18-3848

United States Court of Appeals for the Second Circuit

1-800 CONTACTS

Petitioner,

v.

FEDERAL TRADE COMMISSION,

Respondent.

Appeal from the United States Federal Trade Commission, Case No. 9372

BRIEF OF AMICUS CURIAE THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF PETITIONER AND VACATUR

SHELDON H. KLEIN
President
American Intellectual Property Law Association
1400 Crystal Drive
Suite 600
Arlington, Virginia 22202
(703) 415-0780

THEODORE H. DAVIS JR.
Counsel of Record
Kilpatrick Townsend & Stockton LLP
1100 Peachtree Street
Suite 2800
Atlanta, Georgia 30309
(404) 815-6534
TDavis@KTSLaw.com

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Federal Rule of Appellate Procedure 26.1(a), Amicus Curiae American Intellectual Property Law Association states that no parent corporation or any publicly held corporation that owns 10% or more of its stock.

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STATEMENT OF INTEREST OF AMICUS CURIAE

The American Intellectual Property Law Association ("AIPLA"),[1] which files this brief with the consent of the parties,[2] is a national bar association of approximately 13,500 members engaged in private and corporate practice, government service, and academia. AIPLA's members represent a diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. AIPLA's mission includes providing courts with objective analyses to promote an intellectual property system that stimulates and rewards invention, creativity, and investment while accommodating the public's interest in healthy

[1] In accordance with F.R.A.P. 29(a)(4)(E), AIPLA states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than AIPLA and its counsel. Specifically, after reasonable investigation, AIPLA believes that: (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to the litigation in this matter; (ii) no representative of any party to this litigation participated in the authorship of this brief; and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

[2] Pursuant to F.R.A.P. 29(a)(2), AIPLA has obtained the consent of the parties to file this amicus brief.

competition, reasonable costs, and basic fairness. AIPLA has no stake in any of the parties to this litigation or in the result of this case. AIPLA's only interest is in seeking correct and consistent interpretations of the law as it relates to intellectual property issues.

SUMMARY OF THE ARGUMENT

Under Sections 32(1) and 43(a) of the Lanham Act, 15 U.S.C. §§ 1114(1), 1125(a) (2018), the test for trademark infringement and unfair competition is whether a defendant's use is likely to cause confusion as to the relationship between the parties and their respective services; that standard also applies to most corresponding causes of action under state law. *See Lane Capital Mgmt., Inc. v. Lane Capital Mgmt., Inc.*, 192 F.3d 337, 344 (2d Cir. 1999). When applying that test, this Court has long recognized that "[t]he public has a great interest in administration of the trademark law in a manner that protects against confusion." *Guthrie Healthcare Sys. v. ContextMedia, Inc.*, 826 F.3d 27, 50 (2d Cir. 2016).

At issue in this case are commonplace settlement agreements in which the parties agree to dismiss trademark infringement lawsuits on the conditions that the alleged infringers no longer advertise using specific keywords and that they purchase negative keywords preventing their advertisements from displaying whenever an Internet search includes the plaintiff's marks. Resolutions such as these strongly favors the public policy of preventing further likelihood of confusion and, additionally, of fostering settlement and conservation of judicial resources. The district court in at least one of the underlying cases approved the relevant terms of the settlement agreement as part of a permanent injunction. Nonetheless, the Commission deemed the settlements "inherently suspect" despite their clear advancement of the goals of sound competition policy and trademark policy.

The Commission erred in multiple respects in holding, many years later, that the parties' agreed-upon advertising prohibitions unreasonably restrain trade in violation of the Federal Trade Commission Act. First, the Commission erred in presuming that the settlements were unlawful instead of applying a rule-of-reason antitrust analysis. Precedent strongly supports applying the rule of reason in this context. The truncated analysis under the Commission's "inherently suspect" standard is inappropriate because the link between the restraints in the settlements and any price or output effects is tenuous. The Commission also failed to give appropriate weight to the procompetitive and consumer-protective value of trademarks and trademark enforcement.

Second, the vague "minimum threshold of validity" antitrust standard proposed by the Commission goes against precedent and decreases predictability and reliability. It requires the Commission and federal courts to re-litigate fact-specific trademark infringement claims in the context of subsequent antitrust challenges to settlement agreements. *Ex post* review of agreements settling legitimate trademark infringement claims undervalues the finality of settlements, and reduces incentives for mark owners to enforce their rights, let alone to settle claims arising from that enforcement.

In light of these errors, AIPLA respectfully urges the Court to vacate the Commission's Order and remand this action for an application of the rule-of-reason standard.

ARGUMENT

I. THE COMMISSION ERRED BY DEEMING A SETTLEMENT PROVISION LIMITING ADVERTISING PRESUMPTIVELY UNLAWFUL

The Commission erred in applying the "inherently suspect" standard to the trademark settlement agreements at issue in this case rather than conducting a rule-of-reason analysis. The rule of reason is the applicable standard if clear procompetitive justifications exist for a restraint. *See Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 36 (2006) (applying rule of reason to patent tying because "tying arrangements may well be procompetitive"). "The rule of reason requires courts to conduct a fact-specific assessment of market power and market structure ... to assess the [restraint]'s actual effect on competition." *Ohio v. Am. Express Co*., 138 S. Ct. 2274, 2284 (2018) (alterations in original) (internal quotation marks omitted). "The goal is to 'distinguis[h] between restraints with anticompetitive effect that are harmful to the consumer and restraints stimulating competition that are in the consumer's best interest.'" *Id.* (alteration in original) (quoting *Leegin Creative Leather Prods., Inc. v. PSKS, Inc*., 551 U.S. 877, 886 (2007)). In this context, "[d]eparture from the rule-of-reason standard must be based upon demonstrable economic effect rather than ... formalistic line drawing." *Cont'l T.V., Inc. v. GTE Sylvania Inc*., 433 U.S. 36, 58-59 (1977).

An agreement between competitors is "inherently suspect" only if the likelihood of anticompetitive effects can be easily ascertained. *See Cal. Dental Ass'n v. F.T.C*., 526 U.S. 756, 757 (1999). "The object is to see whether the experience of the market has been so clear, or necessarily will be, that a confident conclusion about the principal tendency of a restriction will follow from a quick (or at least quicker) look, in place of a more sedulous one." *Id.* at 781. The "inherently suspect" standard is "exceptional ... and [its] application is reserved for the most patently anticompetitive restraints." *Craftsmen Limousine, Inc. v. Ford Motor Co.*, 491 F.3d 380, 387 (8th Cir. 2007). The settlement agreements at issue here are not so "exceptional" as to warrant application of the "inherently suspect" standard, and the Commission therefore should have analyzed them under the rule of reason. *See Clorox Co. v. Sterling Winthrop, Inc.,* 117 F.3d 50, 55 (2d Cir. 1997) (holding that trademark settlements are "common, and favored, under the law," and "merely regