. RWT 03CV2441 (Dkt. 264) (D. Md. Mar. 25, 2009), *affirmed*, No. 09-1481 (4th Cir. Dec. 23, 2011), the court enjoined the defendants from “purchasing [Maximum Prostate, Arthritis Relief, Healthy Cholesterol, Fat Trapper, Skin Case, and Multi-Minerals] in pay-for-placement or pay-for-rank search engine advertising.”

106. Noting that the use of the trademarks of others as keywords results in consumer confusion and “eliminate[s] the level playing field that is essential to our free-market system,”²⁴⁵ courts have granted preliminary injunctions to prevent such use on the theory that consumers are “best served by eliminating dishonest and misleading advertising and solicitation practices[.]”²⁴⁶ The following examples of preliminary injunctions entered in this context are illustrative:

- In *CJ Products LLC v. Snuggly Plushez LLC*, 809 F. Supp. 2d 127, 140, 144 (E.D.N.Y. Aug. 22, 2011), the district court granted a preliminary injunction prohibiting the defendants from utilizing the plaintiff’s trademarks, “or any confusingly similar mark, or any colorable imitations thereof,” as keywords in online advertising.
- In *Partners for Health & Home, L.P. v. Yang*, No. CV 09-07849 (CBM) (RZx) (Dkt. 46) (C.D. Cal. Sept. 13, 2010), the district court granted a preliminary injunction to enjoin the defendant from purchasing any hyphenated and non-hyphenated versions of plaintiff’s trademark as keywords.

107. Even where courts have not had an opportunity to reach judgment, most have still allowed infringement claims based on the use of trademarks of others as keywords to proceed beyond the pleadings, finding plausible claims of infringement based on such conduct. In each of

²⁴⁵ *Skydive Ariz.*, 2010 WL 1743189, at *4.

²⁴⁶ *World Entm’t*, 2011 WL 2036686, at *6.

the following cases, the court denied a motion to dismiss an infringement claim in this context, thereby holding that allegations of infringement based on the use of trademarks as keywords should proceed to discovery:

- In *Lbf Travel v. Fareportal, Inc.*, No. 13 Civ. 9143(LAK)(GWG), 2014 WL 5671853, at *9 (S.D.N.Y. Nov. 5, 2014), the district court denied the defendants’ motion to dismiss because the plaintiff’s allegations of confusion based on the defendant’s use of the plaintiff’s trademarks as keywords “raise the reasonable inference that Internet users have likely believed [plaintiff] sponsored, endorsed, or otherwise approved of [defendants’] use of the [plaintiff’s] mark,” which is “sufficient to survive a motion to dismiss.”
- In *Hearts on Fire Co., LLC v. Blue Nile, Inc.*, 603 F. Supp. 2d 274, 277, 288 (D. Mass. 2009), the district court denied dismissal because the plaintiff’s allegation of infringement based on “[d]efendant’s purchase of the [plaintiff’s] trademark as a search engine keyword” raises “a plausible likelihood of confusion based on the overall context in which the consumer performs his internet search”
- In *Rescuecom Corp. v. Computer Troubleshooters USA, Inc.*, 464 F. Supp. 2d 1263, 1267 (N.D. Ga. Sept. 16, 2006), the district court denied a motion to dismiss because “the question whether trademark infringement occurs when an Internet search engine uses a trademarked term to generate ‘Sponsored Links’ appears to be an open question in the Eleventh Circuit.”
- In *Google Inc. v. Am. Blind & Wallpaper Factor, Inc.*, No. C03-05340JF, 2005 WL 832398 at *7 (N.D. Cal. Mar. 30, 2005), the district court denied Google’s motion to dismiss counterclaims that accused it of trademark infringement based on the sale of the defendant’s trademarks as keywords, noting that any determination of the likelihood of

confusion element would involve “fact-specific issues” that were “not properly resolved through a motion to dismiss.”²⁴⁷

108. In many cases, courts have allowed such infringement claims based on the use of trademarks as keywords to proceed beyond summary judgment. In such cases, the courts have found sufficient evidence indicating a likelihood of confusion to support a reasonable finding of infringement by a trier of fact. The following denials of summary judgment are illustrative:

- In *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 160 (4th Cir. 2012), the Fourth Circuit reversed the district court’s grant of summary judgment in Google’s favor, finding summary judgment inappropriate because of “sufficient evidence in the record to create a question of fact” as to whether Google was causing consumer confusion by using trademark terms to trigger keyword advertising for parties other than the trademark owner. The court found, in particular, that Rosetta Stone had proffered enough evidence of Google’s intent, actual confusion, and sophistication of the relevant consuming public, such that a reasonable jury could reach a finding of infringement based on Google’s sale of trademarks as keywords to advertisers other than the trademark owners.
- In *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020, 1031 (9th Cir. 2004), the Ninth Circuit reversed the district court’s grant of summary judgment in Netscape’s favor, finding summary judgment inappropriate because “genuine issues of material fact exist with respect to defendants’ keying practices”—namely, whether Netscape’s sale of Playboy’s marks as keywords is likely to create initial interest confusion

²⁴⁷ See also *j2 Glob. Commc’ns, Inc. v. Zilker Ventures, LLC*, No. CV 08-07470 SJO AJWX, 2009 WL 10290698 (C.D. Cal. Apr. 22, 2009) (denying the defendant’s motion to dismiss trademark claims based on using plaintiff’s marks as search keywords because asserting fair use is premature).

among consumers. The Court analyzed the Circuit's *Sleekcraft* eight-factor test for infringement, and concluded that "the majority" of those factors favored Playboy.

- In *Edible Arrangements, LLC v. Provide Commerce, Inc.*, No. 3:14-CV-00250 (VLB), 2016 WL 4074121, at *11 (D. Conn. July 29, 2016), the district court denied the defendant's motion for summary judgment on plaintiff's trademark infringement claim based on the defendant's purchase and use of plaintiff's trademark as a keyword to advertise its own products because the court "found that five of the seven" traditional "likelihood of confusion" factors "weigh in favor of [plaintiff] and that [plaintiff] has at least raised a material issue of fact as to the remaining two."
- In *Gravity Defyer Corp. v. Under Armour, Inc.*, No. LA CV13-01842, 2014 WL 3766724, at *9 (C.D. Cal. July 7, 2014), the district court found "a triable issue as to whether the appearance of the online advertisements and surrounding context [based on a search of plaintiff's trademark] would cause an ordinary consumer erroneously to conclude that there is an association between Plaintiffs and Defendants," particularly in light of the "overlap in the marks, and that the shoes [sold by both parties] have certain similarities."
- In *Soaring Helmet Corp. v. Nanal, Inc.*, No. C09-0789JLR, 2011 WL 39058 (W.D. Wash. Jan. 3, 2011), the district court denied the defendant's motion for summary judgment of non-infringement in connection with its use of "vega helmets" as a keyword in Google's AdWords program because the plaintiff owned the federally registered VEGA trademark for "motorcycle helmets."
- In *Pensacola Motor Sales, Inc. v. Eastern Shore Toyota LLC*, No. 3:09cv571, 2010 WL 3781552, at *3 (N.D. Fla. Sept. 23, 2010), the district court refused to adopt, on summary judgment, the defendants' "factual argument" that "the internet 'key words' or 'ad words'

they purchased,” including from Google, “do not constitute a misrepresentation or cause confusion under the Lanham Act.” Because the plaintiff had “presented facts that could lead a jury to conclude that Defendants’ purchase of ad words does indeed meet the requirements of the Lanham Act,” the court held that “there clearly remains a genuine issue of material fact” precluding summary judgment on the infringement claim.

109. Legal commentators have noted that search engine advertising defendants, such as Google, often settle trademark claims to avoid findings of liability after dispositive motions such as these. Indeed, one prominent trademark attorney told a legal publication that “[i]t is Google’s modus operandi to fight all these cases tooth and nail and then settle just prior to trial.”²⁴⁸

110. Even where courts have declined to find trademark infringement based on the use of a trademark in keyword advertising, the analysis was fact-specific. For example, in *1-800 Contacts, Inc. v. Lens.com, Inc.*,²⁴⁹ the Tenth Circuit affirmed the district court’s grant of summary judgment in defendant’s favor on 1-800 Contacts’ claim of trademark infringement because it found that the evidence presented by 1-800 Contacts was insufficient to support a finding of likelihood of confusion. The court based its finding, in large part, on an analysis of search engine data relating to the particular sponsored links at issue, which showed that only 25 individual Internet users (1.5% of total users) actually clicked on the defendant’s sponsored link that appeared as a result of a search of 1-800 Contacts’ trademark.²⁵⁰ In reaching its finding of a lack of initial

²⁴⁸ David McAuley, *Attorneys Lament Lost Chance for Clarity on Lawfulness of Marks’ Sale as Keywords*, Elec. Commerce & L. Rpt. (Bloomberg BNA 2012) (“It is Google’s modus operandi to fight all these cases tooth and nail and then settle just prior to trial,” David H. Bernstein, of Debevoise & Plimpton LLP, New York, told BNA. Bernstein was counsel of record for the International Trademark Association, which submitted an amicus brief supporting Rosetta Stone at the Fourth Circuit.”).

²⁴⁹ 722 F.3d 1229, 1242 (10th Cir. 2013).

²⁵⁰ *Lens.com, Inc.*, 722 F.3d at 1243-44. An open question thus remains as to whether the Court’s result would have been different if the total number of allegedly erroneous clicks had been higher than 25.

interest confusion, the Tenth Circuit engaged in a fact-specific analysis based on an evaluation of evidence that was produced during the course of discovery. The Tenth Circuit's decision in the *Lens.com* case, thus, did not purport to set a rule that would prohibit all keyword-based claims by 1-800 Contacts. Rather, it was one example of a court's attempt to weigh the evidence and apply the law. There is no indication in the *Lens.com* decision that the Tenth Circuit believed itself to be contradicting the prior Tenth Circuit holding in the *Australian Gold* case,²⁵¹ or any of its sister circuits that had found viable keyword-based trademark claims. To the contrary, the Tenth Circuit expressly discussed and distinguished the holdings in *Australian Gold* and *Rosetta Stone* as compatible with its own.²⁵² As a result, the Tenth Circuit's decision did not categorically prohibit all of the types of trademark claims that 1-800 Contacts had asserted against other keyword advertisers.

111. Nor could the Tenth Circuit's *Lens.com* decision have single-handedly overruled the well-developed body of law discussed herein, in which courts have found keyword-based trademark claims to be viable or proven. To the contrary, as is apparent from the precedents discussed above, courts have broadly recognized that if a trademark owner can establish that a significant percentage of consumers are likely to be confused as to the source of goods or services by (i) the fact that the sponsored link was the highest-ranked result of a search of the trademarked term, or (ii) the text of the advertisement in a sponsored link, it can constitute actionable trademark infringement. This is true even if the confusion is dispelled after clicking on the link and going to

²⁵¹ *Australian Gold, Inc.*, 436 F.3d at 1239.

²⁵² *Lens.com, Inc.*, 722 F.3d at 1245, 1252-53.

the website of the sponsor, or even if no sale is completed as a result of the confusion, because misappropriation of goodwill would have already occurred.²⁵³

VI. TRADEMARK OWNERS CAN HAVE VIABLE DILUTION CLAIMS IN THE KEYWORD ADVERTISING CONTEXT

112. Although fewer courts have had occasion to address trademark dilution claims in the keyword advertising context, these cases confirm that such claims can also be viable. The theory of liability from a blurring perspective is that when search engines allow advertisers to use famous trademarks they do not own as keywords, and the search engines then present the resulting sponsored link advertisements above the algorithmic search results for the famous mark, it lessens the capacity of the mark to identify and distinguish goods or services. This can diminish the strength of the trademark's association with the senior holder's goods—thereby giving rise to a viable claim for trademark dilution by blurring against the advertiser and/or the search engine. The use of another's famous marks as keywords that guide consumers to products or services of lesser quality can also serve to tarnish, degrade, or corrupt the senior holder's mark, which can give rise to a viable claim for trademark dilution by tarnishment against the advertiser and/or the search engine.

113. Most notably, in *Rosetta Stone*, the Fourth Circuit reversed the district court's grant of summary judgment in Google's favor on a dilution-by-blurring claim based on Google's sale of Rosetta Stone's trademarks as keywords in connection with its AdWords program.²⁵⁴

²⁵³ See, e.g., *Navajo Nation v. Urban Outfitters, Inc.*, 935 F. Supp. 2d 1147, 1165 (D.N.M. 2013) (“construing Plaintiffs’ complaint in the light most favorable to them, the Court concludes that Plaintiffs have sufficiently alleged Defendants have used the term ‘Navajo’ to divert internet traffic on their Web sites,” thus sustaining plaintiffs’ claim of initial interest confusion); *Morningware, Inc. v. Hearthware Home Prods., Inc.*, 673 F. Supp. 2d 630, 637 (N.D. Ill. 2009) (“if a user searches for the [plaintiff’s trademark] in Google,” and a competitor’s “advertisement appears, and . . . the website advertisement thus ‘misleads and/or confuses consumers,’” the result is actionable initial interest confusion).

²⁵⁴ 676 F.3d 144 (4th Cir. 2012).

Importantly, the court of appeals instructed the district court to allow a full dilution analysis: “On remand, the court should address whichever additional factors might apply to inform its determination of whether Google's use is likely to impair the distinctiveness of Rosetta Stone's mark. See 15 U.S.C. § 1125(c)(2)(B).”²⁵⁵ The Fourth Circuit also held that Google, not Rosetta Stone, bore the burden of proof on Google’s fair use defense.²⁵⁶ The court of appeals appears to have been influenced by the extensive association of the ROSETTA STONE mark with “counterfeit ROSETTA STONE products” caused by Google’s advertising programs.²⁵⁷ Thus, while the Fourth Circuit did not decide the ultimate issue of likelihood of dilution in *Rosetta Stone*, the court made clear that dilution is a viable cause of action in the keyword advertising context.

114. Other courts have denied motions to dismiss, and even motions for summary judgment, on dilution claims based on the sale and use of a plaintiff’s marks as keywords in search term advertising. For example:

- In *Edible Arrangements, LLC v. Provide Commerce, Inc.*, 2016 WL 4074121, at *16 (D. Conn. July 29, 2016), the plaintiff, a leading seller of artfully designed fresh fruit and chocolate-covered fruit arrangements, sued a company that competes directly with some of plaintiff’s chocolate-covered fruit products, based on the defendant’s purchase of the

²⁵⁵ *Id.* at 171. The Fourth Circuit also directed the trial court to consider when Rosetta Stone’s mark became famous, because Google had argued that Rosetta Stone’s mark did not become famous until after it was first used in connection with sponsored link advertisements. *Id.* at 172.

²⁵⁶ *Id.* at 169-70.

²⁵⁷ *Id.* at 152, 158 (noting that “between September 3, 2009, and March 1, 2010, [Rosetta Stone] was forced to report 190 instances to Google in which one of Google’s sponsored links was marketing counterfeit ROSETTA STONE products,” and Rosetta Stone’s presentation of evidence of customers who had “purchased pirated/counterfeit software believing the software to be genuine Rosetta Stone product”) (citation and internal quotation marks omitted). *Cf. Lorillard Tobacco Co. v. Ahmad’s Pizza, Inc.*, 866 F. Supp. 2d 872, 879 (N.D. Ohio 2012) (association of trademark holder’s cigarettes with counterfeit cigarettes constitutes dilution by tarnishment, since trademark holder’s cigarettes “taste like cigarettes should and non-genuine produces do not”); *Fendi Adele S.R.L. v. Filene’s Basement, Inc.*, 696 F. Supp. 2d 368, 391 (S.D.N.Y. 2010) (association of trademark with counterfeit merchandise bearing plaintiff’s marks “dilutes the quality of the Marks by diminishing their capacity to identify and distinguish the Fendi Products”).

plaintiff's mark as a keyword, so that consumer searching for "edible arrangements" will see an ad for defendant's products. The defendant moved for summary judgment on plaintiff's trademark claims, including its dilution by blurring and dilution by tarnishment claims, and the court denied summary judgment on both dilution claims. With respect to the dilution by blurring claim, the court held that the plaintiff had "raised a material issue of fact with regard to whether [defendant's] conduct [of purchasing and using plaintiff's trademark as a keyword to advertise its products] constituted dilution by blurring" to survive summary judgment. On the tarnishment claim, the court noted that the plaintiff's "sole evidence" in support of that claim "is the fact that [defendant] coats its 'dipped fruits' products in 'imitation chocolate,' instead of 'real chocolate.'" The court found this difference in quality between the two competing products to be sufficient evidence of dilution by tarnishment such as to create a genuine issue of material fact.

- In *Google Inc. v. Am. Blind & Wallpaper Factory, Inc.*, 2005 WL 832398 (N.D. Cal. Mar. 30, 2005), Google moved to dismiss American Blind's trademark claims based on Google's sale to others, through Google's AdWords program, of keywords comprised, in whole or part, of American Blind's trademarks. The court denied Google's motion with respect to the trademark claims, including American Blind's dilution claim. In so ruling, the court emphasized that it was "expresses[ing] no opinion as to whether Defendants ultimately will prevail in trying to prove that they are not liable to American Blind on these claims," but that the trademark claims, including the dilution claim, should "proceed beyond the motion-to-dismiss stage, which will enable the Court to consider both the relevant facts and the applicable law in the context of a fuller record."

115. Thus, courts agree that trademark dilution claims are viable in the keyword advertising context, and that such claims often cannot be resolved on the pleadings, or even at summary judgment. Empirical research appears to support these findings. For example, according to one study, consumers were asked “if seeing a company listed within the opening lines of search results would make them believe that the company was a top one in its field, 33% of consumers surveyed said yes.”²⁵⁸ The study concluded that a “large number of search engine users will assign brand value or equity to a top ranked web site, disregarding . . . the cause. Based on these results, lesser-known brands or resellers of these branded products can increase their perceived brand equity with search engine users by being found in top search matches.”²⁵⁹ This study is precisely the kind of evidence that could be used to make a case that buying the right to appear on top of a search results page for a trademark is likely to dilute the trademark used in the search—whittling away the strength of the trademark owner’s brand.

VII. SALES OF KEYWORDS MAY ALSO CREATE LIABILITY UNDER FALSE ADVERTISING, MISAPPROPRIATION, AND UNFAIR COMPETITION THEORIES

116. In addition to claims for trademark infringement and dilution, plaintiffs regularly include claims for false advertising, misappropriation, and/or unfair competition in keyword

²⁵⁸ Kurt Peters, *Top search rankings convey brand value to consumers, iProspect says*, Internet Retailer (July 30, 2002), <https://www.internetretailer.com/2002/07/30/top-search-rankings-convey-brand-value-to-consumers-iprospect-s> (visited Feb. 14, 2017).

²⁵⁹ See Laura Centore, *Don’t Damage Your Brand With The Wrong Keywords!* (Mar. 11, 2009), <http://searchengineland.com/common-keyword-selection-mistakes-and-how-to-avoid-them-16845> (“[B]eing found on relevant [search] terms will not only bring traffic and potential conversions to your website, it can also provide you with a brand ‘halo’ effect as research shows that 39% of search engine users believe that the companies whose websites are returned among the top search results are the leaders in their field.”); see also Jeev Trika, *Buyer’s Guide on Choosing the Right Search Engine Marketing Agencies & Tools*, 100 (Jul. 13, 2010) (“When your ads are placed higher they are more likely to be clicked. The more clicks you get, the more relevant your ad appears to be with regards to that niche. . . . This is often referred to as the ‘halo effect’ . . .”).

advertising complaints.²⁶⁰ However, because of the prevalence of case law on infringement and dilution theories in the keyword advertising context, courts have not written as much on these related claims. But the case law that has developed in this area makes clear that the same behaviors of search engines and advertisers with respect to keyword advertising that give rise to actionable trademark infringement and dilution claims can also give rise to viable false advertising, misappropriation, and unfair competition claims—as evidenced by the fact that trademark owners routinely include such claims in their complaints against search engines and advertisers, and that courts regularly deny motions to dismiss them.²⁶¹

117. In brief, the theory of liability is that when search engines allow advertisers to pay for trademarks they do not own as keywords, the search engines then present the resulting sponsored link advertisements above the algorithmic search results for the trademark and, in many cases, highlighted in ways that give the impression that these paid results are the most relevant to the search term used. This can create the appearance of a business relationship or license agreement between the trademark owner and the advertiser in the minds of the consuming public

²⁶⁰ See MSFT-00000001 (settlement agreement for claims of unfair trade practices, unfair competition, trademark infringement, and appropriation of name or likeness); see also MSFT-00000029 (*Dazzlesmile, LLC v. Epic Advertising, Inc., et al.* (including Microsoft) 2:09-CV-1043 (D. Utah March 22, 2010) (complaint alleging unfair competition, misappropriation, fraud, and RICO among others)).

²⁶¹ See, e.g., *Morningware, Inc.*, 673 F. Supp. 2d at 639 (denying defendant advertiser’s motion to dismiss deceptive trade practices and unfair competition claims, among others); *Google Inc. v. Am. Blind & Wallpaper Factory, Inc.*, No. C 03-05340 JF, 2005 WL 832398, at *7 (N.D. Cal. Mar. 30, 2005) (denying Google’s motion to dismiss false representation and unfair competition claims, among others); *GEICO*, 330 F. Supp. 2d at 703-04 (denying Google’s motion to dismiss false representation and unfair competition claims, among others); *Am. Airlines, Inc. v. Google, Inc.*, No. 4:07-CV-487-A (N.D. Tex. Oct. 24, 2007) (D.E. 19) (denying Google’s motion to dismiss claims for false representation, misappropriation, and unfair competition, among others); *CNG Fin. Corp. v. Google, Inc.*, No. 1:06-cv-040 (S.D. Ohio Nov. 21, 2006) (D.E. 35) (denying Google’s motion to dismiss claims of false representation and misappropriation, among others).

where no such business arrangement or licensing agreement exists—thereby giving rise to a viable claim for unfair competition against the advertiser and/or the search engine.²⁶²

118. At least one court has gone beyond the pleading stage in evaluating a false advertising claim based the use of trademarks as keywords. In that case, the court concluded that the advertisements in question were literally or facially false, giving rise to a presumption that consumers were deceived and that the deception was material.²⁶³

119. Courts also often deny summary judgment on such claims later in the case, finding that trademarks owners have proffered sufficient evidence to require a trial on the merits.²⁶⁴

VIII. CONSUMER CONFUSION SURVEYS ARE NOT REQUIRED TO PROVE INFRINGEMENT, DILUTION, OR STATE LAW TRADEMARK AND UNFAIR COMPETITION CLAIMS, NOR IS A PLAINTIFF REQUIRED TO CONDUCT A SURVEY BEFORE INITIATING INFRINGEMENT LITIGATION

120. Consumer surveys are one form of evidence that litigants may introduce to prove the existence, or non-existence, of actual consumer confusion between trademarks in lawsuits alleging trademark infringement. I have been involved in trademark cases with surveys conducted through shopping malls, the Internet, live studies, and telephone contacts.²⁶⁵ Courts and

²⁶² See, e.g., *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 157 (4th Cir. 2012) (noting that unfair competition and infringement claims are concerned with customer confusion as to the source, sponsorship, and affiliation of the goods); *Morningware, Inc.*, 673 F. Supp. 2d at 638 (holding that plaintiff sufficiently alleged unfair competition by alleging that defendant’s advertisements “could mislead consumer[s] to believe that the link is associated with [defendant]”).

²⁶³ See *Soaring Helmet Corp. v. Nanal, Inc.*, No. C09-0789JLR, 2011 WL 39058, at *6 (W.D. Wash. Jan. 3, 2011).

²⁶⁴ See, e.g., *Edina Realty, Inc. v. TheMLSonline.com*, Civ. 04-4371JRTFLN, 2006 WL 737064 (D. Minn. Mar. 20, 2006) (denying summary judgment against unfair competition claim in keyword advertising context); *800-JR Cigar, Inc., v. Goto.com, Inc.*, Civil Action No. 00-3179, 2006 WL 1971659, at *8 (D.N.J. July 13, 2006) (same).

²⁶⁵ See, e.g., Robert C. Bird, *Streamlining Consumer Survey Analysis: An Examination of the Concept of Universe in Consumer Surveys Offered in Intellectual Property Litigation*, 88 TRADEMARK REP. 269, 270 (1998) (“A consumer survey is a scientific method of presenting evidence of mental associations of a given group of people by asking a representative sample of the relevant target group. In other words, surveys gather data on the attitudes and beliefs of consumers towards a given product, name, or concept.”) (footnote omitted).

commentators largely agree that although consumer surveys can be persuasive, they are not mandatory.

121. Courts have repeatedly held that a showing of actual confusion is not required to prove likelihood of confusion.²⁶⁶ Courts regularly make findings of infringement in the absence of actual confusion evidence.²⁶⁷ In fact, one study of 533 trademark cases from 2000 to 2006 concluded that only 16.6% of cases even mentioned a survey when evaluating the likelihood of confusion.²⁶⁸ This is because, as discussed above, actual confusion is only one of several factors in the likelihood of confusion analysis for trademark infringement.²⁶⁹ Moreover, as one court summarized the case law in this area, “[t]he law recognizes that random instances of confusion often go unreported or unrecorded.”²⁷⁰ As a result, it is commonly understood among courts and trademark counsel that evidence of actual confusion—including in the form of consumer

²⁶⁶ See *supra* Part III(C)(1)(ii); see, e.g., *Bandag, Inc. v. Al Bolser’s Tire Stores, Inc.*, 750 F.2d 903, 914 (Fed. Cir. 1984) (failure to show actual confusion is “neither dispositive nor of great weight” in infringement analysis); *Sabinsa Corp. v. Creative Compounds, LLC*, 609 F.3d 175, 190 (3d Cir. 2010) (reversing the lower court and finding infringement despite no evidence of actual confusion); *Sleekcraft Boats*, 599 F.2d at 353 (“[b]ecause of the difficulty in garnering such evidence, the failure to prove instances of actual confusion is not dispositive”).

²⁶⁷ See, e.g., *Borinquen Biscuit Corp. v. M.V. Trading Corp.*, 443 F.3d 112, 120 (1st Cir. 2006) (rejecting the defendant’s argument regarding the lack of a consumer survey and affirming a lower court’s finding of likelihood of confusion without evidence of actual confusion); *Montgomery v. Noga*, 168 F.3d 1282, 1302 (11th Cir. 1999) (affirming likelihood of confusion despite lack of evidence showing actual confusion); *Smack Apparel Co.*, 550 F.3d at 483 (sustaining a finding of a likelihood of confusion while not resolving whether evidence of actual confusion existed in the record.); *A.J. Canfield Co. v. Vess Beverages, Inc.*, 796 F.2d 903, 908 (7th Cir. 1986) (noting that plaintiff did not need to introduce a consumer confusion survey to prevail on a preliminary injunction motion); Robert C. Bird & Joel H. Steckel, *The Role of Consumer Surveys in Trademark Infringement: Empirical Evidence from the Federal Courts*, 14 U. PA. J. BUS. L. 1013, 1035 (2012) (“[W]e find no evidence that surveys are used by a majority or even a large plurality of litigants to prove likelihood of confusion in federal court. Our results seem to contradict [the notion] that consumer survey evidence is necessary or even strongly recommended to prove trademark infringement.”).

²⁶⁸ See Bird & Steckel, *supra* note 267.

²⁶⁹ See *supra* Part III(C)(1)(ii).

²⁷⁰ *Video Pipeline, Inc. v. Buena Vista Home Entm’t, Inc.*, 275 F. Supp. 2d 543, 572 (D.N.J. 2003).

surveys—is not required to prove infringement under the Lanham Act or state law.²⁷¹ It is similarly understood that consumer surveys are not required to prove dilution.²⁷²

122. Courts, moreover, have also recognized that such surveys can be “prone to bias[.]”²⁷³ “unclear[.]”²⁷⁴ and “insubstantial[.]”²⁷⁵ As a result, courts frequently exclude surveys that do not conform to generally accepted methodologies and take steps to minimize these risks of bias and errors. Those issues caused one court to conclude that consumer confusion surveys are “not necessarily the best evidence of actual confusion.”²⁷⁶ Similarly, Judge Posner has written that

²⁷¹ See Dan Sarel & Howard Marmorstein, *The Effect of Consumer Surveys and Actual Confusion Evidence in Trademark Litigation: An Empirical Assessment*, 99 TRADEMARK REP. 1416, 1416 (2009) (“the reality is that trademark plaintiffs may prevail—and frequently do prevail—without presenting examples of actual consumer confusion or a consumer survey”); see also, e.g., *Lorillard Tobacco Co.*, 866 F. Supp. 2d at 879 (granting summary judgment on plaintiff’s federal trademark infringement and Ohio state law infringement claims without a consumer confusion survey); *N.Y. City Triathlon, LLC*, 704 F. Supp. 2d at 339 (finding plaintiff likely to succeed on federal trademark infringement and New York state law infringement claims without a consumer confusion survey).

²⁷² See, e.g., *Lorillard Tobacco Co.*, 866 F. Supp. 2d at 878-79 (granting summary judgment to plaintiff on dilution by blurring claim without a consumer confusion survey); see also *supra*, note 128 (citing cases finding dilution based on the similarity of the marks at issue).

²⁷³ *Kraft Foods Grp. Brands LLC v. Cracker Barrel Old Country Store, Inc.*, 735 F.3d 735, 741 (7th Cir. 2013) (affirming grant of preliminary injunction, despite noting that plaintiffs’ expert report on consumer confusion was of little value, as “[c]onsumer surveys conducted by party-hired expert witnesses are prone to bias” and identifying the problems with consumer surveys).

²⁷⁴ *Network Automation, Inc.*, 638 F.3d at 1151 (citations omitted) (noting that while evidence of actual confusion, including consumer surveys, is a “relevant factor” in keyword advertising cases, “its importance is diminished at the preliminary injunction stage” because “[p]roving actual confusion is difficult . . . and the courts have often discounted such evidence because it was unclear or insubstantial”).

²⁷⁵ *Id.*; see e.g., *Malletier v. Donney & Bourke, Inc.*, 525 F. Supp. 2d 558, 563 (S.D.N.Y. 2007) (holding that a trademark survey “lack[ed] [a] fit between the survey’s questions and the law of dilution” an improper universe of participants, and the use of questions asking for a legal conclusion to exclude a survey by Dr. Jacoby); Ruling on Defendant’s Motions in Limine, *Dongguk Univ. v. Yale Univ.*, No. 08CV441, at *13-14 (D. Conn. June 1, 2012) (holding a survey failed test or support the conclusions stated in the expert report and excluding the report of Dr. Jacoby).

²⁷⁶ *Tools USA & Equip. Co. v. Champ Frame Straightening Equip., Inc.*, 87 F.3d 654, 661 (4th Cir. 1996) (citations omitted) (“[S]urvey evidence is not necessarily the best evidence of actual confusion and ‘surveys are not required to prove likelihood of confusion.’”).

survey evidence in trademark infringement suits can be “frequently unedifying” and frequently results in a “battle of experts.”²⁷⁷

123. It is common practice for trademark counsel to file suit or send a demand letter without conducting a consumer confusion survey because consumer confusion surveys are often informed by evidence gathered in discovery. Indeed, courts and factfinders can exclude or give little weight to consumer surveys if they are not consistent with the evidence presented as to the relevant markets and consumers.²⁷⁸ To the extent a trademark plaintiff conducts a pre-litigation consumer confusion survey, the plaintiff may need to incur additional time and expense recreating or supplementing that survey once discovery is underway.

124. Consumer surveys are expensive to create and time-consuming to administer.²⁷⁹ Courts and commentators both recognize the “great expense of both money and effort” involved

²⁷⁷ *Indianapolis Colts, Inc. v. Metro. Balt. Football Club Ltd. P’ship.*, 34 F.3d 410, 415 (7th Cir. 1994).

²⁷⁸ *See In re Hotels.com, L.P.*, 573 F.3d 1300, 1305, 91 U.S.P.Q.2d 1532 (Fed. Cir. 2009) (affirming the T.T.A.B. giving little weight to a survey it found was based on a flawed assumption about consumer knowledge of trademarks and domain names); *see also Clicks Billiards, Inc. v. Sixshooters, Inc.*, 251 F.3d 1252, 1263, 58 U.S.P.Q.2d 1881 (9th Cir. 2001). Evidence adduced in discovery can affect important considerations as to how the survey should be constructed, including by illustrating the proper universe of consumers who should be surveyed, as surveying the proper universe of consumers is critical to a survey’s probative value. *See Bird, supra* note 265 (“Determination of the universe represents one of the most significant challenges a survey expert will face in drafting a consumer survey. A misaligned universe can doom otherwise competent research and trigger an adverse decision by the court.”); Evans & Gunn, *Trademark Surveys*, 79 TRADEMARK REP. 1, 31 (1988) (“Errors in this stage [of selecting the universe] are more likely to prove fatal than errors in the content of the questions, for there is some value in a slanted question asked of the right witness, but no value in asking the right question of the wrong witness.”). A party may not fully comprehend the correct universe of consumers to survey until it has reviewed the evidence introduced in discovery. Some experts therefore suggest that a judge determine the proper universe to be surveyed as a matter of law prior to litigants taking surveys, Bird, *supra* note 265, thereby motivating parties to resist in engaging in consumer surveys prior to the start of discovery.

²⁷⁹ *See, e.g., PF Brands, Inc.*, 191 F.3d at 224 (noting that consumer surveys are “expensive, time-consuming and not immune to manipulation”); *Castrol Inc. v. Pennzoil Co.*, 987 F.2d 939, 951 (3d Cir. 1993) (Roth, J., dissenting) (describing consumer surveys as “time consuming and expensive” in a case involving false advertising under the Lanham Act); *Monster Cable Prod., Inc. v. Discovery Commc’ns, Inc.*, No. C 03-03250 WHA, 2004 WL 2445348, at *7 (N.D. Cal. Nov. 1, 2004) (acknowledging the “difficulties and expenses in conducting consumer surveys”); Sarel & Marmorstein, *supra* note 271 (“Obtaining any data from consumers, particularly when a properly conducted survey is entailed, is a complex, time-consuming, and expensive process.”); Bird & Steckel, *supra* note 267 (“[C]onsumer surveys are expensive to design and implement. Plaintiffs with limited resources will not be able to afford one.”).

in the consumer confusion survey process.²⁸⁰ Some legal commentators stress that if courts required consumer confusion surveys, it would effectively prohibit parties with limited means from exercising their rights.²⁸¹ To help streamline the process and reduce the burden, some courts even offer guidance on proper survey methodology before it is conducted.²⁸² The Seventh Circuit, for example, lauded as a “commendable procedure to follow,” trial courts that issue preliminary advice on survey procedure *before* the parties spend time and money conducting a survey.²⁸³ Conducting a pre-litigation survey risks that the relevant court will later determine that the survey was not conducted to the court’s requirements, which will result in significant resources having been wasted.²⁸⁴

125. As discussed above in Part III.C.1.ii, a survey is not required to establish trademark liability. For the same reasons, it cannot be the law that a trademark owner is required to conduct a survey before sending a cease and desist letter. In my experience, trademark owners conduct a survey before sending a cease and desist letter in only a very small percentage of instances of potential infringement or dilution. What is required before filing a trademark complaint is, under Rule 11 of the Federal Rules of Civil Procedure, a reasonable inquiry, proper purpose, nonfrivolous argument, and the existence or likely existence of evidentiary support.²⁸⁵ I am not aware of any case where parties or counsel have been sanctioned under Rule 11 for filing a trademark complaint without first conducting a consumer survey.

²⁸⁰ *Fort James Corp. v. Kimberly-Clark Tissue Co.*, No. 98 C 7834, 1999 WL 966144, at *6 (N.D. Ill. Oct. 8, 1999).

²⁸¹ *See* MCCARTHY, *supra* note 11 § 32:195 (“Judges who demand survey evidence and failing to see it, infer that the results would be damaging to the plaintiff, may be effectively pricing small business litigants out of the legal system, denying them the ability to enforce their marks.”).

²⁸² *Fort James Corp. v. Kimberly-Clark Tissue Co.*, No. 98 C 7834, 1999 WL 966144, at *6 (N.D. Ill. Oct. 8, 1999).

²⁸³ *Union Carbide Corp. v. Ever-Ready Inc.*, 531 F.2d 366, 386 (7th Cir. 1976).

²⁸⁴ *Id.*

²⁸⁵ *See* FED. R. CIV. P. 11(b).

126. In many cases, conducting consumer surveys before sending cease and desist letters or initiating litigation is not a realistic option because the delay inherent in creating a trademark survey runs counter to the purpose of addressing the irreparable harms caused by trademark infringement. Trademark counsel widely understand that trademark infringement constitutes an immediate and irreparable harm, allowing courts to order relief on a temporary or preliminary basis. Plaintiffs regularly seek injunctions in trademark infringement cases in order to prohibit an infringer from using a particular mark.²⁸⁶ At the same time, delay in bringing suit or seeking a preliminary injunction suggests a lack of urgency that “neutralize[s] any presumption” that the infringement will irreparably harm a plaintiff pending trial—counting against one of the preliminary injunction factors.²⁸⁷ Trademark infringement plaintiffs have lost requests for preliminary injunctions due to delays of as little as five to six weeks in bringing the motion.²⁸⁸ Courts have also noted that a trademark owner need only fight one trademark battle at a time, and that delay is no defense where the defendant’s conduct was calculated to trade on plaintiff’s

²⁸⁶ ADAM BROOKMAN AND TERENCE P. ROSS, INTELLECTUAL PROPERTY LAW: DAMAGES AND REMEDIES §§ 10.02, 11.01 (repl. 2016); *See, e.g., Mont. Prof'l Sports, LLC v. Leisure Sports Mgmt., Inc.*, No. CIVA605CV1827ORL18DA, 2006 WL 289111, at *5 (M.D. Fla. Feb. 7, 2006); *Beacon Mut. Ins. Co. v. OneBeacon Ins. Corp.*, 376 F. Supp. 2d 251, 265 (D.R.I. 2005).

²⁸⁷ *Citibank, N.A. v. Citytrust*, 756 F.2d 273, 276 (2d Cir. 1985); *see also Exxon Corp. v. Xoil Energy Res., Inc.*, 552 F. Supp. 1008, 216 U.S.P.Q. 634 (S.D.N.Y. 1981) (finding that a one-year delay in filing suit, and subsequent two-month delay in seeking an injunction, was “fatal” to the preliminary injunction); *Le Sportsac, Inc. v. Dockside Research, Inc.*, 478 F. Supp. 602, 609 (S.D.N.Y. 1979) (denying a preliminary injunction due a one-year delay in filing, as a “[d]elay of this nature undercuts the sense of urgency that ordinarily accompanies a motion for preliminary relief and suggests that there is, in fact, no irreparable injury”); *see also Edelman & Sunderji, Delay in Filing Preliminary Injunction Motions: 2015 Edition*, 105 TRADEMARK REP. 1012, 1025 (2015) (“Inexcusable delay continues to play a significant role in determining whether a court will grant a motion for a preliminary injunction in a trademark case.”); *PF Brands, Inc.*, 191 F.3d at 224.

²⁸⁸ *Nina Ricci, S.A.R.L. v. Gemcraft Ltd.*, 612 F. Supp. 1520, 1531 (S.D.N.Y. 1985) (denying preliminary injunction due to six weeks delay in bringing suit); *Weight Watchers Int'l, Inc. v. Luigino's, Inc.*, 423 F.3d 137, 144 (2d Cir. 2005) (citations omitted) (“We have found delays of as little as ten weeks sufficient to defeat the presumption of irreparable harm that is essential to the issuance of a preliminary injunction.”); *Citibank, N.A. v. Citytrust*, 756 F.2d 273, 277 (2d Cir. 1985) (denying preliminary injunction after ten-week delay from actual notice of infringement); *Borden, Inc. v. Kraft, Inc.*, No. 84 C 5295, 1984 WL 1458, at *16 (N.D. Ill. Sept. 28, 1984) (“Preliminary injunctions are routinely denied in trademark cases if there is . . . an undue delay of even weeks . . . in seeking such relief once the plaintiff has or should have knowledge of the wrong.”).

reputation.²⁸⁹ But in my experience, most trademark lawyers would consider it foolish, wasteful, and unnecessarily risky to wait to conduct a trademark confusion survey before sending a cease and desist letter based on a clear unauthorized use of a trademark owner's mark.

IX. 1-800 CONTACTS WAS JUSTIFIED IN PURSUING TRADEMARK CLAIMS

127. Around the time of 1-800 Contacts' settlements, 1-800 Contacts and many other trademark owners, counsel, and academics believed that the sale and use of trademarks to trigger search advertising for unapproved third parties could constitute a violation of the trademark owner's rights.²⁹⁰ Although opinion on this issue is not uniform, there was extensive support from academics, practitioners, and courts that 1-800 Contacts' competitors were potentially engaging in tortious conduct when they purchased 1-800 Contacts' trademarks to advertise in a manner that significant numbers of consumers did not—and still do not—perceive as advertising at all.²⁹¹

²⁸⁹ See, e.g. *Cuban Cigar Brands N.V. v. Upman Int'l, Inc.*, 457 F. Supp. 1090 (S.D.N.Y. 1978) (Weinfeld, J.), *aff'd*, 607 F.2d 995 (S.D.N.Y. 1978).

²⁹⁰ Advertising industry press reported about possible litigation resulting from use of a competitor's trademark as a keyword. See Jeffrey Rohrs, *Google Drops Restrictions on AdWords; Amazon's A9 Launches*, Search Engine Watch (Apr. 14, 2004), <https://searchenginewatch.com/sew/news/2064360/google-drops-restrictions-adwords-amazons-a9-launches> (advising businesses “to continue [to] avoid bidding on trademark-related keywords” in many situations); see also Stephen Horace, *supra* note 89 (warning that using a competitor's trademark as a keyword term “opens [the advertiser] up to possible liability for trademark infringement and unfair competition”).

²⁹¹ See, e.g., Clifford D. Scott, *Trademark Strategy in the Internet Age: Customer Hijacking and the Doctrine of Initial Interest Confusion*, 2 J. OF RETAILING 176 (2013) (“Until the definition of [initial interest confusion] is solidified by either the Supreme Court or Congress, it would seem that firms would be well-advised to assume that the broadest definition, the *Australian Gold*/diversion approach, is operative law.”); Sophie Stalla-Bourdillon, *Should Search Engines Begin to Worry?*, 14 No. 5 J. INTERNET L. 3, 6 (2010) (noting that “providers of sponsored links should be held liable” for contributory infringement in certain situations, and even then, “the specter of primary liability continues to persist.”); Kate Kaye, *Alliance of Search Advertisers Has Familiar Ring*, Clickz (Apr. 22, 2009), <https://www.clickz.com/alliance-of-search-advertisers-has-familiar-ring/72186/> (last visited Feb. 23, 2017) (announcing the formation of an alliance of “concerned search advertisers aim[ed] [at] rais[ing] awareness among consumers” about confusion caused by search advertising); Regina Nelson Eng, *A Likelihood of Infringement the Purchase and Sale of Trademarks As Adwords*, 18 ALB. L.J. SCI. & TECH. 493, 536 (2008); Jonathan Moskin, *Virtual Trademark Use - the Parallel World of Keyword Ads*, 98 TRADEMARK REP. 873, 876 (2008) (arguing that “U.S. courts are now split on whether” purchase of trademarks as keywords was lawful); Emilio B. Nicolas, Daniel Scardino, *Keyword Search Advertising: Whose Name Is It Anyway?*, COMM. LAW. 7, 13 (Summer 2007) (noting risks of possible infringement liability from keyword advertising, and advising that Google may need to cease selling trademarks as keywords); Stephen W. Feingold and Mark Lemley, *The Great Keyword Debate*, 2007 MIDWEST INTELLECTUAL PROP. INST. (Sept. 27, 2007) (debating legality of use of trademarks as keywords); Mark Bartholomew, *Making A Mark in the Internet Economy: A Trademark Analysis*

Authors in legal periodicals often provided the same advice—that “trademark owners should continue to lodge objections with search engines and advertisers” and “[d]irect actions against the advertisers may be the best option in many cases.”²⁹² Indeed, the search engines themselves listed the possibility of liability arising from the sale of trademarks to third parties as keywords as risk factors subject to their disclosure obligations under the federal securities laws.²⁹³

128. Importantly, much of the commentary focused on the fact that the search engine system was inherently designed to cause Internet users to click on links to advertisers rather than on links that search engines claimed were the result of sophisticated algorithms designed to identify the websites most relevant to a given search term (in this scenario, a company’s

of Search Engine Advertising, 58 OKLA. L. REV. 179, 181 (2005) (“The current state of trademark law makes it impossible to predict how the Google cases will be resolved.”); Benjamin Aitken, *Keyword-Linked Advertising, Trademark Infringement, and Google’s Contributory Liability*, DUKE L. & TECH. REV. 21, 24 (Sept. 1, 2005) (stating that it is “valid” to hold search engines liable for infringement for advertisements that confuse consumers, and advising search engines to remove such advertisements); *Making Your Mark on Google*, 18 HARV. J.L. & TECH. 479 (2005) (noting the uncertain legal landscape but that “within the existing context . . . the best solution may be for courts to entertain direct infringement suits only against the purchasers of adwords and find search engines liable, if at all, for contributory infringement.”); ROGER E. SCHECHTER AND JOHN R. THOMAS, INTELLECTUAL PROPERTY THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS 816 (Hornbook Series, Thomson West 2003) (When “search engines auction off high placements in lists of search results . . . , the potential for consumer deception is considerably greater than with banner or pop-up ads because most web surfers will assume that the search results appearing near the top of a list generated after entry of a keyword are those that are objectively the most relevant to the search”); Rachel L. Posner, *Manipulative Metatagging, Search Engine Baiting, and Initial Interest Confusion*, 33 COLUM. J.L. & SOC. PROBS. 439, 441 (2000) (describing this conduct as search engine “baiting,” and noting that it may constitute infringement). See also David J. Franklyn and David A. Hyman, *Trademarks as Search Engine Keywords: Much Ado About Something?*, 26 HARV. J. L. & TECH. 481 (2013) (pointing out that “most of the litigation involving trademarks as search engine keywords features competitors who are selling similar goods to those bearing the trademark”).

²⁹² Sheldon H. Klein, *et al.*, *Use of Trademarks In Keyword-Triggered Search Engine Advertising: A Hot Topic In Internet Law—Part II*, THE METRO. CORP. COUNSEL 5 (June 2005).

²⁹³ See, e.g., Form S-1 Registration Statement, Google, Inc., April 29, 2004, p. 10 (“As a result of this change in policy, we may be subject to more trademark infringement lawsuits.... Adverse 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.”); Form 10-K, Yahoo! Inc., 2005, p. 21 (“[T]hird parties have made, and may continue to make, trademark infringement and related claims against us over the display of search results triggered by search terms that include trademark terms. A court in France has held us liable for displaying search results triggered by certain trademark terms....”).

trademark).²⁹⁴ Indeed, commentators have described the bidding system inherent in these search engine-advertising programs as a war for the first few spots, which naturally creates the conditions for confusion among bidding advertisers and organic web results.²⁹⁵ By refusing to dismiss claims against search engines or against advertisers that used text that did not display a trademark, courts have at least implicitly held that, regardless of the specific text of sponsored links, the act of paying (or charging) to secure the top spot in search results triggered by a search for a trademark creates a likelihood of “initial interest confusion”—by at least temporarily diverting consumers searching for the trademark owner’s goods or services to the goods or services of others.²⁹⁶ As discussed

²⁹⁴ See, e.g., Regina Nelson Eng, *A Likelihood of Infringement the Purchase and Sale of Trademarks As Adwords*, 18 ALB. L.J. SCI. & TECH. 493, 516–17 (2008) (“Google also designs the appearance and sets the location of the advertisements in a manner most likely to deceive consumers into believing they have selected an organic search result.”); Melinda A. Dudley, *Consumer Sophistication and Likelihood of Confusion: How Purchased Keyword Trademark Infringement Cases Are Giving Consumers Too Much Credit*, 41 AIPLA Q.J. 319, 325 (2013) (citation omitted) (noting that sponsored links appear in identical font, color, and sizing to organic search results, making them “indistinguishable from legitimate search results” and presented in a manner “most likely to deceive consumers into believing they have selected an organic search result”); Patrick F. Nevins, *Is Google Doing Evil with Trademarks?*, 40 CONN. L. REV. 247, 251 (2007) (noting that advertisers benefit from sponsored advertising, as Google’s search results are “reputed to be relevant to the search conducted”).

²⁹⁵ “Being in the top of the search results is important because ‘[s]earchers usually consider only the top few search results; the top-ranked search result gets a high percentage of searcher clicks, and clickthrough rates quickly decline from there.’” Raymundo Reyes, *The Legal Obligations of Search Engine Optimization Firms*, 57 ARIZ. L. REV. 1115 (2015) (quoting Eric Goldman, *Search Engine Bias and the Demise of Search Engine Utopianism*, 8 YALE J. L. & TECH. 188, 190 (2006)); see also Worthy Campbell, *A Comparative Look at Lawyer Professionalism: Contrasting Search Engine Optimization, Lawwyering, & Law Teaching*, 50 U.S.F. L. REV. 401, 434 (2016) (“To get visits via Google, which for the 21st century has been the dominant source of web traffic for North America and European site visitors, the page needs to rank highly. The first ranked site gets far more traffic than the second, and so on, until those on the second or third page see only a tiny fraction of the traffic seen by top ranked sites.”); Marina Lao, *Search, Essential Facilities, and the Antitrust Duty to Deal*, 11 NW. J. TECH. & INTELL. PROP. 275, 300 (2013) (“Studies have shown that top rankings on a results page receive the vast majority of all user attention, with the first spot receiving twice as many user clicks as the second.”). In fact, studies have found that 91.5 percent of Internet users will not even look past the first page of search results. See Chuck Schuele, *Online Reputation Management*, 31 GPSolo 60, 63 (2014); see also Goldman, *Search Engine Bias and the Demise of Search Engine Utopianism*, 8 YALE J. L. & TECH., at 188 (“[E]ven if a search engine delivers hundreds or even thousands of search results in response to a searcher’s query, searchers effectively ignore the vast majority of those search results.”).

²⁹⁶ See, e.g., *Rosetta Stone*, 676 F.3d at 156-61; *Australian Gold*, 436 F.3d at 1238-40; *Soilworks, LLC*, 575 F. Supp. 2d at 1123-33; Clifford D. Scott, *Trademark Strategy in the Internet Age: Customer Hijacking and the Doctrine of Initial Interest Confusion*, 2 J. OF RETAILING 176 (2013) (“Until the definition of [initial interest confusion] is solidified by either the Supreme Court or Congress, it would seem that firms would be well-advised to assume that the broadest definition, the Australian Gold/diversion approach, is operative law.”); Heidi L. Belongia, et al., *Surfing Trademark Issues on the Internet*, Foley & Lardner LLP (Sept. 2006) (“Courts have not extended the

above in Part III.C.1.iii, initial interest confusion of this type gives rise to an actionable claim of trademark infringement under the Lanham Act.²⁹⁷

129. While the Ninth Circuit in *Network Automation*²⁹⁸ said that the text of a sponsored link is relevant to the question of infringement, it did not hold that a trademark holder can establish liability solely based on that text. A reading of *Network Automation* to mean that trademark infringement liability can be established only by the text of sponsored advertisements would be flatly contradicted by *Rosetta Stone*,²⁹⁹ which was based not on a text-of-ad-by-text-of-ad analysis, but on the use of trademarks as keywords to trigger those sponsored links. The Fourth Circuit pointed to evidence of Google’s own internal studies that concluded that its users had experienced some form of confusion caused by its search advertising system. The Fourth Circuit concluded that these “in-house studies conducted by Google” provided relevant evidence from which a jury could find a likelihood of confusion caused by the use of trademarks as keywords.³⁰⁰ Importantly, there was no indication that the internal Google surveys specifically tested the ROSETTA STONE trademark. Rather, the Court implicitly found that a rational jury could conclude from the existence of these studies, that similar consumer confusion would likely result when the ROSETTA STONE mark was similarly used to trigger Google search advertising.

‘initial interest’ confusion doctrine to keyword-based online advertising.”); Daniel C. Glazer, Dev R. Dhamija, *Revisiting Initial Interest Confusion on the Internet*, 95 TRADEMARK REP. 952 (2005) (“Courts have recently expanded the concept of initial interest confusion to the unauthorized use of a mark by a competitor as an Internet search engine ‘keyword.’”).

²⁹⁷ See *supra* Part III(C)(1)(iii).

²⁹⁸ 638 F.3d 1137.

²⁹⁹ 676 F.3d 144.

³⁰⁰ *Id.* at 158. One of the in-house studies found that 94 percent of consumers were confused at least once in connection with Google’s use of trademarks in keyword advertising and search results. This study looked at 16 different brands. GOOG-LENSE-00003745, at -746. See GOOG-LENSE-00003810.

130. Indeed, a wealth of consumer survey evidence demonstrates that the whole system of search engine advertising system creates consumer confusion between the sponsored links and the organic links that appear in response to a single search query—particularly in response to a search of a trademarked term. For example, two sets of well-known survey experts conducted separate consumer confusion surveys in connection with the *American Airlines, Inc. v. Yahoo! Inc.* (N.D. Tex. 2008) and *American Airlines, Inc. v. Google Inc.* (N.D. Tex. 2007) cases.³⁰¹ In both surveys, respondents sat before a computer containing a web browser window and were asked to search for “American Airlines” on a screen designed to replicate the Google or Yahoo! search engine. Each respondent was then shown a search results page and asked to identify the link or links in the search results page that he or she believed would take him or her to the American Airlines Company website, as well as the links that he or she believed were endorsed by American Airlines. In the *American Airlines, Inc. v. Google Inc.* test, in a study conducted by NERA Economic Consulting, one set of respondents was shown a Google search results page with two sponsored results in the top spot that did not contain the term “American Airlines” in the text—in fact that were links to competing airlines identified as “United Airlines” and “US Airways Official Site”—29% of respondents were confused, which translated to a net confusion rate of 20%. This study revealed that “even when sponsored results do not contain the trademarked term but do contain the name of a company in the same product category as that of the trademark holder, respondents are . . . confused.”³⁰² A second study, conducted in 2009 by Mind/Share, Inc. in *American Airlines, Inc. v. Yahoo! Inc.*, similarly found confusion even where the trademark term

³⁰¹ Ronald C. Goodstein, et al., *Using Trademarks as Keywords: Empirical Evid. Of Confusion*, 105 THE L. J. OF THE INT’L TRADEMARK ASSOC. 732, 761-66 (2015).

³⁰² *Id.* at 763.

had been removed from the sponsored results listings, finding that 24.8% of respondents were confused, which translated to a net confusion rate of 15.2%.³⁰³ In the *Rosetta Stone* case, the Fourth Circuit specifically endorsed this precise methodology, evaluating a very similar study that was also conducted by Dr. Kent Van Liere of NERA Economic Consulting, where he concluded as follows:

a significant portion of consumers in the relevant population are likely to be confused as to the origin, sponsorship or approval of the ‘sponsored links’ that appear on the search results page after a consumer has conducted a Google search using a Rosetta Stone trademark as a keyword and/or are likely to be confused as to the affiliation, endorsement, or association of the websites linked to those ‘sponsored links’ with Rosetta Stone.³⁰⁴

The Fourth Circuit rejected the district court’s holding that Dr. Van Liere’s survey and methodology were “unreliable,” and instead found that the 17 percent net confusion rate yielded by Dr. Van Liere’s study constituted “clear evidence of actual confusion.”³⁰⁵

131. Some of Google’s own internal studies that were produced in this case verify that a significant percentage of consumers have been confused by Google’s keyword advertising programs. For example, Google’s 2007 EPCOT study indicated that 24% of users did not recognize that the sponsored links appearing at the top of Google’s search results page had been paid for.³⁰⁶ The same study concluded that 56% of unsophisticated users and 18% of sophisticated users “did not perceive any difference between” advertisements and organic search results.³⁰⁷

³⁰³ *Id.* at 766-68.

³⁰⁴ *Rosetta Stone*, 676 F.3d at 159.

³⁰⁵ *Id.*

³⁰⁶ GOOG-LENSE-00005688, at -695. An internal Google study done the year before concluded that “most people don’t understand that top ads are ads!” GOOG-LENSE-00005653, at -672.

³⁰⁷ GOOG-LENSE-00005688, at -701. Sophisticated users were those who used “operators and advanced search techniques to search more precisely,” while unsophisticated users used “generic keyword queries, even for tasks with specific requirements (child’s unicycle)” and displayed “[p]oor search refinement strategy.” *Id.* at -693.

These internal Google studies were tested against several different brands,³⁰⁸ and each one shows a percentage of consumer confusion about the search engine advertising system that is higher than the percentages generally considered probative of trademark confusion, as discussed above in Part III.C.1.ii. In connection with other trademark cases, I have reviewed similar records produced by search engines that are subject to protective orders and were not produced in this case. Taken together, all of this consumer confusion evidence demonstrates that 1-800 Contacts had, at a minimum, a good faith theory of trademark infringement based on the various advertisers' purchase and use of 1-800 Contacts' marks as keywords.³⁰⁹

132. Some of Bing's own internal documents also seem to indicate that a significant percentage of consumers have been confused by Bing's keyword advertising program. According to these Bing reports, when trademark owners do not bid on their own mark for keyword advertising—thereby placing sponsored links to other companies as the top search result—40% of users click on the non-owner advertiser's link. If the trademark owner does bid on its own mark for keyword advertising—and thus competes with other advertisers to be placed as the top search result—only 9% of user click on the non-owner advertiser's link.³¹⁰ This evidence appears to indicate that as much as 31% of Internet users who search for a particular brand can be induced to instead click on a link for a competing advertiser simply because the search engine is paid to place that advertiser in the top spot. This is the type of corroborative evidence that a trademark owner such as 1-800 Contacts could use in good faith to justify a claim that their rights will be infringed

³⁰⁸ GOOG-LENSE-00005688; GOOG-LENSE-00005653.

³⁰⁹ I am also aware of additional studies that I have direct knowledge of from my work on previous search engine keyword trademark cases that further support the opinions offered in this report, but I am precluded from providing any specifics by confidentially agreements or orders.

³¹⁰ MSFT-00000133; *See* MSFT-00000134; *see also* MSFT-00000135; MSFT-00000136; MSFT-00000137. When trademark owners bid on keyword advertising on Bing, they “are definitely going to show up on the top of the page even if others are bidding on [their] brand.” MSFT-00000133.

when third parties use their marks to generate sponsored link advertisements in the top spot, when combined with other evidence indicating that significant numbers of Internet users have trouble perceiving that the links in the top spots are paid advertisements for third-parties rather than links to websites selected as the most “relevant” to the search term.

133. 1-800 Contacts’ bona fide claims are not limited to trademark infringement. 1-800 Contacts also had supportable claims for trademark dilution. As demonstrated by Complaint Counsel’s expert, the 1-800 Contacts mark is famous,³¹¹ and therefore satisfies the prerequisite to dilution protection discussed above.³¹² Based on the dilution case law discussed above—and, in particular, the case law analyzing the plausibility of dilution claims in the keyword advertising context³¹³—1-800 Contacts had a good faith theory of dilution based upon *both* (a) the decreased capacity of 1-800 Contacts’ marks to identify and distinguish the company’s goods due to the use of those marks over time to trigger advertisements for goods and services not sponsored or endorsed by 1-800 Contacts (*i.e.*, blurring), and (b) the use of 1-800 Contacts’ marks to trigger links to websites that offered inferior goods or services and resulting the long-term associations created by search engine advertising between 1-800 Contacts’ marks and the inferior goods and services offered by the other advertisers that made use of 1-800 Contacts’ marks (*i.e.*, tarnishment). In my opinion, 1-800 Contacts also likely had good faith and viable unfair competition and misappropriation claims against the advertisers, because using trademarks of others to get to the

³¹¹ Jacoby, *supra* note 67, at 33 (“86% of . . . respondents reported knowing about 1-800 Contacts before participating in the survey”); 1-800 Contacts also actively monitored its own brand recognition. *See* 1-800F_00089422 (“1-800 CONTACTS remained the #1 brand name (behind doctors’ offices) for Top of Mind Awareness among All Respondents, and Females 18-34”); *see also* 1-800F_00089423.

³¹² *See supra* ¶¶ 60-61.

³¹³ *See supra* Part VI; *see also* Part III(C)(2).

top of a search engine page is taking something of value created by the trademark owner and using it to divert consumers away from the trademark owner.³¹⁴

134. Over the course of my career, I have sent hundreds of cease and desist letters asserting trademark claims, including cease and desist letters related to the use of trademarks in keyword advertisements. I have also drafted and sent responses to hundreds of cease and desist letters, including cease and desist letters related to the use of trademarks in keyword advertisements. I am familiar with the kinds of evaluations done by trademark owners and attorneys before sending a cease and desist letter or initiating trademark disputes. I have reviewed the communications between counsel for 1-800 Contacts and the advertisers at issue in this proceeding. In my opinion, based on representing clients on both sides, those communications reflect the same kind of back and forth assertions of liability based on the same kinds of evidence that are common in trademark disputes, and often lead to good faith settlements of trademark disputes, where both sides compromise to avoid or minimize the cost and risk of litigation.

135. Over the course of my career, I have represented numerous trademark owners in scores of cases that commenced with the filing of a complaint asserting trademark-based claims, including complaints related to the use of trademarks in keyword advertisements. I have also represented clients in defending scores of such cases, including those related to the use of trademarks in keyword advertisements. I have also reviewed hundreds of trademark complaints over the course of my career in connection with writings, speeches, and appellate matters. I am familiar with the kinds of evaluations done by trademark owners and attorneys before filing a trademark-related complaint and the level of detail included. I have reviewed the complaints filed by 1-800 Contacts' counsel against the advertisers at issue in this proceeding. In my opinion,

³¹⁴ See *supra* Part VII; see also *supra* Parts III(C)(4) & III(C)(5).

based on representing clients on both sides of these disputes, those complaints include a typical and reasonable amount of detail, based on similar kinds of evidence that are common in trademark disputes, regularly survive motions to dismiss or challenges under Rule 11 of the Federal Rules of Civil Procedure, and often lead to good faith settlements of trademark disputes, where both sides compromise to avoid or minimize the cost and risk of litigation.

X. 1-800 CONTACTS' SETTLEMENT TERMS WITH ADVERTISERS WERE SUPPORTABLE AND COMMONPLACE MEANS TO RESOLVE TRADEMARK DISPUTES

136. In the following section, I compare the challenged 1-800 Contacts settlement terms to other settlements and court-ordered remedies in the trademark context. I examine whether 1-800 Contacts' settlement agreements are substantially similar to other settlements and injunctions used to resolve analogous trademark disputes by other entities. I also analyze the potential impact if trademark owners broadly adopted Complaint Counsel's alternate settlement approach.

A. Settlements Serve the Aims of Trademark Law and Public Policy

137. Parties are not required to litigate their disputes to a final judgment, and courts have long recognized that the law should encourage the settlement of litigation.³¹⁵ "Where a case is complex and expensive, and resolution of the case will benefit the public, the public has a strong interest in settlement. The trial court must protect the public's interest, as well as the interests of

³¹⁵ See, e.g., *MWS Wire Indus., Inc. v. Cal. Fine Wire Co.*, 797 F.2d 799, 802-03 (9th Cir. 1986) ("There is an overriding public interest in settling and quieting litigation.") (citation and internal quotation marks omitted); *Gambale v. Deutsche Bank AG*, 377 F.3d 133, 143 (2d Cir. 2004); see *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1372 (6th Cir. 1976) ("Public policy strongly favors settlement of disputes without litigation."); *Williams v. First Nat'l Bank*, 216 U.S. 582, 595, (1910) ("Compromises of disputed claims are favored by the courts."); *St. Louis Mining & Milling Co. v. Montana Mining Co.*, 171 U.S. 650 (1898) ("[S]ettlements of matters in litigation or in dispute without recourse to litigation are generally favored."); *Am. Sec. Vanlines, Inc. v. Gallagher*, 782 F.2d 1056, 1060 (D.C. Cir. 1986); see, e.g., *TBK Partners, Ltd. v. W. Union Corp.*, 675 F.2d 456, 461 (2d Cir. 1982) (noting "the paramount policy of encouraging settlements"); *Asahi Glass Co. v. Pentech Pharms., Inc.*, 289 F. Supp. 2d 986, 991 (N.D. Ill. 2003) ("The general policy of the law is to favor the settlement of litigation....") (Posner, J.).

the parties, by encouraging the most fair and efficient resolution.”³¹⁶ Trademark law is no different.³¹⁷

138. Courts, recognizing that parties must have leeway in reaching a negotiated settlement, generally accord substantial deference to the terms of those settlement agreements.³¹⁸ As the Second Circuit previously noted, “[i]n the absence of evidence to the contrary, it is reasonable to presume that such arms-length agreements [to settle trademark suits] are pro-competitive.”³¹⁹ To presume otherwise and implement a policy of strictly scrutinizing trademark settlement agreements could conflict with the policy of encouraging settlements. “Parties would sensibly conclude that they might better litigate the issue of confusion rather than reach a settlement which might later be found to be unenforceable. Such a premium on litigation would lead to a further drain on judicial resources.”³²⁰

³¹⁶ *United States v. Glens Falls Newspapers, Inc.*, 160 F.3d 853, 856-57 (2d Cir. 1998); *See D.H. Overmyer Co. v. Loflin*, 440 F.2d 1213, 1215 (5th Cir. 1971). Part of this public interest is the conservation of public resources, and settlements promote “judicial economy.” *See also Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1369 (Fed. Cir. 2001); *Am. Sec. Vanlines, Inc. v. Gallagher*, 782 F.2d 1056, 1060 n.5 (D.C. Cir. 1986) (“[S]ettlements produce a substantial savings in judicial resources and thus aid in controlling backlog in the courts . . .”).

³¹⁷ *Fuddrucker, Inc. v. Fudpucker’s Inc.*, 436 F. Supp. 2d 1260, 1265 (N.D. Fla. 2006) (“Trademark agreements in which two parties agree on their respective rights in a mark are favored under the law.”) (citations and internal quotation marks omitted); *Wells Cargo, Inc. v. Wells Cargo, Inc.*, 606 F.2d 961, 965 (C.C.P.A. 1979) (“If there be a policy favoring challenges to trademark validity, it ... has been viewed as outweighed by the policy favoring settlements.”); *see also Lebewohl v. Heart Attack Grill LLC*, 890 F. Supp. 2d 278, 301-03 (S.D.N.Y. 2012) (approving a concurrent non-use settlement agreement with territorial restrictions and encouraging litigants to “work together to try to resolve their differences cooperatively”).

³¹⁸ *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 60 (2d Cir. 1997) (“it is usually unwise for courts to second-guess” settlement agreements); *MWS Wire Indus.*, 797 F.2d at 802 (courts should promote the “overriding public interest in settling and quieting litigation” by enforcing settlement agreements as written because examination of the “merits of a cause of action underlying a compromise agreement” only discourages settlement and promotes “expense, delay, and uncertainty”).

³¹⁹ *Clorox Co.*, 117 F.3d at 60; *MWS Wire Indus.*, 797 F.2d at 803 (noting the “policy favoring the amicable resolution of trademark disputes without resort to the courts”) (citing cases).

³²⁰ *T & T Mfg. Co. v. A. T. Cross Co.*, 449 F. Supp. 813 (D.R.I. 1978), *aff’d*, 587 F.2d 533 (1st Cir. 1978), *cert. denied*, 441 U.S. 908 (1979); *see Times Mirror Magazines, Inc. v. Field & Stream Licenses Co.*, 103 F. Supp. 2d 711, 741 (S.D.N.Y. 2000) (“Insisting that a court review a settlement [of a trademark suit] to assure that no public confusion will result would make such agreements of little value to the parties.”) (quoting *T & T Mfg. Co.*, 449 F. Supp. at 827); *see also MWS Wire Indus.*, 797 F.2d at 802 (citation omitted) (noting that to promote the “overriding public interest in settling” litigation, “judicial enforcement of settlement agreements” is necessary

139. In my experience, it is common for trademark litigators to recommend settlement to their clients if it is possible to resolve the dispute quickly and without significantly impacting the party's business. Trademark litigation can be expensive and unpredictable.³²¹ Even seeking a preliminary injunction can involve significant discovery costs and multiple court appearances. In addition, settlements can help reduce the impact of trademark disputes on business operations by keeping the dispute confidential and avoiding unwanted publicity that could inadvertently promote the infringing party's products or services. Settlements also provide a framework within which parties can negotiate solutions unique to their respective business interests.³²²

140. In short, a central purpose of settlement is to eliminate the risks, costs, and uncertainties of litigation. To help achieve that purpose, attorneys attempt to draft settlement agreements that are clear and do not invite further uncertainty or conflict. Settlements with “[r]emedial provisions that are too vague to be enforced, or that can easily be misconstrued or evaded, fall short of their intended purpose and may leave the . . . harm unchecked.”³²³ The Justice Department has recognized this exact principle in the context of consent decrees used to settle antitrust claims:

because, if not, parties “would be subjected to the expense, delay, and uncertainty they sought to avoid through settlement” and the court would be “burdened”).

³²¹ See *supra* Part VIII; American Intellectual Property Law Association, 2015 Report of the Economic Survey at 38-39, available at <http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee-4ee7-9873-352dbe08d8fd.pdf> (noting the median litigation cost for a trademark infringement dispute in 2015 where \$1-10 million was at risk was \$500,000); see, e.g., *Louis Vuitton Malletier SA v. Ly USA, Inc.*, 676 F.3d 83, 111-12 (2d Cir. 2012) (affirming \$556,934.22 in attorneys' fees for trademark infringement decided on summary judgment); *World Triathlon Corp. v. Dunbar*, 539 F. Supp. 2d 1270 (D. Haw. 2008) (awarding \$161,147.05 in attorneys' fees for trademark infringement decided on summary judgment); *Lorillard Tobacco Co.*, 503 F.3d 588 (affirming \$136,349.76 in attorneys' fees in a case decided on summary judgment).

³²² Companies are in the best position to evaluate litigation risks and costs in determining settlements. See *Rodriguez v. W. Publ'g Corp.*, 563 F.3d 948, 965 (9th Cir. 2009) (“This circuit has long deferred to the private consensual decision of the parties.”).

³²³ U.S. Dep't of Justice, *Antitrust Division Policy Guide to Merger Remedies*, at 13 (2011); 1-800F_00080883 (noting “concerns for [a section] being too vague and broad”).

“Clear and careful drafting is especially important for conduct remedies. [Settlements] should precisely and unambiguously spell out a [party]’s obligations, so that it is clear what must or must not be done to satisfy the terms. A [settlement] that is not clearly and carefully drafted can be an invitation for a [party] to try to evade the intent of the [settlement]. For that reason, [settlements] should avoid vague language or potential loopholes that might lead to circumvention of the [settlement].”³²⁴

141. My experience has been exactly the same in resolving trademark disputes. Whether it is necessary to prohibit certain unlawful conduct or to require certain affirmative steps to prevent consumer confusion, a settlement agreement must provide clear guidance as to what steps must be taken or avoided so that it is easy to confirm and demonstrate compliance. The precise conduct required or prohibited via settlement varies depending on the dispute. However, as courts have recognized, it is the disputing parties that “are in a position to structure such agreements in the way that the parties believe best accommodates their interests in light of trademark law. At the time of the execution of such an agreement, *the parties are in the best position* to determine what protections are needed and how to resolve disputes concerning earlier trademark agreements between themselves.”³²⁵

142. These background principles guide parties in deciding how to settle trademark disputes, and should guide any inquiry into the reasonableness of the terms in a trademark settlement agreement.

B. The Terms of 1-800 Contacts’ Settlement Agreements Are Supportable and Widely Accepted in Trademark Disputes

143. The parties who were in the “best position” to resolve their trademark disputes³²⁶—1-800 Contacts and various advertisers—settled their disputes pursuant to settlement agreements,

³²⁴ *Id.*

³²⁵ *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 60 (2d Cir. 1997) (emphasis added).

³²⁶ *Id.*

yet those very agreements are now being challenged by Complaint Counsel. Those settlement agreements contain terms that, in my experience, are commonly used and accepted, correlate to remedies issued by courts in trademark disputes, and advance the aims of trademark law and public policy.

144. The easiest and most common way for an accused infringer to resolve a trademark dispute is to agree not to use the mark in question.³²⁷ In my experience, non-use agreements are particularly common where, as here, the law is unsettled or the extent of liability is unclear. Also, the 1-800 Contacts settlement agreements at issue here are far less restrictive than a typical non-use agreement because the advertisers only agree not to use the 1-800 Contacts marks as keywords in the search advertising context, and the agreements mostly contain carve outs for fair use and comparative advertising.

145. 1-800 Contacts' settlement agreements prohibit the parties from, with certain exceptions, "causing a Party's website or Internet advertisement to appear in response to any Internet search for the other Party's brand name, trademarks or URLs" ³²⁸ These agreements only limit a handful of options for keywords, in systems that are designed to offer advertisers literally infinite variety in choice of keywords. Importantly, these agreements allow free reign in the choice of generic terms in search engines where different companies compete on equal footing, subject to the amount they are willing to offer search engines for the right to use such terms as

³²⁷ Westlaw's trademark settlement template includes terms to "permanently cease all use of" the owner's mark, including representations "identical or confusingly similar to" the mark. Trademark Settlement Agreement and Release § 1, Practical Law Standard (Westlaw 2017); *See MWS Wire Indus.*, 797 F.2d 799 (upholding a non-use trademark settlement agreement as consistent with the "overriding public interest in settling and quieting litigation") (citation and internal quotation marks omitted); *see also Lebewohl v. Heart Attack Grill LLC*, 890 F. Supp. 2d 278, 301-03 (S.D.N.Y. 2012) (approving a concurrent non-use settlement agreement with territorial restrictions and encouraging litigants to "work together to try to resolve their differences cooperatively").

³²⁸ CX0310-001, at 003; *see* CX0149-001, at 002; CX0319-001, at 002; CX0313-001, at 003; CX0320-001, at 002; CX0315-001, at 003; CX0326-001, at 003; CX0325-001, at 003; CX0311-001, at 003; CX0321-001, at 002; CXC0322-001, at 002; CX0324-001, at 002; CX0317-001, at 001-002.

keywords. In contrast, agreeing not to use a competitor's mark as a search engine keyword is compatible with any other keyword that advertisers may choose not to use, because it would place their sponsored link advertisement on a page generated by a search term the advertiser does not wish to associate with or that might cast the company in an unflattering light when a search engine user searches for the term and sees a link that leads to the advertiser's site. Put differently, just as an automobile company would not want its links to appear when an Internet user searches for "car crashes," that same automobile company can rationally conclude that it does not want its sponsored link advertisements to appear when an Internet user searches for one of its competitors, either because the advertiser's product suffers by comparison, or out of fear that Internet users will become frustrated to see the sponsored link advertisement at that particular moment. Advertisers are in the best position to determine which keywords support their competitive interests and which keywords are inconsistent with their competitive purposes. Moreover, the settlement agreements do not place any restrictions on advertising outside the context of paid search keywords. For example, they do not place any restrictions on advertising over television or radio, in print, or in the text of forms of advertising that consumers can readily perceive as advertising.

146. In many search engine keyword trademark cases, search engines take the position that trademark owners who buy another company's trademarks as keywords should be precluded from asserting their own trademark claims.³²⁹ As a matter of trademark law, the settlement agreements here help each trademark owner avoid an unclean hands defense that could potentially impact its ability to police its marks in different contexts. In other words, another good purpose

³²⁹ See, e.g., Answer, *Am. Airlines, Inc. v. Yahoo! Inc.*, 4:08-cv-00626-A (N.D. Tex. Sept. 30, 2009) (Dkt. 105) (asserting, as an affirmative defense, that "American Airlines's claims are barred by the doctrine of unclean hands, including to the extent American Airlines itself has participated in the types of online advertising and keyword bidding on third-party trademarks about which it now complains."); Answer, *Am. Airlines, Inc. v. Google Inc.*, 4:07-cv-00487-A (N.D. Tex. Nov. 7, 2007) (Dkt. 21).

for these settlement agreements is that they help trademark owners avoid claims of unclean hands or trademark misuse.

147. It has been my experience that judges will typically refrain from entering injunctive terms, even as part of a default or consent judgment, if they do not believe that the form of relief is consistent with the law. Judges routinely make changes to proposed judgments or require parties to submit proposed judgments consistent with the judge's understanding of the law. In the *Rhino Sports, Inc. v. Sport Court, Inc.* case mentioned previously,³³⁰ the defendant affirmatively asked the court to relieve it of the prohibition against using its competitor's marks as search engine keywords that it had agreed to as part of a consent injunction on the ground that the law had changed. The court affirmatively rejected such relief, finding that the defendant had failed to establish that the prohibition was inconsistent with the law.

148. In addition to private settlement agreements, many courts in trademark disputes also order remedies similar to the terms in the 1-800 Contacts Settlement agreements. For example, courts have prohibited the use of marks even when marks contain geographic or generic terms.³³¹ This restriction is often included because courts recognize that trademark infringement includes more than just an identical copy of the mark. The text of the Lanham Act itself makes clear that a use of "any reproduction, counterfeit, copy, or colorable imitation of a registered mark" is actionable.³³² As courts have recognized, prohibiting only nearly exact duplicates would be "in effect to reward the cunning infringer and punish only the bumbling one."³³³ This is why courts

³³⁰ No. CV-02-1815-PHX-JAT, 2007 WL 1302745 (D. Ariz. May 2, 2007).

³³¹ See *Skydive Ariz., Inc. v. Quattrocchi*, No. CV-05-2656, 2010 WL 1743189, at *6 (D. Ariz. Apr. 29, 2010).

³³² 15 U.S.C. § 1114 (emphasis added); see also 15 U.S.C. § 1125(a)(1) (prohibiting the use not only of marks themselves, but also any "device" that is likely to cause confusion).

³³³ *T & T Mfg. Co. v. A.T. Cross Co.*, 449 F. Supp. 813, 822 (D.R.I. 1978), *aff'd*, 587 F.2d 533 (1st Cir.1978); *Baker v. Master Printers Union of N.J.*, 34 F. Supp. 808, 811 (D.N.J. 1940) (stating that "the most successful form of

often enjoin parties from using common misspellings and confusingly similar variants of infringed trademarks.³³⁴

149. Consistent with the keyword advertising cases discussed above, courts in contested keyword advertising cases have entered injunctions prohibiting the infringing conduct. Some examples of those include:

- In *Skydive Ariz., Inc. v. Quattrocchi*, No. CV-05-2656-PHX-MHM, 2010 WL 1743189, at *8 (D. Ariz. Apr. 29, 2010), the court enjoined the defendants “from using the trademark ‘Skydive Arizona,’ or any marks that are confusingly similar to or colorable imitations of that trademark, and from using ‘Skydiving Arizona,’ and ‘Arizona Skydiving,’ on or in connection with or as part of any website, including in meta tags, keywords in pay-for-placement or payfor-rank search engines”³³⁵
- In *PODS Enterprises, LLC v. U-Haul International, Inc.*, 126 F. Supp. 3d 1263, 1292 (M.D. Fla. 2015), the court enjoined the defendant from using plaintiff’s “Pods” marks or

copying is to employ enough points of similarity to confuse the public with enough points of difference to confuse the courts”).

³³⁴ See, e.g., *Bittorrent, Inc. v. Bittorrent Mktg. GMBH*, No. 12-CV-02525-BLF, 2014 WL 5773197, at *9 (N.D. Cal. Nov. 5, 2014) (entering default judgment on plaintiff’s trademark infringement claim because defendant registered “over fifty domain names that are either exact spellings or confusingly similar misspellings of Plaintiff’s mark[.]” which was likely to cause consumer confusion); *Pinterest, Inc. v. Qian Jin*, No. C 12-04586 RS, 2013 WL 5460821, at *2 (N.D. Cal. Sept. 30, 2013) (entering default judgment for trademark infringement, among other claims, as defendant registered “similar sounding domains causing individuals to confuse the content they see on those similar domains with content somehow endorsed” by plaintiff); *Payless Shoesource Worldwide, Inc. v. UNFORGETABLEMOMENTS.COM*, No. CIV.A. 1:09CV844, 2009 WL 5092030, at *4–5 (E.D. Va. Dec. 22, 2009) (entering default judgment for plaintiff after finding defendant’s domain name infringed on plaintiff’s trademark, as it was a “common misspelling” of the trademark, and thus customers were likely to be confused); *Victoria’s Cyber Secret Ltd. P’ship v. V Secret Catalogue, Inc.*, 161 F. Supp. 2d 1339, 1353 (S.D. Fla. 2001) (granting summary judgment for trademark infringement, among other claims, after finding it was highly probable that plaintiff/counter-defendant trademark infringer’s copying of defendant/counter-plaintiff trademark holder’s mark would cause consumer confusion, where infringer registered domain names that were “practically identical” to the registered trademark).

³³⁵ Ex. C [*Skydive Ariz., Inc. v. Quattrocchi*, No. CV-05-2656-PHX-MHM, 2010 WL 1743189, at *8 (D. Ariz. Apr. 29, 2010)].

a similarly spelled term “in any manner, including without limitation, as trademarks, service marks (or any other type of designation), ... domain names, keywords, metatags, or on websites (whether as part of hidden or visible text), Internet sites (including without limitation social media sites)....”³³⁶

150. In line with the injunctions issued by courts in contested keyword advertising cases, courts in default judgment cases have issued similar injunctions. Representative examples of those are below:

- In *Louis Vuitton Malletier, S.A. v. Abags.co.UK*, No. 14-Civ-60288, 2015 WL 11197741 (S.D. Fla. Feb. 27, 2015), the court enjoined defendants from “using the Louis Vuitton Marks, or any confusingly similar trademarks, from search engines’ databases or cache memory, and any other form of use of such terms which is visible to a computer user or serves to direct computer searches to websites registered by, owned, or operated by Defendants, including the Internet websites and/or e-commerce iOffer auction stores, and C2Coffer e-stores operating under all of the Subject Domain Names, iOffer Auction Stores, and C2Coffer E-stores.”³³⁷
- In *Rolex Watch U.S.A., Inc. v. Jesus Eloy Hernandez*, No. 13-20653-CIV (Dkt. 14) (S.D. Fla. Aug. 20, 2013), the court enjoined the defendant from “[u]sing or continuing to use the Rolex Marks or trade names in any variation thereof on the Internet (either in the text of a website, as a domain name, or as a keyword, search word, metatag, or any part of the

³³⁶ Ex. D [*PODS Enters., LLC v. U-Haul Int’l, Inc.*, 126 F. Supp. 3d 1263, 1292 (M.D. Fla. 2015)].

³³⁷ Ex. E [Order, *Louis Vuitton Malletier, S.A. v. Abags.co.UK*, No. 14-Civ-60288, 2015 WL 11197741 (S.D. Fla. Feb. 27, 2015)].

description of the site in any submission for registration of any Internet site with a search engine or index)”³³⁸

- In *Partners for Health & Home, L.P. v. Yang*, No. CV 09-07849 (CBM) (RZx) (Dkt. 146) (C.D. Cal. June 21, 2012), the defendants were enjoined from “using Plaintiff’s PERMA-LIFE mark (with or without spaces, however spelled, whether capitalized, abbreviated, singular or plural, with or without a hyphen, or used alone or in combination with any other words) in metatags, in keyword or other pay-per-click advertising, or in any sponsored search engine advertising”³³⁹
- In *Quidgeon v. Olsen*, No. 10-CV-1168, 2011 WL 1480537, at *3 (C.D. Ill. Apr. 19, 2011), the court enjoined the defendants “from using or displaying Plaintiff’s federally registered ‘DADDYO’S TATTOO’ service mark and/or common law marks, or any similar or confusing variations thereof, including ‘DADDY-O’S TATTOO’S’ and/or ‘BODY ART BY DADDY-O,’ in its trade names, advertising, ... Internet megatags, [or] keywords for Internet search engines....”³⁴⁰
- In *World Entertainment, Inc. v. Brown*, No. 09-5365, 2011 WL 2036686, at *8 (E.D. Pa. May 20, 2011), the court enjoined the defendant from using keywords “containing plaintiffs’ CTO trademark, or any mark incorporating plaintiffs’ CTO trademark, colorable imitations thereof or any confusingly similar mark.”³⁴¹

³³⁸ Ex. F [Order, *Rolex Watch U.S.A., Inc. v. Hernandez*, No. 13-20643-CIV (Dkt. 14) (S.D. Fla. Aug. 20, 2013)].

³³⁹ Ex. G [Judgment and Permanent Injunction, *Partners for Health & Home, L.P. v. Yang*, No. CV 09-07849 (CBM) (RZx) (Dkt. 146) (C.D. Cal. June 21, 2012)].

³⁴⁰ Ex. H [*Quidgeon v. Olsen*, No. 10-CV-1168, 2011 WL 1480537, at *3 (C.D. Ill. Apr. 19, 2011)].

³⁴¹ Ex. I [*World Entm’t, Inc. v. Brown*, No. 09-5365, 2011 WL 2036686 (E.D. Pa. May 20, 2011)].

- In *Transamerica Corp. v. Moniker Online Services, LLC*, No. 09-60973-CIV, 2010 WL 1416979 (S.D. Fla. Apr. 7, 2010), the court enjoined the defendants from “purchasing, selling, or using any form of advertising including keywords or Adwords in Internet advertising containing any mark that incorporates, initiates, or is confusingly similar to Plaintiff’s ‘Transamerica’ service mark”³⁴²

151. Courts have also been confident in their ability to issue similar injunctions in consent judgments in keyword advertising cases. Some examples of those include:

- In *Joshua David Mellberg, LLC v. Advanced Retirement Income Solutions, LLC*, No. 12-cv-854 (Dkt. 89) (D. Ariz. Oct. 27, 2016), the court enjoined defendants from “[u]sing any Accused Keywords or any colorable imitations thereof or confusingly similar words [or] phrases as Google Ad Words, [sic] or otherwise, to divert business, sales or customers to [defendant].”³⁴³
- In *Eclipse Aesthetics v. Regenlab USA, LLC*, No. 15-cv-03748 (Dkt. 25) (N.D. Tex. Jan. 11, 2016), the court enjoined the defendant “from running the Google Ad set forth in Plaintiff’s Motion for Preliminary Injunction, as well as any similar Google Ad that would place any form of the word ‘Eclipse’ (including likely misspellings) in a hyperlink to the www.regenlabusa.com website, pending the outcome of a final decision on the merits of this case.”³⁴⁴

³⁴² Ex. J [*Transamerica Corp. v. Moniker Online Servs., LLC*, No. 09-60973-CIV, 2010 WL 1416979 (S.D. Fla. Apr. 7, 2010)].

³⁴³ Ex. K [Final Judgment and Permanent Injunction, *Joshua David Mellberg, LLC v. Advanced Ret. Income Solutions, LLC*, No. 12-cv-854 (Dkt. 89) (D. Ariz. Oct. 27, 2016)].

³⁴⁴ Ex. L [*Eclipse Aesthetics v. Regenlab USA, LLC*, No. 15-cv-03748 (Dkt. 25) (N.D. Tex. Jan. 11, 2016)].

- In *Probar, LLC v. Onebody* , No. 14-cv-166 (Dkt. 18) (M.D. Fla. Oct. 29, 2014), the court enjoined the defendants from “purchasing or using any forms of advertising including keywords or ‘adwords’ in internet advertising containing any mark incorporating Plaintiff’s Marks in text, or any confusingly similar marks, and shall, when purchasing internet advertising using keywords, adwords or the like, require the activation of the term “PROBAR” as negative keywords or negative adwords¹ (sic) in any internet advertising purchased or used.”³⁴⁵
- In *Select Management Resources, LLC v. D and D Marketing, Inc.*, No. CV10-10008 (Dkt. 39) (C.D. Cal. July 15, 2011), the court enjoined defendants from “using the QUICKCLICK or QUICKCLICKLOANS.COM trademarks and any confusingly similar variations thereof, alone or in combination with other words, names, styles, titles or marks as a business or trade name on or in connection with the advertising, promotion, . . . including but not limited to the use of the QUICKCLICK or QUICKCLICKLOANS.COM trademarks in Internet advertisement text or as keywords for the generation of Internet advertisements.”³⁴⁶
- In *Gonzales & Gonzales Bonds and Insurance Agency, Inc. v. Action Immigration Bonds and Insurance Services, Inc.*, No. CV 10-01162 (Dkt. 15) (C.D. Cal. April 7, 2010), the parties agreed to a permanent injunction prohibiting the defendant from “using the trademarks and tradenames of Gonzales & Gonzales Immigration Bonds, gandgbonds, gangbonds.com, and g&g, alone or in combination with other words, symbols, or designs, in connection with marketing or advertisement for immigration bonds, as well as products

³⁴⁵ Ex. M [Order, *Probar, LLC v. Onebody* , No. 14-cv-166 (Dkt. 18) (M.D. Fla. Oct. 29, 2014)].

³⁴⁶ Ex. N [Consent Final Judgment and Permanent Injunction Order, *Select Mgmt. Resources, LLC v. D and D Mktg., Inc.*, No. CV10-10008 (Dkt. 39) (July 15, 2011)].

and services which are complementary thereto, including but not limited to, use of said trademark as an Internet keyword or metatag, or in connection with any Internet sponsored advertisements.”³⁴⁷

- In *Fragrancenet.com, Inc. v. Les Parfums, Inc.*, No. 09 Civ. 2626 (Dkt. 23) (E.D.N.Y. Mar. 8, 2010), the court enjoined defendant from “purchasing keywords or the functional equivalent from any Internet search provider for the terms FRAFRANCENET, FRAGRANCENET.COM, or any confusingly similar term, phrase, or mark, including without limitation ‘fragrance net’ and ‘fragrance.net’”).³⁴⁸
- In *Mastercard International Inc. v. Trehan*, 629 F. Supp. 2d 824, 833 (N.D. Ill. 2009), the court enjoined defendant from “using any names, words, designations or symbols consisting of, or otherwise confusingly similar to the MASTERCARD Marks or any translation thereof” as “search terms, keywords, key terms, hit generating pages, or any other devices used, intended, or likely to cause any web site or web sites of [defendant] to be listed by any Internet search engines in response to any searches that include any terms identical with or confusingly similar to the MASTERCARD Marks.”³⁴⁹
- In *True & Dorin Medical Group, P.C. v. Leavitt Medical Associates, P.A.*, No. 06-CV-00092 (PKC) (Dkt. 78) (S.D.N.Y. Apr. 20, 2007), the court enjoined the defendant from “directly or indirectly purchasing advertising keywords, links, and metatags that are

³⁴⁷ Ex. O [Stipulated Permanent Injunction and Judgment, *Gonzales & Gonzales Bonds and Ins. Agency, Inc. v. Action Immigration Bonds and Ins. Servs., Inc.*, No. CV 10-01162 (Dkt. 15) (C.D. Cal. Apr. 7, 2010)].

³⁴⁸ Ex. P [Permanent Injunction and Judgment on Consent, *Fragrancenet.com, Inc. v. Les Parfums, Inc.*, No. 09 Civ. 2626 (Dkt. 23) (Mar. 8, 2010)].

³⁴⁹ Ex. R [*Mastercard Int’l, Inc. v. Trehan*, 629 F. Supp. 2d 824 (N.D. Ill. 2009)].

identical or substantially similar to True’s ELLIOTT & TRUE Trademark or any element thereof, including but not limited to, Dr. True’s surname (the “E&T Mark”).”³⁵⁰

- In *Guardian Pool Fence Systems, Inc. v. Sentry Safety Systems, LLC*, No. CV07-1213 JFW (Ex) (Dkt. 25) (C.D. Cal. Sept. 14, 2007), the court enjoined the defendant from “using the trademark GUARDIAN alone or in combination with other words, symbols, or designs in any manner, in connection with the sale, distribution or advertising of removeable pool fences or gates as well as products and services which are complementary thereto, including but not limited to, use of said trademark as an Internet keyword or metatag.”³⁵¹
- In *J-Rich Clinic, Inc. v. Cosmedic Concepts, Inc.*, No. 02-CV-74324 (Dkt. 359) (E.D. Mich. May 16, 2006), the court ordered the defendant to “discontinue and . . . not commence or resume any and all keyword-linked Internet advertising (on the Google search engine, any other search engine – e.g., and without limitation, MSN, Yahoo!, etc., or any other Internet advertising mechanism employed now or in the future by Sephora), using REAL PURITY as a keyword or trigger for such advertising.”³⁵² The injunction also covers “REAL PURITY in combination with one or more additional terms, words, or phrases (e.g., and without limitation, ‘real purity cleaner’ or ‘real purity cosmetics’).”

³⁵⁰ Ex. S [Order of Dismissal with Prejudice as to Leavitt Defendants Only, *True & Dorin Med. Grp., P.C. v. Leavitt Med. Assocs., P.A.*, No. 06-CV-00092 (PKC) (Dkt. 78) (S.D.N.Y. Apr. 20, 2007)].

³⁵¹ Ex. T [Stipulated Permanent Injunction and Judgment and Order, *Guardian Pool Fence Sys., Inc. v. Sentry Safety Sys., LLC*, No. CV07-1213 JFW (Ex) (Dkt. 25) (C.D. Cal. Sept. 14, 2007)].

³⁵² Ex. U [Stipulation to Entry of Order for Preliminary Injunctive Relief, *J-Rich Clinic, Inc. v. Cosmedic Concepts, Inc.*, No. 02-CV-74324 (Dkt. 359) (E.D. Mich. May 16, 2006)].

- In *Weightwatchers.com, Inc. v. Diet Patch, Inc.*, No. 04 Civ. 4053 (LAP) (Dkt. 45) (S.D.N.Y. Sept. 28, 2004), the court enjoined Nutrisystem, Inc. from using “Plaintiffs’ trademarks as a trigger for the delivery of advertisements.”³⁵³
- In *Weightwatchers.com, Inc. v. Diet Patch, Inc.*, No. 04 Civ. 4053 (LAP) (Dkt. 92) (S.D.N.Y. Apr. 18, 2005), the court entered a separate order enjoining Boehm-Ritter, Inc. from using “Plaintiffs’ trademarks as a trigger for the delivery of advertisements.”³⁵⁴
- In *Weightwatchers.com, Inc. v. Diet Patch, Inc.*, No. 04 Civ. 4053 (LAP) (Dkt. 90-2) (S.D.N.Y. Apr. 18, 2005), the court entered a third order enjoining Science of Better Living, LLC from using “Plaintiffs’ trademarks as a trigger for the delivery of advertisements.”³⁵⁵
- In *Weightwatchers.com, Inc. v. Diet Patch, Inc.*, No. 04 Civ. 4053 (LAP) (Dkt. 91) (S.D.N.Y. Apr. 18, 2005), the court entered a fourth order enjoining Bridgeport Laboratories, LLC from using “Plaintiffs’ trademarks as a trigger for the delivery of advertisements.”³⁵⁶
- In *Happy Feet USA, Inc. v. Serenity “2000” Corp.*, No. 09-cv-1832 (Dkt. 22) (M.D. Fl. Mar. 16, 2010), the court enjoined defendant from “purchasing search engine keyword

³⁵³ Ex. V [Permanent Injunction, *Weightwatchers.com, Inc. v. Diet Patch, Inc.*, No. CV 4053 (LAP) (Dkt. 45) (S.D.N.Y. Sept. 28, 2004)].

³⁵⁴ Ex. W [Permanent Injunction, *Weightwatchers.com, Inc. v. Diet Patch, Inc.*, No. CV 4053 (LAP) (Dkt. 92) (S.D.N.Y. Apr. 18, 2015)].

³⁵⁵ Ex. X [Permanent Injunction, *Weightwatchers.com, Inc. v. Diet Patch, Inc.*, No. CV 4053 (LAP) (Dkt. 90-2) (S.D.N.Y. Apr. 18, 2015)].

³⁵⁶ Ex. Y [Permanent Injunction, *Weightwatchers.com, Inc. v. Diet Patch, Inc.*, No. CV 4053 (LAP) (Dkt. 91) (S.D.N.Y. Apr. 18, 2015)].

advertising, such as but not limited to Google AdWords advertisements, based on keywords incorporating or comprising” plaintiff’s marks.³⁵⁷

- In *Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, No. 807CV1753T26MAP, 2008 WL 816794, at *3 (M.D. Fla. Mar. 25, 2008), the court enjoined the defendant “from purchasing or using any form of advertising including keywords or adwords in internet (sic) advertising containing any mark incorporating Plaintiff’s Mark, or any confusingly similar mark”³⁵⁸

152. Moreover, I have been involved with or have knowledge of many more disputes over keyword advertising. I know from experience that settlement terms such as those at issue in this action are common. Although many of the agreements I have knowledge of are subject to confidentiality provisions, some have been produced in this matter or have become publicly available for one reason or another. These settlement agreements from keyword advertising litigation often prohibit parties from engaging in the same conduct prohibited under 1-800 Contacts’ settlement agreements.³⁵⁹ Representative examples are listed below:

- In *Greenberg Smoked Turkeys, Inc. v. Tsavo Media, Inc.*, No. 11-cv-00037 (Dkt. 29) (E.D. Tex. Jan. 23, 2012), the parties reached a settlement agreement and Microsoft agreed “not

³⁵⁷ Ex. Z [Consent Final Judgment, *Happy Feet USA, Inc. v. Serenity “2000” Corp.*, No. 09-cv-1832 (Dkt. 22) (M.D. Fla. Mar. 16, 2010)].

³⁵⁸ Ex. AA [*Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, No. 807CV1753T26MAP, 2008 WL 816794, at *3 (M.D. Fla. Mar. 25, 2008)].

³⁵⁹ In addition to legal advice, consulting companies and the industry press also suggested settlement agreements instead of litigation and agreements on “which branded keywords should be off limits for each side, and then ensuring that both parties adhere to the agreement.” Sam Engel, *How to Keep Other Advertisers Off Your Branded Keywords*, White Shark Media (Mar. 6, 2014), <http://whitesharkmedia.com/blog/keep-advertisers-off-your-branded-keywords/> (last visited Feb. 23, 2017); see David Rodnitzky, *How To “Protect” Brand Keywords For Less*, Search Engine Land (May 24, 2012), <http://searchengineland.com/how-to-protect-brand-keywords-for-less-121566> (advising clients, among other things, to either “send in the lawyers” and sue competitors that bid on branded terms or agree “you won’t buy their brand keywords if they won’t buy yours.”).

[to] offer the words, names, phrases or marks [of Greenberg Smoked Turkeys Inc.] to third-parties for use as keywords to trigger sponsored advertisement links on internet searches . . . on the Bing Search Engine in the United States.”³⁶⁰

- In *American Airlines, Inc. v. Yahoo! Inc., et al.*, No. 08-CV-626-A (Nov. 27, 2009), the parties reached a settlement agreement that “Yahoo! agrees to block service of Sponsored Search advertisements on Yahoo.com, or any website to which Yahoo! services Sponsored Search advertisements to the extent of such service, on behalf of the companies listed on Exhibit A in response to the search terms listed on Exhibits B and C”³⁶¹
- In *Pine Tree Legal Assistance v. LegalMatch.com*, No. 06-cv-00045 (D. Me. Mar. 2006), the parties reached a settlement agreement “not [to] use any of the Pine Tree Marks in connection with any Advertising or the sale of any goods or services.” Advertising is defined in the agreement to “include[e] without limitation use of key words or search terms to influence or monitor Internet searches, links, or advertisements, and including the generation of ‘impressions’ in response to the use by consumers of certain words in Internet searches to publish advertisements to those consumers.”³⁶²
- In *Government Employee Insurance Co. v. Google, Inc. et al.*, No. 04-CV-507 LMB/TCB (E.D. Va. Nov. 24, 2004), the plaintiff and a defendant—Overture, a predecessor to

³⁶⁰ Ex. BB [MSFT-00000001, at 2].

³⁶¹ Ex. CC [Am. Airlines v. Yahoo! settlement] (prohibiting keyword advertising in response to any of thousands of search terms).

³⁶² Ex. DD [Settlement Agreement between Pine Tree Legal Assistance and LegalMatch.com, §§ 1(d), 2, https://lsntap.org/sites/all/files/LegalMatch_settlement_0.pdf]; see Robert Ambrogi, *Pine Tree, LegalMatch settle lawsuit* (Apr. 3, 2006), <http://www.lawsitesblog.com/2006/04/pine-tree-legalmatch-settle-lawsuit.html> (last visited Feb. 23, 2017).

Yahoo!—reached a settlement agreement to “permanently cease delivering to [search engine users] any Overture Sponsored Listings for any of the Blocked Queries”³⁶³

153. Furthermore, restrictions on using trademarks are typically not limited to applying to exact copies of the mark. It is also common for trademark judgments and agreements to prohibit the use not only of trademark terms but also misspellings of the trademark.³⁶⁴ Legal treatises on consent judgments recommend prohibiting the use of “confusingly similar variation[s]” of an owner’s mark.³⁶⁵ Courts have frequently evaluated and adopted restrictions on “confusingly similar variations” in injunctions entered in response to trademark disputes related to search engine advertising.³⁶⁶ Representative examples are listed below, with emphasis added to the relevant quoted language:

- In *Joshua David Mellberg, LLC v. Advanced Retirement Income Solutions, LLC*, No. 12-cv-854 (Dkt. 89) (D. Ariz. Oct. 27, 2016), the defendants agreed to a permanent injunction prohibiting them from “[u]sing any Accused Keywords or any colorable imitations thereof

³⁶³ Ex. Q [Settlement agreement between Overture and GEICO].

³⁶⁴ *Compare* CX0325-001, at 12 (prohibiting 17 different misspellings of 1-800 contacts), *with* MSFT-00000001, at 09-16 (prohibiting 274 different misspellings of Greenberg’s Smoked Turkey), *and* Permanent Injunction Against Defendants, *Sas v. Sawabeh Info. Servs. Co.*, No. 11-cv-04147 (Dkt. 728) (C.D. Cal. July 8, 2014) (prohibiting 124 different versions of plaintiff’s marks), *and* Consent Decree and Final Judgment, *Greenberg Smoked Turkeys, Inc. v. Tsavo Media, Inc.*, No. 11-cv-00037 (Dkt. 29) (E.D. Tex. Jan. 23, 2012) (prohibiting 84 different misspellings of Greenberg’s Smoked Turkey).

³⁶⁵ Trademark Litigation: Consent Judgment and Permanent Injunction § 11(a), Practical Law Standard (Westlaw 2017).

³⁶⁶ *See Wells Cargo, Inc. v. Wells Cargo, Inc.*, 606 F.2d 961, 965 (C.C.P.A. 1979); *see also* MCCARTHY, *supra* note 11, at § 30:01 (“A permanent injunction is the usual and normal remedy once trademark infringement has been found in a final judgment. . . . The Lanham Act codifies the traditional remedy by stating that the courts ‘shall have the power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable.’”) (quoting 15 U.S.C. § 1116).

or **confusingly similar words or phrases** as Google Ad Words [sic] or otherwise, to divert business, sales or customers to [defendant].”³⁶⁷

- In *Eclipse Aesthetics v. Regenlab USA, LLC*, No. 15-cv-03748 (Dkt. 25) (N.D. Tex. Jan. 11, 2016), with the consent of both parties, the court enjoined the defendant “from running the Google Ad set forth in Plaintiff’s Motion for Preliminary Injunction, as well as any similar Google Ad that would place any form of the word ‘Eclipse’ (**including likely misspellings**) in a hyperlink to the www.regenlabusa.com website, pending the outcome of a final decision on the merits of this case.”³⁶⁸
- In *PODS Enterprises., LLC v. U-Haul Intern., Inc.*, 126 F. Supp. 3d 1263, 1292 (M.D. Fla. Aug. 24, 2015), the court enjoined the defendant from using plaintiff’s PODS marks or “any other **marks, names or designations that are confusingly similar** to the PODS Marks . . . in any manner, including without limitation, as trademarks, service marks (or any other type of designation), . . . domain names, keywords, metatags, or on websites (whether as part of hidden or visible text), Internet sites (including without limitation social media sites)”³⁶⁹
- In *Louis Vuitton Malletier, S.A. v. Abags.co.UK*, No. 14-Civ-60288, 2015 WL 11197741 (S.D. Fla. Feb. 27, 2015), the court enjoined defendants from “using the Louis Vuitton Marks, or any **confusingly similar trademarks**, . . . from search engines’ databases or cache memory, and any other form of use of such terms which is visible to a computer user or serves to direct computer searches to websites registered by, owned, or operated by

³⁶⁷ Ex. K [Final Judgment and Permanent Injunction, *Joshua David Mellberg, LLC v. Adv. Ret. Income Sol., LLC*, No. 12-cv-854 (Dkt. 89) (D. Ariz. Oct. 27, 2016)].

³⁶⁸ Ex. L [*Eclipse Aesthetics v. Regenlab USA, LLC*, No. 15-cv-03748 (Dkt. 25) (N.D. Tex. Jan. 11, 2016)].

³⁶⁹ Ex. D [*PODS Enters., LLC v. U-Haul Int’l, Inc.*, 126 F. Supp. 3d 1263, 1292 (M.D. Fla. Aug. 24, 2015)].

Defendants, including the Internet websites and/or e-commerce iOffer auction stores, and C2Coffer e-stores operating under all of the Subject Domain Names, iOffer Auction Stores, and C2Coffer E-stores.”³⁷⁰

- In *Probar, LLC v. One Board*, No. 14-cv-166 (Dkt. 18) (M.D. Fla. Oct. 29, 2014), the court enjoined the defendants from “purchasing or using any forms of advertising including keywords or ‘adwords’ in internet advertising containing any mark incorporating Plaintiff’s Marks in text, or any **confusingly similar marks**, and shall, when purchasing internet advertising using keywords, adwords or the like, require the activation of the term PROBAR as negative keywords or negative adwords¹ (sic) in any internet advertising purchased or used.”³⁷¹
- In *Select Management Resources, LLC v. D and D Marketing, Inc.*, No. CV10-10008 (Dkt. 39) (C.D. Cal. July 15, 2011), the court enjoined defendants from “using the QUICKCLICK or QUICKCLICKLOANS.COM trademarks and any **confusingly similar variations** thereof, alone or in combination with other words, names, styles, titles or marks as a business or trade name on or in connection with the advertising, promotion, . . . including but not limited to the use of the QUICKCLICK or QUICKCLICKLOANS.COM trademarks in Internet advertisement text or as keywords for generation of Internet advertisements.”³⁷²

³⁷⁰ Ex. E [Order, *Louis Vuitton Malletier, S.A. v. Abags.co.UK*, No. 14-Civ-60288, 2015 WL 11197741 (S.D. Fla. Feb. 27, 2015)].

³⁷¹ Ex. M [Order, *Probar, LLC v. One Board*, No. 14-cv-166 (Dkt. 18) (D. Fla. Oct. 29, 2014)].

³⁷² Ex. N [Consent Final Judgment and Permanent Injunction Order, *Select Mgmt. Resources, LLC v. D and D Mktg, Inc.*, No. CV10-10008 (Dkt. 39) (C.D. Cal. July 15, 2011)].

- In *World Entertainment Inc. v. Brown*, No. 09-5365, 2011 WL 2036686, at *8 (E.D. Pa. May 20, 2011), the district court enjoined the defendant from using keywords “containing plaintiffs’ CTO trademark, or any mark incorporating plaintiffs’ CTO trademark, **colorable imitations** thereof or any **confusingly similar mark**.”³⁷³
- In *Quidgeon v. Olsen*, No. 10-CV-1168, 2011 WL 1480537, at *3 (C.D. Ill. Apr. 19, 2011), the court enjoined the defendants “from using or displaying Plaintiff’s federally registered ‘DADDYO’S TATTOO’ service mark and/or common law marks, or any similar or **confusing variations thereof**, including ‘DADDY-O’S TATTOO’S’ and/or ‘BODY ART BY DADDY-O,’ in its trade names, advertising, ... Internet metatags, [or] keywords for Internet search engines....”³⁷⁴
- In *Skydive Ariz., Inc. v. Quattrocchi*, No. CV-05-2656-PHX-MHM, 2010 WL 1743189, at *8 (D. Ariz. Apr. 29, 2010), the court enjoined the defendants “from using the trademark ‘Skydive Arizona,’ or any marks that are **confusingly similar to** or **colorable imitations of** that trademark, and from using ‘Skydiving Arizona,’ and ‘Arizona Skydiving,’ on or in connection with or as part of any website, including in meta tags, keywords in pay-for-placement or payfor-rank search engines”³⁷⁵
- In *Transamerica Corp. v. Moniker Online Srvs., LLC*, No. 09-60973-CIV, 2010 WL 1416979 (S.D. Fla. Apr. 7, 2010), the court enjoined the defendants from “purchasing, selling, or using any form of advertising including keywords or Adwords in Internet

³⁷³ Ex. I [*World Entm’t Inc. v. Brown*, No. 09-5365, 2011 WL 2036686 (E.D. Pa. May 20, 2011)].

³⁷⁴ Ex. H [*Quidgeon v. Olsen*, No. 10-CV-1168, 2011 WL 1480537, at *3 (C.D. Ill. Apr. 19, 2011)].

³⁷⁵ Ex. C [*Skydive Ariz., Inc. v. Quattrocchi*, No. CV-05-2656-PHX-MHM, 2010 WL 1743189, at *8 (D. Ariz. Apr. 29, 2010)].

advertising containing any mark that incorporates, initiates, or is **confusingly similar to** Plaintiff's 'Transamerica' service mark"³⁷⁶

- In *Fragrancenet.com, Inc. v. Les Parfums, Inc.*, No. 09 Civ. 2626 (Dkt. 22) (E.D.N.Y. Mar. 8, 2010), Les Parfums agreed to a permanent injunction prohibiting it from “purchasing keywords or the functional equivalent from any Internet search provider for the terms FRAFRANCENET, FRAGRANCENET.COM, or any **confusingly similar term, phrase, or mark**, including without limitation ‘fragrance net’ and ‘fragrance.net’”).³⁷⁷
- In *Mastercard International Inc. v. Trehan*, 629 F. Supp. 2d 824, 833 (N.D. Ill. 2009), the parties agreed that the defendant is enjoined from “using any names, words, designations or symbols consisting of, or otherwise **confusingly similar** to MASTERCARD Marks or any translation thereof” as “search terms, keywords, key terms, hit generating pages, or any other devices used, intended, or likely to cause any web sites of [defendant] to be listed by any Internet search engines in response to any searches that include any terms identical with or confusingly similar to the MASTERCARD Marks.”³⁷⁸
- In *True & Dorin Med. Grp, P.C. v. Leavitt Med. Assocs., P.A.*, No. 06-CV-00092 (PKC) (Dkt. 78) (S.D.N.Y. Apr. 20, 2007), the parties consented to the settling defendant being enjoined from “directly or indirectly purchasing advertising keywords, links, and metatags that are **identical or substantially similar** to True’s ELLIOTT & TRUE Trademark or any element thereof, including but not limited to, Dr. True’s surname (the “E&T Mark”).”³⁷⁹

³⁷⁶ Ex. J [*Transamerica Corp. v. Moniker Online Servs., LLC*, No. 09-60973-CIV, 2010 WL 1416979 (S.D. Fla. Apr. 7, 2010)].

³⁷⁷ Ex. P [Permanent Injunction and Judgment on Consent, *Fragrancenet.com, Inc. v. Les Parfums, Inc.*, No. 09 Civ. 2626 (Dkt. 22) (Mar. 8, 2010)].

³⁷⁸ Ex. R [*Mastercard Int’l, Inc. v. Trehan*, 629 F. Supp. 2d 824 (N.D. Ill. 2009)].

³⁷⁹ Ex. S [Order of Dismissal with Prejudice as to Leavitt Defendants Only, *True & Dorin Med. Grp, P.C. v. Leavitt Med. Assocs., P.A.*, No. 06-CV-00092 (PKC) (Dkt. 78) (S.D.N.Y. Apr. 20, 2007)].

- In *Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, No. 807CV1753T26MAP, 2008 WL 816794, at *3 (M.D. Fla. Mar. 25, 2008), the court enjoined the defendant “from purchasing or using any form of advertising including keywords or adwords in internet (sic) advertising containing any mark incorporating Plaintiff’s Mark, *or any confusingly similar mark . . .*”³⁸⁰

154. Outside the litigation context, it is also common for trademark owners to prohibit third parties from using their marks as keywords or search terms. Businesses that use agents or affiliates to assist in the sales process regularly “[c]reate terms and conditions for [their] affiliates and resellers that prevent them from buying” the businesses’ trademarks.³⁸¹ For example, American Airlines allows its authorized distributors, (such as online travel agencies and global distribution systems) to offer consumers the opportunity to purchase American Airlines tickets under certain conditions set forth in the American Airlines, Inc. Addendum to the Airlines Reporting Corporation (“ARC”) Agreement. Among other provisions, the American Airlines, Inc. Addendum to the ARC Agreement requires these distributors to agree not to “purchase, use, or register any domain names or keywords or search terms that are identical or similar to, or contain (in whole or in part), any of” American Airlines’s marks.³⁸² Alaska Airlines also prohibits travel agents from “purchas[ing] or bid[ing] on keywords that contain Alaska trademarks, trade names,

³⁸⁰ Ex. AA [*Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, No. 807CV1753T26MAP, 2008 WL 816794, at *3 (M.D. Fla. Mar. 25, 2008)].

³⁸¹ David Rodnitzky, *How To “Protect” Brand Keywords For Less, Search Engine Land* (May 24, 2012), <http://searchengineland.com/how-to-protect-brand-keywords-for-less-121566>.

³⁸² Ex. FF [Addendum to the Governing Travel Agency Agreements § 10.b, American Airlines, <https://www.americanairlines.com/i18n/customer-service/addendum-governing-travel-agency-agreements.jsp> (last visited Feb. 23, 2017)].

service marks or common misspellings.”³⁸³ Delta Airlines not only prohibits travels agents from “bid[ing] on any [of its] intellectual property, including Flight Data, with any online search engine[.]”³⁸⁴ Delta also requires travel agents using “all air related queries” to add several Delta marks as “broad negative keyword match[es].”³⁸⁵ The restriction extends beyond airlines; Carnival Cruise Lines prohibits travel agents from engaging in the same behavior and requires specific negative keywords whenever the agent uses generic cruise keywords—such as “cruise” or “ship” or “Caribbean.”³⁸⁶ Many companies restrict their affiliates from purchasing keywords or search terms incorporating their trademarks.

155. In this context, it is my opinion that 1-800 Contacts’ settlement agreements are reasonably and narrowly tailored. The list of prohibited terms (*i.e.*, terms restricted by the 1-800 Contacts’ settlement agreements) contains only protected marks owned by one of the settling parties. Indeed, during the course of negotiating these settlements, 1-800 Contacts rejected attempts by infringers to add unprotected terms to the prohibited terms lists.³⁸⁷ For example, when LensFast attempted to include “1800” and “optometrist” in the list of prohibited keywords to accompany its settlement with 1-800 Contacts, 1-800 Contacts objected on the basis that LensFast

³⁸³ Ex. GG [Legal—travel agent policies, Alaska Airlines, <https://www.alaskaair.com/content/legal/travel-agent-policies.aspx> (last visited Feb. 23, 2017)].

³⁸⁴ Ex. HH [Carrier Distribution Policy § 4, Delta Airlines, <https://pro.delta.com/content/agency/us/en/policy-library/distribution-and-revenue-recovery/carrier-distribution-policy.html> (last visited Feb. 23, 2017)].

³⁸⁵ *Id.*

³⁸⁶ Ex. EE [Carnival Cruise Lines Travel Agency Policy § V.D.1, Carnival Cruise Lines (Jan. 23, 2015), [https://www.goccl.com/~media/GOCCL/content/form-policy/documents/TravelAgencyPolicy.ashx](https://www.goccl.com/~/media/GOCCL/content/form-policy/documents/TravelAgencyPolicy.ashx)(last visited Feb. 23, 2017)].

³⁸⁷ 1-800F_00080908 (rejecting the “general terms King and Kings” because 1-800 Contacts believed they were “too attenuated from your client’s trademark to justify inclusion”); 1-800F_00081723 (rejecting 18 terms because “the keyword list needs to be limited to registered trademarks and confusing variations as well as domain names owned by your client. Our understanding is your client owns one trademark: LenseForLess.”).

“cannot claim trademark rights in the terms....”³⁸⁸ Most of the settlement agreements also specifically do not restrict use of each party’s trademarks in ways “that would not constitute an infringing use in a non-Internet context, *e.g.*, comparative advertising, parodies, and similar non-Infringing uses”³⁸⁹ This is comparable to language that was approved in *Gonzales & Gonzales Bonds and Insurance Agency, Inc. v. Action Immigration Bonds and Insurance Services, Inc.*, No. CV 10-01162 (Dkt. 15) (C.D. Cal. April 7, 2010), where the parties agreed to a permanent injunction that “nothing contained [in the settlement] shall preclude the . . . Defendants from using the tradename of G&G in any comparative advertising (*i.e.*, [Defendant] would be permitted to use the name of G&G in any advertisement comparing its immigration program to that of G&G’s), as long as such comparative advertising is truthful, and neither confusing or misleading.”³⁹⁰

156. In my experience, settling trademark defendants often agree to forgo using at least some terms as search engine keywords as one of the terms of settlement. Accused infringers often readily agree to these kinds of limitations because there are infinite alternative terms to choose to trigger keyword advertisements, and many acknowledge that placing advertisements in response to searches for trademarks may lead to confusion and a misdirection of marketing resources better spent on advertising to customers that have not demonstrated a preference for a competing trademark.

³⁸⁸ 1-800F_00081926.

³⁸⁹ CX0149-001, at 003. The restriction is similar to others in the 1-800 Contacts settlement agreements. *See* CX0149-001, at 003; CX0319-001, at 002; CX0313-001, at 004; CX0320-001, at 003; CX0315-001, at 004; CX0325-001, at 003; CX0311-001, at 004; CX0324-001, at 003; CX0317-001, at 002; CX0321-001, at 002.

³⁹⁰ Ex. O [Stipulated Permanent Injunction and Judgment, *Gonzales & Gonzales Bonds and Ins. Agency, Inc. v. Action Immigration Bonds and Ins. Servs., Inc.*, No. CV 10-01162 (Dkt. 15) (C.D. Cal. Apr. 7, 2010)].

C. Courts and Parties Increasingly Agree to Mandate Use of Negative Keywords

157. In my experience, it is also increasingly common for trademark agreements and injunctions in the keyword advertising context to require advertisers to designate a competitor's trademark as a "negative keyword." As described earlier, the default mechanism for search engine advertising is broad match. Under broad match, the search engines serve up sponsored links not only based on the keywords that the advertiser chooses, but also to a broader set of search terms that the algorithm is programmed to identify as related to the selected search terms. As a result, search engine advertisers often find their sponsored links offered in response to search terms that they did not specifically list. As mentioned in Part IV.B, negative keywords allow advertisers to limit the additional types of searches that will trigger the display of sponsored link advertisements. For example, an airline can have its keyword advertisements appear whenever a user searches for 'airplane' but add a negative keyword that prevents them from appearing for a user searching for 'airplane crash.'

158. Advertisers also use negative keywords to prevent their advertisements from showing when users specifically search for another company's trademark. By using negative keywords for another company's trademark along with generic keyword purchases, advertisers can increase their return on investment by ensuring that their sponsored links are displayed to consumers searching for the product offered by the advertiser and not another company's product.³⁹¹ As noted earlier, I am aware that many such settlement agreements in trademark disputes are not publicly available and are subject to confidentiality provisions. Based on my experience, however, it is my opinion that settlement agreements regularly contain requirements

³⁹¹ GOOG-LENSE-001215; About negative keywords, GOOGLE, <https://support.google.com/adwords/answer/2453972> (last visited Feb. 23, 2017) ("Better targeting can put your ad in front of interested users and increase your return on investment (ROI)").

to adopt negative keywords in trademark disputes involving keyword advertising. Many of 1-800 Contacts' settlement agreements require the use of negative keywords whenever the settling parties use generic or descriptive terms in keyword advertising.³⁹²

159. Courts presiding over trademark infringement litigation also have ordered defendants to adopt negative keywords in recent years as the confusion caused by search engine "broad match" options has become more widely recognized.

- In *Probar, LLC v. Onebody*, No. 14-cv-166 (Dkt. 18) (D. Fl. Oct. 29, 2014), the court required the defendant to "activat[e] . . . the term 'PROBAR' as negative keywords or negative adwords1 (sic) in any internet advertising purchased or used."³⁹³ The court defined "negative keyword" or "negative adword" as "a special kind of advertiser keyword matching option that allows an advertiser to prevent its advertisement from appearing when the specific terms are a part of a given user's internet search or search string."
- In *Transamerica Corp. v. Moniker Online Services, LLC*, No. 09-60973-CIV, 2010 WL 1416979 (S.D. Fl. Apr. 7, 2010), the court required the defendant "when purchasing or selling Internet advertising using keywords, Adwords or the like, to activate the name 'Transamerica' as a negative keyword or negative Adword in any Internet advertising purchased, sold or used."³⁹⁴
- In *Happy Feet USA, Inc. v. Serenity "2000" Corp.*, No. 09-cv-1832 (Dkt. 22) (M.D. Fl. Mar. 16, 2010), the court required the defendant to maintain plaintiff's infringed

³⁹³ Ex. M [Order, *Probar, LLC v. Onebody*, No. 14-cv-166 (Dkt. 18) (D. Fla. Oct. 29, 2014)].

³⁹⁴ Ex. J [*Transamerica Corp. v. Moniker Online Servs., LLC*, No. 09-60973-CIV, 2010 WL 1416979 (S.D. Fla. Apr. 7, 2010)].

trademarks as “negative keywords on all search engine-advertising accounts in their custody or control.”³⁹⁵

- In *Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, No. 807CV1753T26MAP, 2008 WL 816794, at *3 (M.D. Fla. Mar. 25, 2008), the court required the defendant to, “when purchasing internet advertising using keywords, adwords or the like, require the activation of the term ‘ORION’ as negative keywords or negative adwords in any internet advertising purchased or used.”³⁹⁶

D. Complaint Counsel’s Purported Less Restrictive Alternative Is Not Viable

160. It is my understanding that the FTC is arguing that 1-800 Contacts’ settlements should have included terms that would have been “less restrictive.” I understand that, in an interrogatory response, Complaint Counsel have stated that “the ‘less restrictive alternatives’ of which Complaint Counsel is aware at the present time that were ‘available to 1-800 Contacts to safeguard any legitimate interest the company may have under trademark laws’ consist of redressing the purportedly confusing text of the challenged advertisement rather than prohibiting the display of search advertising altogether.”

161. While this interrogatory response is not specific, from my understanding of it, the alternate terms being suggested would be likely to: (i) hinder each party’s ability to monitor compliance; (ii) increase the number of disputes regarding settlement compliance between the parties; (iii) cause confusion by business personnel regarding how to accomplish the settlement’s

³⁹⁵ Ex. Z [Consent Final Judgment, *Happy Feet USA, Inc. v. Serenity “2000” Corp.*, No. 09-cv-1832 (Dkt. 22) (M.D. Fla. Mar. 16, 2010)].

³⁹⁶ Ex. AA [*Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, No. 807CV1753T26MAP, 2008 WL 816794, at *3 (M.D. Fla. Mar. 25, 2008)].

requirements; and (iv) necessitate additional future agreements that specify each party's prohibited conduct.

162. *First*, Complaint Counsel's alternate remedy appears to be inconsistent with how trademark owners and their counsel would interpret the 1-800 Contacts settlement agreements. As discussed previously, the settlement agreements expressly allow advertisers to choose from an infinite number of alternative keywords, including generic terms like "contacts." In fact, as previously discussed, 1-800 Contacts rejects attempts by others to add generic terms to the list of prohibited terms contained in these agreements.

163. *Second*, most of the settlement agreements explicitly or implicitly allow for non-infringing uses of 1-800 Contacts' marks, such as in fair use or comparative advertising contexts. Keyword advertising, however, is not necessarily consistent with comparative advertising. The definitive characteristic of comparative advertising is that users understand the advertisement is drawing a distinction between the product being advertised and the mark of the competitor being contrasted. If consumers cannot distinguish the two products or brands, they cannot identify how the products differ.³⁹⁷ That is part of the reason the FTC encourages comparative advertising by "the naming of, or reference to competitors, but requires clarity, and, if necessary, disclosure to avoid deception of the consumer."³⁹⁸ However, keyword advertising by itself does not distinguish between two products. Instead it merely places a link to the advertiser's website above the organic links that are independently relevant to the search term. As previously discussed, a significant percentage of search engine users have difficulty distinguishing between keyword advertising and

³⁹⁷ *SSP Agr., Etc. v. Orchard-Rite Ltd.*, 592 F.2d 1096, 1103 (9th Cir. 1979) ("The use of a competitor's trademark for purposes of comparative advertising is not trademark infringement 'so long as it does not contain misrepresentations or create a reasonable likelihood that purchasers will be confused as to the source, identity, or sponsorship of the advertiser's product.' ") (quoting *Smith v. Chanel, Inc.*, 402 F.2d 562, 563 (9th Cir. 1968)).

³⁹⁸ 16 C.F.R. § 14.15(b)-(c) ("The Commission has supported the use of brand comparisons where the bases of comparison are clearly identified.").

organic results. The fact that significant numbers of Internet users cannot distinguish between results make sponsored link advertising a poor form of comparative advertising and creates the necessary factual predicate for trademark confusion when a trademark term is used as the search term.

164. *Third*, it is my understanding that Complaint Counsel also challenges the use of negative keyword requirements in the settlement agreements. As previously discussed, such terms are increasingly common in trademark injunctions and settlement agreements. This is because settlements are designed to stop the conduct that gave rise to the dispute in the first place. In this case, the conduct at issue is the appearance of ads for a competitor, when Internet users search for a well-known trademark term like 1-800 Contacts. Because search engines typically default to “broad match,” though, sponsored links can appear not only when an advertiser bought the right to use the specific search term to trigger the appearance of the sponsored link, but the sponsored link can also appear because the search engine was programmed to display the sponsored link in response to searches for terms that the search engine algorithm deems to be related to the search term, including synonyms and variants. In many cases, advertisers know that when they select a generic term like “contacts,” they will be broad matched to a trademark term like “1-800 Contacts.”³⁹⁹ Although trademark owners can analyze ad display patterns to estimate whether a

³⁹⁹ As a court treating this exact issue in the United Kingdom explained, when a party selects a broad match for a generic term without implementing a negative keyword for their competitor’s trademarked term, they “ha[ve] the same object and effect” as bidding on the trademark itself in “that a search by a consumer for [the trademark] results in the display of [the competitor’s] advertisement.” *Interflora Inc. v. Marks and Spencer plc*, [2014] EWCA Civ 1403, ¶ 188, available at <http://www.bailii.org/ew/cases/EWCA/Civ/2014/1403.html> (last visited Feb. 23, 2017). For this reason, the Court of Appeal in *Interflora* found that the decision to broad match a generic term in such a way that advertisements would appear in response to the trademark without implementing negative keywords could be equally actionable as a “use” under trademark law. The court went on to explain in the context of the use of trademarks by competitors in Google’s keyword advertising in the flower market: “[i]n our judgment it follows that the choice and selection by a trader of a generic term as a keyword cannot be considered in isolation and as an activity separate and distinct from the Google algorithms and match types used in relation to them. Further, account must also be taken the opportunity available to the trader to negatively match... it is not said that the generic terms selected by M & S as keywords are the same as or similar to any of the Trade Marks. Instead,

search result was triggered by a specific term, this is cumbersome and, in many cases, the trademark owner would need internal documents from the advertiser or search engine to achieve reasonable certainty. By using negative keywords, trademark owners and advertisers can achieve relative certainty that the conduct at issue—the appearance of a sponsored link advertisement on a search results page in response to a search for a trademark term—will not recur. And it does not require extensive formal or informal discovery to give both sides reasonable certainty as to whether the agreement is being complied with. In my experience, negative keywords are a low-burden method for settling parties to police the other party’s compliance with the settlement terms.

165. *Fourth*, as reflected in the injunctions cited above, Courts uniformly prohibit trademark defendants not just from use of the exact marks at issue, but all “confusingly similar” versions of the mark. The Lanham Act is not limited to exact uses of trademarks, but also “any reproduction, counterfeit, copy, or colorable imitation of a registered mark,” 15 U.S.C. § 1114 (emphasis added), or any “device” that is likely to cause confusion. 15 U.S.C. § 1125(a)(1). As a result, it is standard for trademark infringement settlements to prohibit not just the use of the exact marks but also “confusingly similar” variants. An agreement that allows an accused infringer to evade the spirit of a settlement agreement based on a technicality, such as spelling errors or the addition of generic terms to a trademark term, is not a settlement at all and will only invite further conflict and litigation.

166. *Fifth* it is entirely consistent with the purpose of trademark settlements for the parties to agree on terms that are flexible enough to cover changing circumstances over time. A settlement’s purpose is obstructed if the settling parties must frequently renegotiate its terms or if

complaint is made of its choice and selection of such generic terms as keywords without negatively matching the word ‘interflora.’ We have come to the conclusion that bidding by M & S on generic flower related terms without negatively matching the word ‘interflora’ may be characterised as use by M & S of the sign ‘interflora’ within the meaning of [the applicable trademark law regime].” *Id.* ¶ 191-92.

the agreement plants the seeds of future disputes. Likewise, if a settlement does not provide clear guidance and set a sufficient berth between acceptable and unacceptable conduct, additional disputes between the settling parties are likely. This is particularly true in the trademark context where marks can evolve to respond to changing customer tastes. And in the search engine context, it is often prohibitively difficult to predict—and list and agree on—all slight variants on a mark that would likely cause confusion, such as adding an extra space or symbol between two letters, or common misspellings of trademark terms that consumers are likely to type into a search engine in error. Furthermore, the look of keyword advertising and organic search results on search engines has changed and can be expected to change over time.⁴⁰⁰ Some of the recent changes resulted in making keyword advertising look more like organic search results. For example, the removal of shading that differentiates between keyword advertising and organic search results. Similarly, in 2016, Google removed right-side ads from its AdWords program,⁴⁰¹ meaning that buying keywords is even more likely to result in sponsored link advertisements that confuse consumers, on top of the organic search results. Listing prohibited conduct in minute detail without prohibiting confusingly similar actions risks further disputes for the settling parties when the search engines change their display format.

167. As a result, placing strict restrictions on the methods acceptable to settle trademark disputes is likely to encourage or even mandate additional litigation and litigation costs and therefore fails to achieve the main goals of settlement—providing clear guidance and avoiding future disputes.

⁴⁰⁰ *Supra* Part IV.B.

⁴⁰¹ Christopher Ratcliff, *Google kills Right Hand Side Ads: what does this mean for marketers and users?*, Search Engine Watch (Feb. 23, 2016), <https://searchenginewatch.com/2016/02/23/google-kills-right-hand-side-ads-what-does-this-mean-for-sem/> (last visited Feb. 23, 2017).

* * *

168. Attached as exhibits to this report are numerous true and correct copies of orders and agreements cited specifically in this report, as identified in the documents themselves. In many cases, I have added highlighting in order to draw the reader's attention to relevant language.

Pursuant to 28 U.S.C. § 1746, I state, under penalty of perjury, that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed on this 23rd day of February, 2017.

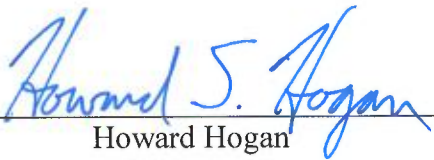

Howard Hogan

EXHIBIT B

**UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION
OFFICE OF ADMINISTRATIVE LAW JUDGES**

In the Matter of

**1-800 Contacts, Inc.,
a corporation**

Docket No. 9372

Expert Report of Dr. William M. Landes

February 23, 2017

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I. Introduction

A. Qualifications

1. I, William M. Landes, am the Clifton R. Musser Professor Emeritus of Law and Economics at the University of Chicago Law School. I received a Ph.D. in Economics from Columbia University in 1966. Since that time I have taught economics on the faculties of Stanford University, Columbia University, the Graduate Center of the City University of New York, and the University of Chicago. I was a tenured professor at the University of Chicago Law School from 1974 to 2009, when I retired and became a senior lecturer. Since my retirement I have continued to teach a course in trademarks, a seminar on art law and a workshop in judicial behavior.

2. I have published extensively on a variety of topics related to the general subject of economic analysis of law, including intellectual property, litigation and settlements, torts, antitrust, legal procedure, art law and judicial behavior. In the area of intellectual property, I am a co-author with Richard A. Posner of a book entitled *The Economic Structure of Intellectual Property Law* (Harvard University Press, 2003), which contains two chapters on the economics of trademarks.

3. From 1991 to 2000, I served as an Editor of *The Journal of Legal Studies*, and from 1975 to 1992 I served as an Editor of *The Journal of Law and Economics*, both of which are leading academic journals in the field of law and economics. I have served on the editorial advisory board of numerous journals including the *Journal of Cultural Economics*, the *Journal of Empirical Legal Studies* and the *Journal of Legal Analysis*. I served as President of the American Association of Law and Economics in 1992-1993 and I was elected a fellow of the American Academy of Arts and Sciences in 2008.

4. In addition to my academic experience, I have been Chairman and Chairman Emeritus of Lexecon, an economics consulting firm that I co-founded in 1977 with Richard A. Posner and Andrew Rosenfield. Lexecon was later merged with the firm Compass to form Compass Lexecon. A copy of my curriculum vitae is attached as Appendix A to this report. A list of materials I have relied upon in preparing this report is attached as Appendix B.

5. Compass Lexecon bills my time at the rate of \$1500 per hour. Neither Compass Lexecon's compensation nor mine depend on the conclusions reached or the outcome of this case.

B. Assignment

6. Counsel for 1-800 Contacts, Inc. ("1-800 Contacts") has asked me to address the basic economics of trademarks, the economic benefits of trademarks to consumers and firms, and the role of trademark protection in preserving this benefit. Although I have taught the basic trademark course at the University of Chicago Law School for more than ten years and I co-taught antitrust for many years, I am not a lawyer and I am not expressing an opinion as to what the law is. My focus in this report is on the economic benefits and costs of trademarks and trademark protection.

7. My analysis is ongoing, and I reserve the right to supplement or modify my analysis in light of new materials that may become available to me including, but not limited to, other expert witness reports that had not been produced prior to the completion of my report, and supplemental responses to discovery.

C. Summary of Opinions

8. In this report, I conclude the following:

- Trademarks and service marks benefit both consumers and firms.¹ Trademarks provide information to consumers about relevant product and quality attributes that reduce their costs of searching for a given product or service. A firm's trademark also benefits the firm because the greater the information value embedded in the firm's trademark, the lower the consumer's search costs and the more the consumer is willing to pay for the product to compensate for his savings in search costs. In turn, firms that invest in developing and maintaining their marks have greater incentives to maintain the quality of their products in order to preserve the value of the mark.

¹ In this report I use the term trademarks to refer to both trademarks for goods and service marks for services. See Lanham Act, Sections 2 and 3 (§1052 & §1053).

- Trademark protection preserves the benefits that consumers and firms receive from trademarks. Inhibiting the ability of parties to settle trademark litigation could increase the costs of trademark protection and reduce the firm’s ability to protect its trademarks, which will ultimately reduce the firm’s incentives to create the consumer benefits associated with trademarks.
- The Federal Trade Commission’s economic experts fail to properly consider the importance (or benefits) of trademarks.

II. The Economics of Trademarks

9. In this section, I discuss the economics of trademarks and trademark protection. As I explain below, trademarks (including service marks) benefit both consumers and firms. Allowing firms to protect their trademarks helps preserve these benefits, including the incentives for firms to produce consistently high quality products and services that benefit consumers.

A. Trademarks Benefit Consumers By Reducing Search Costs

1. Economic Theory of Consumer Benefits

10. A trademark or service mark is a word, symbol, name, phrase or other signifier adopted by a firm to identify and distinguish its goods or services from goods and services sold by others.² A trademark provides informational benefits to consumers about relevant product and quality attributes that reduce their cost of searching.^{3,4}

² Lanham Act, Section 45 (§1127)

³ For a thorough discussion of the economics of trademarks see Landes, William M., and Richard A. Posner. “Trademark law: an economic perspective.” *The Journal of Law & Economics* 30.2 (1987): 265-309 (“Landes and Posner (1987)”) and William M. Landes and Richard A. Posner, *The Economic Structure of Intellectual Property Law*. Harvard University Press, 2003 at Chapter 7 (“Landes and Posner (2003)”).

⁴ While the economic literature on trademarks incorporates the concept of search costs and the value of time, these concepts are not unique to trademarks and are widely used throughout economic theory. For example, see Stigler, George J. “The Economics of Information.” *The Journal of Political Economy* (1961): 213-225 for the seminal work on search costs and Becker, Gary S. “A Theory of the Allocation of Time.” *The Economic Journal* (1965): 493-517 on the value and cost of time.

11. Consider the following model on the benefits of trademarks. Let the consumer's full price (π) for a good or service equal:⁵

$$\pi = P + H(T, Y) \quad (1)$$

12. The full price (π) equals the sum of the money price (P) and the monetary equivalent of the search costs (H) the consumer incurs in obtaining information about the relevant attributes of the good (including where to buy the good or service, its price, reliability, product warranties and so forth). Assume that H is a function of the product's trademark (T) and other characteristics (Y) such as the consumer's cost of time and the technology available to search for the product or service. A firm can produce information about its product or service through its investment in T, the firm's trademark (or, more accurately, an index of the strength of the firm's trademark where the greater is T, the stronger is the firm's trademark). T is negatively correlated with H and π : an increase in T increases the information about the product to the consumer, reduces search costs (H), and reduces the full price or cost incurred by the consumer (π).⁶ An increase in T, for example, could (1) lower the consumer's cost of identifying the source of the good or service; (2) provide added information about the product itself; (3) or both.

13. This model illustrates that the value of a trademark to consumers is a positive function of the information it provides consumers and its ability to reduce search costs. A simple numerical example illustrates this point. Suppose products A and B are substitutable for each other and have the same money price P equal to \$2. However, the search costs (H) incurred by a consumer to find and identify the important characteristics of A, such as what the good or service does, how it performs, and its quality, also is \$2. In contrast, the firm that produces B has a stronger trademark than the firm that produces A, which reduces the consumer's search cost of identifying and learning about the product qualities of B to \$1. Even though the money price of A and B is the same (= \$2), consumers will choose product B over product A because its full price is lower (\$3 as compared to \$4).

⁵ See Landes and Posner (1987) for the original discussion of this economic model and the theoretical implications.

⁶ More formally, the model assumes that $\partial H / \partial T < 0$.

2. Benefits of Retail Trademarks or Service Marks

14. A retailer's mark (or equivalently its brand name) also provides benefits to consumers in reducing search costs (H in equation (1) above). Consumers generally search across different retailers for the lowest prices and best services which include such things as available inventory, quick delivery, shipping costs, knowledgeable sales personnel, a pleasant shopping experience, the ease of returning merchandise, and follow-on services (e.g. contacting customers when it is time to make another purchase, as 1-800 Contacts does when it estimates that a consumer's supply is running low⁷).

15. A retailer's brand name reduces the consumer's costs of searching in two important ways. First, it identifies the particular good the consumer wants to purchase or the retailer he wants to visit. Second, it identifies the retailer that provides the mix of services the consumer desires both before and after purchasing the good. The retailer's brand name is a shorthand way of providing this information because it enables the consumer to use his prior experience or information acquired from others to distinguish a particular retailer from other retailers without conducting an exhaustive examination of each retailer and the goods and services each provides.

16. In this matter, the trademark at issue ("1-800 Contacts") is the service mark for a retail seller of contact lenses. The economics of trademarks indicates that the service mark "1-800 Contacts" signifies a particular retail seller and distinguishes it from others, which makes it easier and more convenient (lowers search costs H) for a consumer who had a good experience purchasing contact lenses from 1-800 Contacts to locate the firm again and make a repeat purchase. The "1-800 Contacts" mark also lowers the search cost for new customers who may have been referred to 1-800 Contacts by other satisfied consumers.

17. In the model set forth above, the investment 1-800 Contacts makes in developing and maintaining its trademark (T) lowers search costs (H) for consumers. Other things the same, an increase in T lowers the full price (π) the consumer incurs when he buys contact lenses from 1-800 Contacts. If other retailers of contact lenses identified themselves as 1-800 Contacts, used confusingly similar marks to 1-800 Contacts, or used the 1-800 Contacts mark in a confusing way, then search costs (H) would increase because each consumer would have to spend more

⁷ 1-800F_00091871.

time and effort sorting through the various retailers in order to figure out which of the retailers using similar marks actually is the 1-800 Contacts firm that is the party to this case. If all retailers used identical or substantially similar marks to 1-800 Contacts, then the “1-800 Contacts” mark would lose its distinctiveness (so T would not reduce H at all) and would not provide the information benefits to consumers that underlie the economic basis for trademark protection.

3. Experience Goods and Search Goods

18. Trademarks tend to be more valuable for so-called experience goods or services than for so-called search goods or services (or, more accurately, for experience attributes than search attributes of goods or services). I define these two types of goods more explicitly below.

19. Experience goods and services are those for which the important attributes of the good or service are not easily observable prior to purchase (e.g., the taste and quality of a canned food item or the quality of customer service in connection with an exchange, return or missing shipment).⁸ In equation (1) above, consumers’ lack of information about experience goods and services suggests that search costs (H) for such goods and services are higher than for “search” goods and services. This, in turn, implies that trademarks tend to have significant potential to reduce search costs (H) for experience goods and services.

20. Purchasing contact lenses online is an experience service in the sense that a number of important attributes (e.g. whether the product matches its online description, whether the delivery is timely, or whether problems with the product can be easily resolved) cannot be determined before actually purchasing and wearing the contacts.⁹ Now suppose that a previous purchaser had a positive experience purchasing contact lenses from 1-800 Contacts and wants to purchase from 1-800 Contacts again. If other online providers of contact lenses used

⁸ Carlton, Dennis W., and Jeffrey M. Perloff. *Modern Industrial Organization 4th Edition*. (2005) (“Carlton and Perloff”), p. 476.

⁹ It is worth noting that the retail sales of medical devices such as contact lenses have particularly strong experience attributes because, as I understand, consumers are likely to take great care in selecting the source of a medical device for their eyes, and want assurance that they can trust their supplier and will be able to feel safe and confident about their purchase. (See Deposition of Amy Guymon Larson, January 19, 2017 (“Larson Deposition”), at 65:11 – 18 and Expert Report of Ronald C. Goodstein, February 23, 2017, at ¶37). Accordingly, if one has had a good experience with an online seller of contact lenses, the seller’s service mark is likely to be particularly valuable because it enables the consumer to make repeat purchases with minimal search costs.

confusingly similar marks to 1-800 Contacts, the consumer would have to spend time and effort to find the retailer he purchased from in the past. The distinctive 1-800 Contacts mark, however, tells the consumer that he does not have to take the time to investigate the attributes of each retailer but instead can rely on the 1-800 Contacts' mark to indicate that he is buying from the same retailer he purchased from in the past and can expect the same favorable experience with his next purchase of contact lenses as he had with his prior purchase or as a friend or relative or reviewer who recommended 1-800 Contacts had.

21. In contrast to experience goods or services, the important attributes of search goods or services are easily available at negligible cost prior to purchase.¹⁰ In terms of equation (1), search costs (H) for such goods and services tend to be lower than for experience goods, meaning that increasing T will have a smaller impact on lowering H. That is, where consumers can learn about the important attributes of products and services before purchasing them at a negligible expenditure of time, effort and money, a trademark is less valuable in providing information and lowering search costs.

22. A retail store combines both important search and experience attributes. Some attributes are not easily observable prior to making a purchase (e.g., the store's actual return policy, the likelihood that the goods on the shelf are the latest model, the warranty coverage on the goods and even the possibility that goods purchased are defective). Other characteristics are readily observable prior to a transaction simply by visiting the store, e.g. prices, selection of available products and brands, helpfulness of staff, and the checkout process.

23. In contrast, a retailer with an online or telephone-only service such as 1-800 Contacts is less able to provide information about its goods and services that is more readily observable prior to the purchase from a brick-and-mortar retailer. The inability of consumers to walk in and shop at a 1-800 Contacts store implies that the value of its service mark will tend to be higher compared to stores with a physical location because search costs (H) are higher to begin with. As such, a service mark of an online retailer such as 1-800 Contacts will have more

¹⁰ Carlton and Perloff, pp. 475-476.

potential to reduce search costs by signifying attributes of quality and reliability that are otherwise unobservable.¹¹

4. Repeat Customers

24. The economic analysis of trademarks also implies that trademarks are particularly valuable for firms that rely primarily on repeat customers. A consumer that makes a one-time only purchase of a good tends to derive less value from a mark's reduction in search costs because the consumer is unlikely to take advantage of the reduction to find the good or retailer again in the near future. This in turn reduces the information value of the trademark to the firm selling these goods (holding all other benefits constant). The more common it is for consumers to make repeat purchases of the same good or return to a retailer, the more value the trademark tends to be in reducing search costs. Advertising and promoting the trademarked good or retailer not only helps the consumer find the good or retailer in the first place, but also reminds consumers of their positive experience with the good or retailer and increases the likelihood that they will continue to make purchases of that good or from that retailer in the future.

25. Sales to repeat customers are a significant portion of 1-800 Contacts' sales. For example, in 2015 1-800 Contacts estimated that customers ordered, on average, 2.1 times per year¹² and that over 50% of first-time customers reorder within two years.¹³ Table 1 below reports the percentage of recent 1-800 Contacts' revenue that is derived from repeat customers. In the past three years, 1-800 Contacts earned over 80% of revenue from repeat customers both on the Internet and over the phone. Thus, the foregoing economic principles would suggest that 1-800 Contact's service mark has significant value.

¹¹ $\partial H / \partial T$ is large

¹² 1-800F_00056231, at slide 26.

¹³ 1-800F_00047111, at slide 34.

TABLE 1

Percentage of 1-800 Contacts Revenue From Repeat Customers

Channel	Year	New Revenue (\$M)	Repeat Revenue (\$M)	Total Revenue (\$M)	% Repeat Customer
Phone	2013	\$10.70	\$116.87	\$127.56	92%
	2014	\$10.49	\$112.29	\$122.77	91%
	2015	\$10.58	\$117.56	\$128.14	92%
Phone Total		\$31.76	\$346.71	\$378.47	92%
Web	2013	\$65.13	\$312.47	\$377.60	83%
	2014	\$73.96	\$326.30	\$400.26	82%
	2015	\$79.39	\$312.70	\$392.09	80%
Web Total		\$218.48	\$951.47	\$1,169.95	81%
Total	2013	\$75.83	\$429.33	\$505.16	85%
	2014	\$84.45	\$438.59	\$523.03	84%
	2015	\$89.97	\$430.26	\$520.23	83%
Grand Total		\$250.25	\$1,298.18	\$1,548.43	84%

Source: 1-800F_00096387.XLSX; "rollup.web&phone" tab

Note: Total revenue calculated as the sum of new and repeat revenue.

B. Trademarks Provide Value to Firms

26. A mark is a valuable asset of a firm as well as a source of benefit to consumers. For example, Apple has been recently cited as the most valuable global brand with an estimated brand value of over \$178 billion followed by Google with an estimated brand value of \$133 billion.¹⁴ 1-800 Contacts estimates that it has the highest brand awareness of any contact retailer and 20 times the unaided brand recognition of its next online competitor.¹⁵ 1-800 Contacts has also earned high net promoter scores, which measure the proportion of customers who would recommend a firm.¹⁶

27. A trademark's value to a firm is a function of the information it provides consumers and its ability to reduce search costs. Consider again equation (1) but assume now that products A and B each provide value to consumers of \$4, meaning that consumers will be willing to incur costs of up to \$4 for each product. Recall that search costs (H) are \$2 for A and \$1 for B because the firm that produces B has a strong mark that reduces search costs for consumers. In

¹⁴ <http://interbrand.com/best-brands/best-global-brands/2016/ranking/>

¹⁵ 1-800F_00056231, at slides 4 and 10.

¹⁶ See 1-800F_00032427 at slide 34 and 1-800F_00056231 at slide 4.

this example, consumers are willing to pay a nominal price of up to \$3 for product B but only \$2 for product A because product B's trademark is more valuable in lowering search costs. In other words, the firm that produces B is able to charge a higher money price for its product than can firm A while remaining competitive because its trademark is more valuable in reducing search costs. Likewise, the money price of product B (P) is a greater proportion of its full price (π) than it is for product A (75 percent compared to 50 percent).

28. Accordingly, the greater the information value of a firm's trademark or service mark, the lower the search costs the consumer incurs and the greater the monetary price the consumer is willing to pay.¹⁷ In this way, trademarks enable firms to charge a "premium," which gives them an incentive to invest in and develop their trademarks. As explained below, these investments ultimately benefit consumers not only by reducing search costs but providing incentives for firms to produce products of consistently high quality.¹⁸

C. Trademarks Promote Incentives to Produce High and Consistent Quality Products and Services that Benefit Consumers

29. The economics of trademark law indicate that firms that produce products of consistently high quality are best placed to capture the trademark "premium" associated with a trademark's reduction in search costs. This is because inconsistency and poor quality undermine the predictability necessary to lower search costs. Accordingly, trademarks benefit consumers not only by reducing search costs but by giving firms an incentive to provide products and services that benefit consumers.¹⁹

30. When a firm produces a product or provides a service or retail experience of uneven and often poor quality or consistency, consumers cannot rely as much on their prior experience to provide information on their future purchases.²⁰ Instead, the consumer will have to incur added search costs to investigate the product, service or retailer's features before making another purchase despite the existence of an easily identifiable trademark or service mark.

¹⁷ Landes and Posner (2003), pp. 176.

¹⁸ Landes and Posner (2003), pp. 178-179.

¹⁹ Landes and Posner (2003), p. 168.

²⁰ Although the mark may provide information on the average quality of the product, the consumer will have to incur added search costs to discover its actual quality. And this may not be feasible without actually buying the product because prior experience will be a poor predictor of actual quality.

31. For example, if some McDonald's franchises sold cheeseburgers and fries and others sold burritos and beans, the McDonald's mark would not be very useful to consumers in predicting what to expect when deciding to eat at McDonald's. Similarly, if a firm produces products or services that vary widely in quality, consumers cannot rely on the firm's trademark and prior experience to provide information about how the product or service connoted by the mark will perform in the future. If a consumer has great food at McDonald's franchise A and undercooked food at McDonald's franchise B, the McDonald's trademark is less predictive of the quality of food when the consumer is traveling and comes across McDonald's franchise C.

32. Thus, where firms provide products and services that lack uniform attributes or quality, a trademark will have less impact on reducing consumer search costs. This, in turn, undermines the consumer's willingness to pay a premium for the trademarked product or service and to continue purchasing the product. Thus, in order to fully realize the value of its investments in its trademark, a firm has a strong incentive to provide products and services of consistent quality that benefit consumers.

33. Further, a firm that supplies products or services of poor and uneven quality may actually suffer from the information benefits that a trademark provides because it would enable consumers to more easily identify and *reject* the firm's product or service. It follows that, in order to realize the benefits of investments in a trademark, firms have significant incentives to continue to produce consistently high quality products and services to prevent a trademark's signifying effect from working against them.

34. Consistent with these economic principles, 1-800 Contacts incurs significant ongoing costs to maintain and promote its trademark, including recurring annual advertising costs of over \$30 million in recent years.²¹ As of 2011, 1-800 Contacts had incurred cumulative gross advertising expenditures of \$356 million.²² I understand that 1-800 Contacts also believes it is the only online seller of contact lenses that focuses its advertising on TV to promote its brand.²³

35. In order to recoup the benefits of these investments in its trademark, 1-800 Contacts expends significant efforts to maintain the quality and consistency of its services, which include

²¹ 1-800F_00000059.xlsx.

²² 1-800F_00032427, at slide 25.

²³ 1-800F_00056231, at slide 9.

offering free returns including any unused lenses at any time, 24/7 customer service and a guarantee that a person answers every customer call, free shipping and delivery, replacement of torn lenses, the largest inventory of contacts, and a triple order verification process to ensure orders are correct.²⁴ I understand that other online retailers of contact lenses do not provide many of these services at all or to the same degree.²⁵ It follows from the economics of trademarks that 1-800 Contacts makes substantial investments in its brand and provides services attributes for which consumers are willing to pay.

D. Trademarks Limit Competition Less Than Other Forms of Intellectual Property

36. It is worth noting that an important difference between trademark protection and other forms of intellectual or intangible property protection, such as patents and copyrights, is that trademarks protect information about products but not the products themselves. Unlike a patent or copyright, a trademark does not prevent competitors from producing similar or even identical products provided they identify their product with a non-infringing mark.²⁶ Thus, trademark protection for the “1-800 Contacts” mark does not exclude other online or telephone-only sellers of contact lenses and related services from providing the exact same products and the exact same level of services provided by 1-800 Contacts, but rather only prevents these sellers from presenting ads for their services in a way that are likely to create confusion with the “1-800 Contacts” service mark.

E. Trademark Infringement Harms Consumers and Producers

37. The benefits of a trademark – reducing search costs and incentivizing firms to provide products and services of consistently high quality – can be compromised if other firms use the mark in confusingly similar ways. This conduct reduces the information associated with the first firm’s mark, thereby raising consumer search costs. This, in turn, reduces the money price

²⁴ See, e.g. 1-800F_00091871; 1-800F_00056231, at slide 11; and Larson Deposition, at 66:3 – 68:17.

²⁵ See Larson Deposition, at 73:20 – 75:16 and Deposition of Eric Holbrook, January 12, 2017, at 139:14 – 140:20.

²⁶ I put to one side the question of trademark protection for trade dress that includes physical attributes of the product. Such protection only covers non-functional features of the product. The non-functionality requirement means that competitors can produce equivalent products in terms of cost and quality without using the first firm’s trade dress. Thus, this discussion would substitute “equivalent” for “even identical” when the question involves trade dress.

P in equation (1) that consumers are willing to pay for the product (because of the increase in H) and thereby reduces the incentive of the firm to invest in developing a strong trademark in the first place and to produce goods and services of uniform high quality. These harms arise from infringement that is likely to cause consumer confusion. I also discuss in this section another type of trademark harm called dilution that does not involve confusion.²⁷

1. Confusion

38. Trademark infringement occurs when one firm uses another firm's trademark in a way that is likely to cause consumer confusion. Confusion can take several forms. One is source confusion where consumers believe that the trademark owner is the source of a good or service offered by another firm using the confusing trademark. For example, source confusion would occur if a consumer searching for the trademark "1-800 Contacts" sees an advertisement for another firm's website on the search results page and concludes that the other online retailer is owned and run by 1-800 Contacts.

39. Another type of confusion that is close to source confusion relates to sponsorship, affiliation or approval confusion, which occurs when the consumer believes that the seller of a product using the trademark is somehow connected to the original trademark owner. For example, this kind of confusion could occur if a consumer searching for the trademark "1-800 Contacts" sees an advertisement for another firm's website on the search results page and concludes that the other firm is affiliated with or connected to 1-800 Contacts. Even if the consumer eventually recognizes that there is no connection between 1-800 Contacts and the other firm—perhaps after visiting the other firm's website—the consumer's initial confusion increases the time it takes the consumer to find the 1-800 Contacts website; that is, the source confusion raises consumer search costs. This kind of confusion is known as "initial interest confusion". While the cost of such confusion in the form of higher search costs may be small for any individual consumer, it could represent a substantial overall cost (and deadweight loss to consumers) when aggregated across thousands of consumers that search online for contact lenses.

²⁷ See Lanham Act, Sections 32 (§1114); 43(a)(1)(A) (§1125); and 43(c) (§1125) for the statutory provisions on confusion and dilution.

40. Trademark confusion harms consumers in several ways. Confusion negates the trademark's effect of reducing search costs by limiting the extent to which consumers can rely on the trademark to correctly distinguish one seller from others. By increasing consumer search costs, confusion reduces the value of the mark to consumers and the monetary premium they are willing to pay for the trademarked product. This undermines the trademark owner's incentive to invest in the mark and produce goods or services of consistently high quality that benefit consumers.

41. Infringers have a strong economic incentive to use a mark belonging to a firm that has a reputation for producing a consistently high quality product or service. An infringer may be able to obtain the higher price that consumers are willing to pay without incurring the expense of building awareness of the mark and producing products or services of consistently high quality. Further, if consumers have a negative experience with the infringer's product, they are likely to attribute it to the trademark owner. Confusion can reverse the positive signaling effect of the trademark for its owner, undermining the firm's ability to capture a trademark premium and thereby reducing its incentive to continue to provide a high-quality product or service.

2. Dilution

42. Trademark dilution reduces the value of a famous trademark even when consumers correctly perceive that there is no connection between the two firms using similar or even identical trademarks. One version of such harm is called tarnishment and the other blurring.

43. Tarnishment occurs when another firm's use of a trademark sullies the trademark owner's reputation associated with his trademark. For example, suppose firm A has a famous trademark attached to family friendly products or services and firm B opens a theatre with the same name that shows pornographic movies. Even though consumers know there is no connection between the two firms, the association of the trademark with a product that many consumers find objectionable undermines the positive associations that consumers have with the famous mark. In other words, the reputational "capital" that the initial trademark holder has built up over the years through advertising, providing high quality service, and selling high quality family-friendly goods is diminished.

44. The harm from blurring weakens a famous trademark's signaling effect that connects the mark to its owner. Imagine a professional networking website that uses the name 1-800 Contacts, in part, to signal to potential users that this website will help them meet new professional contacts. Initially, there may be confusion over whether the website is affiliated in some way with the seller of contact lenses. In the end, consumers realize there is no connection between the two firms. Still, blurring leads to higher search costs since it takes the consumer a little extra time to realize that the two firms using the identical or substantially similar marks are not connected. This undermines the trademark's value in providing informational benefits, raises search costs, reduces consumers' willingness to pay for the product and reduces the incentives of the owner of the famous mark to invest in high-quality products and services.

45. Although the added search costs may be negligible if one firm blurs another firm's famous mark, the increase in search costs will tend to be greater, the greater the number of firms that blur the famous mark. Conceivably, the once famous trademark could eventually lose its distinctiveness, as consumers no longer associate the mark with the original firm's product or service but instead with many unrelated goods and services. And without distinctiveness, there is no trademark protection.

F. Making Trademark Settlements More Difficult Will Undermine Consumer Benefits from Trademarks

46. I understand that the Federal Trade Commission (FTC) and its economic experts have argued that the settlement agreements at issue in this case harm consumers and should be considered presumptively unlawful. In my opinion, the economics of trademark law and litigation indicate that this antitrust rule would make it more costly to enforce one's trademark and ultimately undermine the benefits of trademarks to consumers and firms.

47. Settlements are generally efficient because they reduce litigation costs. Indeed, the basic economic theory of litigation is that parties will settle when their expected costs of going to trial compared to the costs of settling exceed the difference between the plaintiff and defendant's estimate of the expected returns from going to trial.²⁸

²⁸ See, e.g., Landes, William M. "An Empirical Analysis of Intellectual Property Litigation: Some Preliminary Results, An." *Hous. L. Rev.* 41 (2004): 749 – 776 for a discussion on the economic theory of

48. Limiting a trademark owner’s ability to settle trademark litigation raises the costs of trademark protection. For a trademark owner that cannot settle trademark litigation or cannot do so without risking antitrust liability, the expected costs of trademark enforcement are more likely to reflect the full costs of litigating the case to trial as well as the expected costs of any antitrust liability. This would create an effective “tax” on trademark enforcement that would reduce the trademark owner’s willingness to enforce its trademark. By reducing the extent of trademark enforcement, the antitrust rule will reduce the value of the trademark. That, in turn, will reduce the trademark owner’s incentive to invest in the trademark in the first place, which will reduce the extent to which the mark reduces search costs for consumers and, according to the economic principles set forth above, reduce firms’ incentives to maintain a high quality of their products and services that benefit consumers.

49. Notably, because, as I understand, the antitrust and trademark principles will apply beyond the scope of the advertisements and settlements at issue in this case, increasing the costs of trademark protection by making settlements more difficult will tend to reduce the benefits of trademark protection not only for 1-800 Contacts but for other firms as well. These consequences could be particularly harmful given that I understand from other experts in this case that Internet search practices have been evolving.²⁹

III. **Plaintiff’s Experts Fail to Properly Consider the Benefit of Trademarks**

50. The FTC has submitted three expert reports. In this section, I explain that the reports submitted by Dr. Susan Athey and Dr. David Evans fail to properly consider the benefits of trademarks and the role of the settlements in preserving those benefits.

A. Dr. Athey Overlooks the Benefits of Trademarks

51. Dr. Athey’s report assumes that search costs are higher, less information is available to consumers, and prices of contact lenses are higher as a result of the settlements at issue in this proceeding.³⁰ Specifically she notes that “1-800 Contacts charges a price premium to

settlements and the incentive to settle when litigations costs are high.

²⁹ See, e.g. Expert Report of Dr. Anindya Ghose, February 23, 2017, at ¶¶22-23 and ¶¶34-39 and Expert Report of Howard S. Hogan, February 23, 2017, at ¶¶87-91.

³⁰ Expert Report of Dr. Susan Athey, February 6th, 2017 (“Athey Report”), ¶65 and ¶108.

consumers”³¹ and claims this pricing premium is a result of “online search costs and the low level of consumer information on prices in the online contact lens market”.³² Thus, she concludes that the settlements entered into by 1-800 Contacts and its competitors effectively raise consumer prices. To reach this conclusion, Dr. Athey argues that a difference in services alone cannot explain the price differential and, thus, that 1-800 Contacts’ price premium must be a result of incomplete information.³³

52. Dr. Athey’s conclusions, however, ignore the role of trademarks and the value of trademarks to consumers in reducing search costs. As explained above, a firm operating in a competitive market may still be able to charge a higher money price (P) for its product if its trademark (T) reduces the search costs (H) to consumers, and thus the full price (π) of its product will be still equal to that of its rivals’ products. Specifically, while Dr. Athey has argued that the price premium she calculates is a due to the presence of search costs and a low level of consumer information, this premium is entirely consistent with the positive value consumers receive from the 1-800 Contacts’ trademark.

53. In an Internet context that Dr. Athey admits involves search costs, a trademark such as the 1-800 Contacts trademark can be valuable to consumers as it reduces these search costs. So even if, as Dr. Athey contends, 1-800 Contacts offers the exact same services as all of its online competitors, a positive price premium as measured by Dr. Athey would be entirely consistent with a competitive market in which 1-800 Contacts has a stronger trademark than its rivals (as shown by the simple example above). In fact, there is evidence that 1-800 Contacts has greater brand awareness than its competitors.³⁴ The fact that consumers incur lower search costs because of the strength of 1-800 Contacts’ trademark is consistent with a positive price premium as measured by Dr. Athey. Further, the fact that the market for contact lenses is competitive is not inconsistent with this measured price premium, but rather is, again, consistent with the existence of a trademark that is valuable to consumers. Dr. Athey does not consider this explanation or any benefit from the settlements in preserving these consumer benefits from the 1-800 Contacts’ trademark by protecting that trademark.

³¹ Athey Report, ¶32.

³² Athey Report, ¶51.

³³ Athey Report, ¶51.

³⁴ 1-800F_00056231, at slides 4 and 10.

B. Dr. Evans Dismisses the Benefits of Trademarks

54. Unlike Dr. Athey, Dr. Evans acknowledges the importance and value of trademarks but dismisses their relevance in analyzing the settlements in this proceeding.³⁵ Dr. Evans notes that:

Trademarks help companies convey information to consumers about themselves and their products. They enable companies, for example, to use a brand name to signal to consumers that the company provides a high quality product or offers particular attributes that consumers care about. Protecting trademark rights encourages investment in this sort of brand-building activity, which in turn generates valuable market information, promotes competition and ultimately benefits consumers. Moreover, trademark policy prevents the spread of misinformation as when a company claims falsely that it produces the same brand of a competitor or tries to confuse consumers into thinking they do by using similar words.³⁶

Dr. Evans also acknowledges, as I explained above, that trademarks inhibit competition less than other forms of intellectual property: “A trademark isn’t like a song where the artist can demand a royalty from anyone who uses it.”³⁷ Dr. Evans notes, consistent with my opinions in this report, that it “would harm competition if companies like Pepsi couldn’t protect their brand names from encroachment by competitors.”³⁸

55. Dr. Evans nevertheless concludes that there are “no procompetitive benefits” from the settlements.³⁹ Dr. Evans claims that restricting the ability to display ads in response to a search for a competitor’s trademark is no different than not allowing a competitor to choose a physical location near a rival or requiring exclusivity from a wholesale distributor so that it does not distribute a rival product.⁴⁰ However, neither of these examples is relevant because they do not involve any potential consumer confusion, as is the case with the behavior at issue in this proceeding. Locating in proximity to a rival or asking a distributor to represent a rival product does not require the use of a competitor’s trademark to divert customers that were initially

³⁵ I note that Dr. Evans cites my work regarding the economics of trademarks in which I outlined the principles set forth elsewhere in this report (Expert Report of David S. Evans, February 6th, 2017 (“Evans Report”), fn. 322).

³⁶ Evans Report, ¶292.

³⁷ Evans Report ¶ 294.

³⁸ Evans Report ¶ 296.

³⁹ Evans Report, ¶301.


⁴⁰ Evans Report, ¶297.

looking for the original competitor’s product.⁴¹ Accordingly, Dr. Evans’ conclusion that the settlements have no procompetitive value appears to be based on his assumption that the advertisements prohibited by the settlements would not have caused consumer confusion and a legal conclusion that the settlements “are not necessary to prevent rivals from infringing on 1-800 Contacts keywords in the ad texts.”⁴² That is not an issue on which I have opined, but I do not see any evidence in Dr. Evans’ report for that premise.

IV. Conclusion

56. Trademarks and service marks benefit both consumers and firms. Trademarks provide information to consumers about relevant product and quality attributes that reduce their cost of searching for a given product or service. These marks in turn benefit firms because the greater the information value embedded in a firm’s trademark, the lower is the consumer’s search costs implying the consumer is willing to pay more for the product to compensate for this savings in search costs. Only firms that maintain the consistency and quality of their products and services can preserve the value of the mark and command a price premium, meaning that trademarks create incentives for firms to create products and services that benefit consumers. Trademark protection preserves these benefits that consumers and firms receive from trademarks. Restricting trademark owners’ ability to settle trademark cases will increase the costs and lower the frequency of trademark enforcement, thereby reducing trademark protection and, in turn, the value of the trademarks that creates incentives for firms to compete in ways that benefit consumers.

Pursuant to 28 U.S.C. § 1746, I state, under penalty of perjury, that the foregoing is true and correct to the best of my knowledge, information, and belief. Executed on this 23rd day of February, 2017, in Chicago, Illinois.



William M. Landes

⁴¹ I note that, similar to trademark protection, it is well established in the economic literature that exclusive dealing restrictions are not necessarily anticompetitive (see, e.g. Carlton and Perloff, p. 668) and serve as another example of when certain restrictions actually benefit consumers.

⁴² Evans Report, ¶34.

Appendix A: Curriculum Vitae of Dr. William M. Landes

WILLIAM M. LANDES

FEBRUARY 2017

Clifton R. Musser Professor of Law & Economics, Emeritus
Senior Lecturer (2008-2016)
The University of Chicago

ADDRESS

The University of Chicago
The Law School
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Chicago, Illinois 60637
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w-landes@uchicago.edu

Compass Lexecon
332 S. Michigan Ave.
Chicago, Illinois 60604
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EDUCATION

Ph.D., COLUMBIA UNIVERSITY: Economics, 1966

B.A., COLUMBIA UNIVERSITY: 1960

ACADEMIC EMPLOYMENT

THE UNIVERSITY OF CHICAGO, The Law School: Clifton R. Musser Professor of Law & Economics Emeritus since 4/09; Clifton R. Musser Professor of Law & Economics (7/92-3/09); Clifton R. Musser Professor of Economics (7/80-7/92); Professor of Economics (1/74-6/80).

FORDHAM UNIVERSITY, School of Law: 19967 Bacon-Kilkenny Chair of Law for a Distinguished Visiting Professor, 8/96–12/96.

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.: Research Staff (1973-1979); Research Associate (1969-1973); Research Fellow (1968-1969); Research Assistant (1962 - 1963).

CITY UNIVERSITY OF NEW YORK, Graduate Center (1972 - 1974): Associate Professor of Economics.

COLUMBIA UNIVERSITY (1969 - 1972): Associate Professor of Economics.

THE UNIVERSITY OF CHICAGO (1966 - 1969): Assistant Professor of Economics.

STANFORD UNIVERSITY (1965 - 1966): Assistant Professor of Economics

AREAS OF SPECIALIZATION

Economic Analysis of Law
Intellectual Property
Art Law
Industrial Organization
Antitrust

ACADEMIC HONORS AND PROFESSIONAL AFFILIATIONS

President's Fellowship, Columbia University, 1962-1963.
Ford Foundation Doctoral Dissertation Fellowship, 1963-1964.
I.B.M. Watson Fellowship, 1964-1965.
Ansley Award Nomination, Economics Department, Columbia University, 1966.
Member, American Economic Association
Editorial Board, *Journal of Cultural Economics*, 2003-
Editor, *The Journal of Law and Economics*, 1975-1991,
The Journal of Legal Studies, 1991-2000
Member, Panel on Legislative Impact on the Courts, National
Academy of Sciences, 1977-1979
Member, Mont Pelerin Society
Research Advisory Committee, U.S. Sentencing Commission, 1986-88
Adviser, Restatement of the Law, Third, Unfair Competition
Council of Economic Advisers, American Enterprise Institute
Board of Editors, Intellectual Property Fraud Reporter
Member, Scientific Committee of A Bibliography of Law and Economics with
abstracts of the European, non-English literature, Ruiksuniversiteit-Gent, Belgium, 1990
Member, Committee of Patronage of the Erasmus Project in Law and Economics,
Ruiksuniversiteit-Gent, Belgium, 1990
Member, Academic Advisory Council, The Locke Institute, 1990-
Member, American Law and Economics Association,
Executive Vice President, 1991 - 1992
President, 1992 - 1993
Advisory Board, Law and Economics Abstracts, 1996 –
Editorial Board, *Journal of Cultural Economics*, 2004 –
Editorial Advisory Board, *Journal of Empirical Legal Studies*, 2004 –
Fellow, American Academy of Arts and Sciences, 2008

PUBLICATIONS

BOOKS AND MONOGRAPHS

Essays in the Economics of Crime and Punishment, edited with Gary S. Becker,
National Bureau of Economic Research (1974).

The Economic Structure of Tort Law, co-authored with Richard A. Posner, Harvard Univ. Press (1987).

The Economic Structure of Intellectual Property Law, co-authored with Richard A. Posner, Harvard Univ. Press (2003).

The Behavior of Federal Judges, co-authored with Lee Epstein and Richard A. Posner, Harvard Univ. Press (2013).

RESEARCH PAPERS

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“An Economic Analysis of the Courts,” 14 *Journal of Law and Economics* (April 1971). Reprinted in Becker and Landes, Essays in the Economics of Crime and Punishment (1974).

“Law and Economics,” National Bureau of Economic Research--51st Annual Report (September 1971).

“Compulsory Schooling Legislation: An Economic Analysis of Law and Social Change in the Nineteenth Century,” *Journal of Economic History* (March 1972), co-authored with Lewis Solomon.

“The Bail System: An Economic Approach,” *Journal of Legal Studies* (January 1973). Reprinted in Becker and Landes, Essays in the Economics of Crime and Punishment (1974).

“Foreign Criminal Procedure: A Comment,” The Economics of Crime and Punishment, conference volume of the American Enterprise Institute for Public Policy Research (1973).

“Legality and Reality: Some Evidence on Criminal Procedure,” *Journal of Legal Studies* (June 1974).

“The Private Enforcement of Law,” *Journal of Legal Studies* (January 1975), co-authored with Richard A. Posner.

“The Independent Judiciary in an Interest Group Perspective,” (Universities-National Bureau Conference on Economic Analysis of Political Behavior) *Journal of Law and Economics* (December 1976), co-authored with Richard A. Posner.

“Legal Precedent: A Theoretical and Empirical Analysis,” *Journal of Law and Economics* (September 1976), co-authored with Richard A. Posner.

“Salvors, Finders, Good Samaritans, and Other Rescuers: An Economic Study of Law and Altruism,” *Journal of Legal Studies* (January 1978), co-authored with Richard A. Posner.

“Should We Tax Virgin Materials to Finance Waste Disposal?” Waste Age (March 1978), co-authored with Richard A. Posner.

“An Economic Study of U.S. Aircraft Hijacking, 1961-1976,” *Journal of Law and Economics* (April 1978).

“Altruism in Law and Economics,” Papers and Proceedings of the *American Economic Review* (May 1978), co-authored with Richard A. Posner.

“Adjudication as a Private Good,” *Journal of Legal Studies* (March 1979), co-authored with Richard A. Posner.

“Should Indirect Purchasers Have Standing to Sue Under the Antitrust Laws?” An Economics Analysis of the Rule of Illinois Brick,” *University of Chicago Law Review* (Spring 1979), co-authored with Richard A. Posner.

“Benefits and Costs of Airline Mergers: A Case Study,” *The Bell Journal of Economics* (Spring, 1980), co-authored with Dennis W. Carlton and Richard A. Posner.

“Legal Change, Judicial Behavior and the Diversity Jurisdiction,” *Journal of Legal Studies* (March 1980), co-authored with Richard A. Posner.

“Joint and Multiple Tortfeasors: An Economic Analysis,” *Journal of Legal Studies* (June 1980), co-authored with Richard A. Posner.

“The Economics of Passing On: A Reply to Harris and Sullivan,” *University of Pennsylvania Law Review* (May 1980), co-authored with Richard A. Posner.

“Contribution Among Antitrust Defendants: A Legal and Economic Analysis,” *Journal of Law and Economics* (October 1980), co-authored with Frank H. Easterbrook and Richard A. Posner.

“An Introduction to the Economics of Antitrust,” an appendix in Richard A. Posner and Frank H. Easterbrook, Antitrust: Cases, Economic Notes and Other Materials (West, 2d ed. 1980).

“Market Power in Antitrust Cases,” *Harvard Law Review* (March 1981), co-authored with Richard A. Posner.

“The Positive Economic Theory of Tort Law,” *Georgia Law Review* (Summer 1981) co-authored with Richard A. Posner.

“An Economic Theory of Intentional Torts,” *International Review of Law and Economics* (December 1981) co-authored with Richard A. Posner.

“Causation in Tort Law: An Economic Approach,” *Journal of Legal Studies* (January 1983) co-authored with Richard A. Posner.

“Optimal Sanctions for Antitrust Violations,” *University of Chicago Law Review* (Spring 1983). Reprinted in 26 *The Journal of Reprints for Antitrust Law and Economics*, 79 (1996).

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“Tort Law as a Regulatory Regime for Catastrophic Personal Injuries,” *Journal of Legal Studies* (August 1984) co-authored with Richard A. Posner.

“A Positive Economic Analysis of Products Liability,” *Journal of Legal Studies* (December 1985) co-authored with Richard A. Posner.

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“An Economic Analysis of Copyright Law,” *Journal of Legal Studies*, (June 1989), co-authored with Richard A. Posner.

“Insolvency and Joint Torts: A Comment,” *Journal of Legal Studies* (June 1990).

“Some Economics of Trade Secret Law,” *Journal of Economic Perspectives*, (Winter, 1991) co-authored with David Friedman and Richard A. Posner.

“Copyright Protection of Letters, Diaries and Other Unpublished Works: An Economic Approach,” *Journal of Legal Studies* (January 1992).

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“The Economics of Presidential Pardons and Commutations,” *Journal of Legal Studies* (Jan. 2009) co-authored with Richard A. Posner.

“Rational Judicial Behavior: A Statistical Study,” *Journal of Legal Analysis* (forthcoming 2009) co-authored with Richard A. Posner

“Inferring the Winning Party in the Supreme Court from the Pattern of Questioning at Oral Argument,” *Journal of Legal Studies* Vol. 39 (2010) co-authored with Lee Epstein and Richard A. Posner

- Research findings discussed/described/reviewed in the *New York Times*, June 27, 2012; *Detroit Free Press*, April 1, 2012; *Chicago Tribune*, March 31, 2012; *Los Angeles Times*, March 31, 2012; *New York Times*, March 30, 2012

“Why (and When) Judges Dissent: A Theoretical and Empirical Analysis,” *Journal of Legal Analysis* (2011) (3(1): 101-137) co-authored with Lee Epstein and Richard A. Posner

- Reprinted in *The Romanian Judges’ Forum Review*. 2011 (3) pp. 118-141.
- Reprinted in *The Economics of Judicial Behaviour*, ed. Lee Epstein. Cheltenham, UK: Edward Elgar Publishing.

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“Are Even Unanimous Decisions in the U.S. Supreme Court Ideological?” *NW.U. L. REV.* Vol. 106 (No. 2) 699 (2012) co-authored with Lee Epstein and Richard A. Posner

- Described in [The New Republic](#), July 1, 2014

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- Reprinted in *the Corporate Practice Commentator*, 55: 505-543 (2013).
- Study described/mentioned in the [Economist](#), March 11, 2015; [New York Times](#), May 4, 2013; [ABA Journal](#), May 7, 2013; [Huffington Post](#), May 6, 2013; [Atlanta Journal-Constitution](#), May 7, 2013; [Slate](#), June 20, 2013; [Harvard Business Review](#), June 21, 2013.

“Revisiting the Ideology Rankings of Supreme Court Justices,” *Journal of Legal Studies* (forthcoming 2015) co-authored with Lee Epstein and Richard A. Posner

- Study *described* in the [*American Prospect*](#) Spring 2015.

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- Study *described* in the [*ABA Journal*](#), June 2015; *National Law Journal*, April 6, 2015; [*New York Times*](#), May 4, 2013

"The Decision to Depart (or Not) from Constitutional Precedent: An Empirical Study of the Roberts Court." *NYUL Rev.* 90 (2015): 1115 co-authored with Lee Epstein and Adam Liptak

Appendix B: Materials Relied Upon

Materials Relied Upon

Expert Reports

Expert Report of Dr. Susan Athey, February 6, 2017

Expert Report of David S. Evans, February 6, 2017

Expert Report of Dr. Anindya Ghose February 23, 2017

Expert Report of Ronald C. Goodstein, February 23, 2017

Expert Report of Howard S. Hogan, February 23, 2017

Bates-Stamped Documents

1-800F_00091871

1-800F_00096387

1-800F_00056231

1-800F_00047111

1-800F_00032427

1-800F_00000059

Depositions

Deposition of Eric Holbrook January 12, 2017

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Carlton, Dennis W., and Jeffrey M. Perloff. *Modern Industrial Organization* 4th Edition. (2005)

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Websites

<http://interbrand.com/best-brands/best-global-brands/2016/ranking/>

EXHIBIT C

In the Matter of:

1-800 Contacts

March 14, 2017
Howard S. Hogan

Condensed Transcript with Word Index



For The Record, Inc.
(301) 870-8025 - www.ftrinc.net - (800) 921-5555

1

1 UNITED STATES OF AMERICA
 FEDERAL TRADE COMMISSION
 2 OFFICE OF ADMINISTRATIVE LAW JUDGES
 3
 4 In the Matter of:)
 5 1-800 CONTACTS, INC.) Docket No. 9372
 6 a corporation.)
 7 -----)
 8 Tuesday, March 14, 2017
 9
 10 Munger, Tolles & Olson LLP
 11 1155 F Street, N.W.
 12 Washington, D.C. 20004
 13
 14
 15 The above-entitled matter came on for
 16 deposition, pursuant to notice, at 10:17 a.m.
 17
 18
 19
 20
 21
 22
 23
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 25

3

1 FEDERAL TRADE COMMISSION
 2 I N D E X
 3
 4 WITNESS: EXAMINATION: PAGE
 5 HOWARD S. HOGAN BY MS. BLANK 4
 6
 7
 8
 9 PREMARKED EXHIBITS REFERENCED
 10 CX PAGE
 11 Number 0159 219
 12 Number 0789 117
 13 Number 1836 226
 14 Number 1837 111
 15 Number 9051 13
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2

1 APPEARANCES:
 2
 3 ON BEHALF OF THE FEDERAL TRADE COMMISSION:
 4 BARBARA BLANK, ESQ.
 5 GUSTAV CHIARELLO, ESQ.
 6 Federal Trade Commission
 7 Bureau of Competition
 8 Anticompetitive Practices Division
 9 400 7th Street, S.W.
 10 Washington, D.C. 20024
 11 (202) 326-2523
 12 bblank@ftc.gov
 13
 14 ON BEHALF OF 1-800 CONTACTS, INC.:
 15 GARTH T. VINCENT, ESQ.
 16 GREGORY M. SERGI, ESQ.
 17 Munger, Tolles & Olson LLP
 18 350 South Grand Avenue
 19 50th Floor
 20 Los Angeles, California 90071-3426
 21 (213) 683-9170
 22 garth.vincent@mto.com
 23
 24
 25

4

1 P R O C E E D I N G S
 2 - - - - -
 3 Whereupon --
 4 HOWARD S. HOGAN
 5 a witness, called for examination, having been first
 6 duly sworn, was examined and testified as follows:
 7 EXAMINATION
 8 BY MS. BLANK:
 9 Q. Mr. Hogan, thank you so much for coming in
 10 today.
 11 My name is Barbara Blank. I'm here on behalf
 12 of the Federal Trade Commission with my colleague,
 13 Gus Chiarello.
 14 And if opposing counsel can introduce
 15 themselves.
 16 MR. VINCENT: Garth Vincent of Munger,
 17 Tolles & Olson on behalf of 1-800 Contacts.
 18 MR. SERGI: Greg Sergi from Munger,
 19 Tolles & Olson on behalf of 1-800 Contacts.
 20 BY MS. BLANK:
 21 Q. Mr. Hogan, I'm going to -- in the interest of
 22 time, I'm just going to jump right into this.
 23 But before we do so, let's just make sure we do
 24 not speak over each other. When I ask you questions,
 25 you'll wait until I finish, you will reply, and I will

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1 require you to reveal confidential information.
 2 THE WITNESS: Yeah. I have read numerous
 3 public records and statements by Google over the
 4 years, but my report was not -- this is a description
 5 of the background, not that I am specifically offering
 6 an expert opinion on Google's intent in this case. It
 7 just seems to me tautological that the whole purpose of
 8 having a search engine advertising system is to induce
 9 people to click on advertisements.

10 BY MS. BLANK:

11 **Q. And when you say "advertisers," do you have any**
 12 **personal knowledge as to the advertisers that were**
 13 **paying search engines to use 1-800 Contacts' trademarks**
 14 **as keywords? Do you have any personal knowledge as to**
 15 **what their intent was?**

16 A. No. I am again not offering a specific expert
 17 opinion on the intent of advertisers. However, I
 18 think it is very basic that you'd only pay to display
 19 an advertisement because you want somebody to click on
 20 it.

21 **Q. Paragraph 5 on page 2 starts with "Complaint**
 22 **counsel's theory, however, ignores well-settled**
 23 **principles of trademark law, extensive case law that**
 24 **makes clear that the use of trademarks as keywords can**
 25 **give rise to actionable trademark and unfair**

54

1 **competition claims, and terms and restrictions**
 2 **contained in court orders and private agreements that**
 3 **are analogous to those found in the 1-800 Contacts**
 4 **settlement agreements at issue."**

5 **Do you see that?**

6 A. I see that.

7 **Q. I just want to draw your attention to where you**
 8 **state "extensive case law that makes clear that the use**
 9 **of trademarks as keywords can give rise to actionable**
 10 **trademark and unfair competition claims."**

11 **Do you see that?**

12 A. I do see that.

13 **Q. Is it your legal opinion that the use of**
 14 **trademarks as keywords can give rise to actionable**
 15 **trademark and unfair competition claims?**

16 A. That is my opinion.

17 **Q. Is it your legal opinion that the use of**
 18 **trademarks as keywords can give rise to actionable**
 19 **trademark and unfair competition claims?**

20 A. It is my opinion.

21 **Q. Is it your legal opinion?**

22 A. I do not know what you are distinguishing
 23 between legal and my opinion.

24 **Q. Okay.**

25 **Paragraph 8 on page 3: "Based on the portions**

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1 **of the record in this case that I have reviewed, the**
 2 **case law, scholarship, and studies in this area, and my**
 3 **own extensive experience bringing and resolving**
 4 **trademark disputes, including disputes related to the**
 5 **use of trademarks as keywords, it is my opinion that**
 6 **1-800 Contacts had, at a minimum, a common and**
 7 **good-faith basis for asserting its claims against the**
 8 **advertisers."**

9 **Do you see that?**

10 A. I do see that.

11 **Q. What does "common and good-faith basis" mean?**

12 A. That there was a good -- well, it's two
 13 different concepts. Common is that it's an opinion
 14 that was common to many trademark owners or trademark
 15 lawyers and good faith in the sense that there was a
 16 good-faith basis to assert the claim based on existing
 17 case law at the time of -- that 1-800 Contacts asserted
 18 these claims and today.

19 **Q. Did you do any independent review of the claims**
 20 **that 1-800 Contacts asserted against advertisers?**

21 A. I reviewed the complaints. I reviewed the
 22 cease and desist letters.

23 **Q. Beyond reviewing the complaints and the cease**
 24 **and desist letters, did you do any independent review**
 25 **of the claims that 1-800 Contacts asserted?**

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1 A. There may have been other documents, but my
 2 review was focused on the cease and desist letters, the
 3 subsequent correspondence, the -- and the legal filings
 4 that are cited in my report.

5 **Q. Did you review the allegedly infringing**
 6 **screenshots in the instances of infringement claimed by**
 7 **1-800 Contacts?**

8 A. I reviewed the ones that were attached to cease
 9 and desist letters and cited in complaints and in other
 10 correspondence.

11 **Q. And based on that, you came to the conclusion**
 12 **that 1-800 Contacts had a good-faith basis to assert**
 13 **its claims in each of these instances?**

14 A. Yes. But that was not only informed by my
 15 opinion but by the fact that in some of these cases,
 16 like in the Lens.com case, there was an attempt to -- a
 17 request for an award of legal fees and the court found
 18 that the claims were not brought in bad faith in
 19 rejecting -- in rejecting the motion for attorney's
 20 fees.

21 **Q. Was that found in any other case?**

22 A. I don't recall, but I believe there was
 23 another case. It wasn't in the context of an
 24 attorney's fees application. I think -- I can't
 25 remember what the specific procedural context was, but

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1 1-877 numbers, things like that.

2 **Q. To be clear, you recall seeing sponsored links**
3 **that had in the headline of the ad references to a**
4 **1-877 number?**

5 A. Toll-free numbers. I don't recall the
6 specifics. I would have to look at the exact
7 document.

8 **Q. You don't remember which complaint this was?**

9 A. Not sitting here today, no.

10 **Q. And do you recall any complaints that used**
11 **"1-800 Contacts" in the headline of the ad in one of**
12 **these underlying complaints?**

13 A. I -- there may have been "800" or something
14 like that that I believe in this context would have
15 been likely to cause confusion, but I do not recall
16 whether there was a specific ad where the
17 "1-800 Contacts" appeared.

18 **Q. And do you recall -- and you viewed it as --**
19 **I'm sorry.**

20 **You viewed it as a comparable case to the**
21 **1-800 Contacts complaints even where the defendant was**
22 **using the trademark on the defendant's own website; is**
23 **that correct?**

24 MR. VINCENT: Objection. Vague. Assumes
25 facts.

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1 THE WITNESS: You know, again, you look at
2 relevant case law. Just because there is a different
3 fact or circumstance in a particular case does not mean
4 the analysis of the law is in -- you know, is
5 irrelevant.

6 And I am -- I mean, I strongly believe that in
7 order to get a holistic picture of the legality of the
8 use of trademarks as keywords, you have to look at all
9 the cases and specifically the logic in the holding of
10 those cases.

11 BY MS. BLANK:

12 **Q. Are you aware of any underlying complaint in**
13 **the 1-800 Contacts matter where a rival of**
14 **1-800 Contacts was using the trademark "1-800 Contacts"**
15 **or holding itself out as 1-800 Contacts on its own**
16 **website?**

17 A. Not that I can think of today. I don't
18 remember seeing a lot about what was on the website
19 that you got to once you clicked through.

20 **Q. If I can direct your attention to**
21 **paragraph 9 of your report, it's at page 3.**

22 **Actually, I'll direct your attention to the**
23 **same paragraph but the next page, page 4, the last**
24 **sentence of that paragraph. It starts with "The**
25 **1-800 Contacts settlements."**

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1 **Do you see that?**

2 A. Yes.

3 **Q. "The 1-800 Contacts settlements contain terms**
4 **that are commonly used and accepted in trademark**
5 **disputes, correlate to remedies issued by courts in**
6 **trademark disputes, and advance the aims of trademark**
7 **law and public policy."**

8 **What do you mean by "advance the aims of**
9 **trademark law and public policy"?**

10 A. Again, it's detailed at length in my report,
11 but if you look at the congressional history of the
12 Lanham Act and courts' decisions discussing the
13 Lanham Act, trademark law and policy is designed to
14 protect consumers against consumer confusion, to
15 protect trademark owners in the investment that they
16 make in trademarks, and to prevent trademark
17 infringement and dilution generally.

18 And 1-800 Contacts' assertion of trademark
19 infringement and similar claims in these actions seem
20 to me to be entirely consistent with the aims of
21 the -- of trademark law and policy as detailed in my
22 report.

23 **Q. Is it your legal opinion that 1-800 Contacts'**
24 **settlement agreements advance the aims of trademark law**
25 **and public policy?**

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1 MR. VINCENT: Objection. Vague.

2 THE WITNESS: It is my opinion that
3 1-800 Contacts' assertions of infringement at issue in
4 this case are completely consistent with the aims of
5 trademark law and public policy and that they had at
6 least good-faith basis to assert all of the claims at
7 issue.

8 BY MS. BLANK:

9 **Q. Have you reviewed any evidence of confusion**
10 **presented by 1-800 Contacts in conjunction with any of**
11 **the complaints it filed against a competitor?**

12 A. Not other than the documents cited in my
13 report, which were mostly, you know, attachments to
14 letters and things like that.

15 But I am very familiar with the overall context
16 and the risk of consumer confusion relating to search
17 engine advertising generally, specifically when a
18 trademark is used as the search term.

19 **Q. So just to be clear, when you refer to**
20 **documents attached to -- I'm sorry -- attachments to**
21 **letters and things like that, are you referring to the**
22 **screenshots?**

23 A. In part, yes, screenshots that were, you know,
24 either in letters themselves or attached to letters or
25 in complaints or attached to complaints.

<p style="text-align: right;">125</p> <p>1 purchase or sale of a keyword as a trademark is itself 2 a use in commerce. 3 Q. No U.S. court has ever held that an advertiser 4 satisfies -- that -- I'm sorry. 5 No U.S. court has held that an advertiser 6 satisfies the use requirement where the advertiser has 7 not bid on the keyword; is that correct? 8 MR. VINCENT: Objection. Vague. 9 THE WITNESS: I'm not exactly sure what you 10 mean. If I am guessing correctly, the cases are 11 generally about the act of bidding on or accepting a 12 bid, you know, the purchase or sale of a keyword. 13 BY MS. BLANK: 14 Q. You're not aware of any case that has held 15 that an advertiser has used the trademark where the 16 advertiser has, for example, been broad-matched into a 17 search results page? 18 MR. VINCENT: Same objection. 19 THE WITNESS: Okay. I am not aware of any 20 case where that has been specifically teed up other 21 than cases from other jurisdictions, like the 22 Interflora case that I cited in my report. 23 BY MS. BLANK: 24 Q. That's a United Kingdom case? 25 A. That's correct.</p>	<p style="text-align: right;">127</p> <p>1 courts have specifically parsed the use based on the 2 sale of the keyword versus the use of a keyword in 3 text. 4 And there are many cases either denying 5 motions to dismiss or denying motions for summary 6 judgment where part or -- at least part of the claim is 7 based on the sale of the keyword or the purchase of the 8 keyword alone. 9 BY MS. BLANK: 10 Q. So you stated that there are a number of cases 11 that have established examples of liability in 12 analyzing the keyword sale alone. 13 What would an example of that case be? 14 MR. VINCENT: Sorry. Where are you reading 15 from? 16 THE WITNESS: She's reading from my testimony. 17 MR. VINCENT: Which one, paragraph -- oh, in -- 18 okay. Not in a paragraph. 19 THE WITNESS: Yeah. 20 I may have stayed that a little loosely, but 21 in the Australian Gold case right here, cited right 22 here, the court analyzed the sale of the keyword 23 separately from the use in the text of an 24 advertisement. 25 Similarly, in the Rosetta Stone case versus</p>
<p style="text-align: right;">126</p> <p>1 Q. You're not aware of any U.S. court. 2 A. I am not aware of any U.S. court where a -- the 3 case where it's been teed up to be determined one way 4 or the other. 5 Q. If I can turn your attention to 6 paragraph 104 of your report, which is on page 61. 7 You state, "Despite the variability in the ways 8 jurisdictions may analyze likelihood of confusion in 9 the keyword advertising context, many courts have found 10 the use of others' trademarks as keywords to constitute 11 actionable infringement." 12 Do you see that? 13 A. I see that. 14 Q. Is it your legal opinion that many courts have 15 found that the use of others' keywords constitutes 16 actionable infringement? 17 MR. VINCENT: Objection. Vague. Assumes 18 facts. 19 Go ahead. 20 THE WITNESS: My opinion is as it is written 21 here. There are a number of cases that have 22 established examples of liability in analyzing the 23 keyword sale alone. 24 There are a number of cases where there were 25 more issues and more facts at issue and the court --</p>	<p style="text-align: right;">128</p> <p>1 Google, the court analyzed the issues separately and 2 found that there was no basis for the district court's 3 entry of summary judgment on any of Rosetta Stone's 4 claims. The court of appeals did not limit its 5 holding to instances where the trademark was used in 6 text. 7 And moreover, there are other cases cited in 8 the report -- there's a number of them -- where the 9 liability was based on the sale or purchase of the 10 keyword in the context of the specific facts and 11 circumstances. 12 BY MS. BLANK: 13 Q. When you say "liability," Rosetta Stone 14 overturned a grant of summary judgment in favor of the 15 plaintiff; correct? 16 A. In favor of the defendant. 17 Q. Oh, I'm sorry. In favor of the defendant; 18 correct? 19 A. Correct. 20 Q. So it was a reversal of a summary judgment 21 decision. 22 A. That's right. 23 Q. Is that what you count as liability? 24 A. No. I am talking about legal principles 25 generally.</p>

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1 okay.
 2 BY MS. BLANK:
 3 **Q. Are you familiar with the Lens.com decision?**
 4 A. I've read it.
 5 **Q. In Lens.com, the district court found that the**
 6 **ads at issue there put up on a search results page by**
 7 **Lens.com in response to a query for 1-800 Contacts were**
 8 **not confusing; correct?**
 9 MR. VINCENT: Objection. Vague. Misstates the
 10 ruling. Assumes facts.
 11 THE WITNESS: The ruling is what it is, but my
 12 recollection between the district court decision and
 13 the court of appeals decision is that it was a
 14 fundamental failure of proof.
 15 In fact, I think the district court decision
 16 went further and the court of appeals -- its opinion
 17 was less far-reaching.
 18 BY MS. BLANK:
 19 **Q. So I'm not asking you about far-reaching,**
 20 **overreaching or whatever.**
 21 **I'm asking you whether the underlying holding**
 22 **of the decision was that no trademark infringement**
 23 **liability was found, there was no likelihood of**
 24 **confusion, there was not a likelihood of confusion,**
 25 **based on the ads at issue in that case, the Lens.com**

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1 **ads that ran against a query for 1-800 Contacts.**
 2 MR. VINCENT: Same objections.
 3 THE WITNESS: I mean, the decision is what it
 4 is. The district court found that there was no
 5 likelihood of confusion. I wouldn't adopt your
 6 characterization of it. I would just refer to the
 7 decision.
 8 BY MS. BLANK:
 9 **Q. So the district court found that there was no**
 10 **likelihood of confusion as to ads presented by**
 11 **Lens.com in response to a query for 1-800 Contacts;**
 12 **correct?**
 13 MR. VINCENT: Same objections.
 14 THE WITNESS: In the district court decision it
 15 found that the -- 1-800 Contacts had failed to meet its
 16 burden of establishing a likelihood of confusion based
 17 on ads for Lens.com.
 18 BY MS. BLANK:
 19 **Q. And the Tenth Circuit affirmed that decision;**
 20 **correct?**
 21 A. The Tenth -- it affirmed the decision using a
 22 slightly different analysis.
 23 **Q. So in at least one case, ads that were run**
 24 **against a query for 1-800 Contacts were not found to be**
 25 **confusing; correct?**

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1 MR. VINCENT: Objection. Vague. Lacks
 2 foundation. Misstates the ruling.
 3 THE WITNESS: I mean, the decision is what it
 4 is, but I agree with you that in that case the court
 5 found that the ads -- that 1-800 Contacts had not met
 6 its burden to establish a likelihood of confusion.
 7 MS. BLANK: We can take a break there.
 8 MR. VINCENT: Okay.
 9 (Recess)
 10 BY MS. BLANK:
 11 **Q. All right. Mr. Hogan, why don't we look at**
 12 **paragraph 138 on page 91.**
 13 A. Okay.
 14 **Q. The first sentence of that paragraph reads,**
 15 **"Courts, recognizing that parties must have leeway in**
 16 **reaching a negotiated settlement, generally accord**
 17 **substantial deference to the terms of those settlement**
 18 **agreements."**
 19 **Do you see that?**
 20 A. I see that.
 21 **Q. Is it your legal opinion that courts afford**
 22 **substantial deference to the terms of settlement**
 23 **agreements?**
 24 MR. VINCENT: Objection. Vague.
 25 THE WITNESS: It is my opinion that in Clorox

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1 versus Sterling Winthrop that the Second Circuit said
 2 that it is usually unwise for courts to second-guess
 3 settlement agreements and that in the MWS Wire case
 4 the court said that courts should promote the
 5 overriding public interest in settling and quieting
 6 litigation by enforcing settlement agreements as
 7 written because examination of the merits of a cause of
 8 action underlying a compromise agreement only
 9 discourages settlement and promotes expense, delay and
 10 uncertainty.
 11 BY MS. BLANK:
 12 **Q. In your opinion, should court deference cover**
 13 **parties that enter into a settlement agreement where no**
 14 **complaint has been filed?**
 15 A. Yes.
 16 **Q. Would it -- should court deference also cover**
 17 **parties -- should court deference cover parties that**
 18 **enter into a settlement agreement where no claims of**
 19 **infringement have been made?**
 20 MR. VINCENT: Objection. Vague. Incomplete
 21 hypothetical.
 22 THE WITNESS: I don't understand your
 23 question.
 24 BY MS. BLANK:
 25 **Q. So if no party has made a claim of**

CERTIFICATE OF SERVICE

I hereby certify that on April 23, 2017, I filed the foregoing documents electronically using the FTC's E-Filing System, which will send notification of such filing to:

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CERTIFICATE FOR ELECTRONIC FILING

I certify that the electronic copy sent to the Secretary of the Commission is a true and correct copy of the paper original and that I possess a paper original of the signed document that is available for review by the parties and the adjudicator.

April 24, 2017

By: /s/ Henry C. Su
Attorney

Notice of Electronic Service

I hereby certify that on April 23, 2017, I filed an electronic copy of the foregoing Complaint Counsel's [Corrected] Trial Brief in Response to Respondent's Anticipated Objections to the Testimony of Professor Rebecca Tushnet, with:

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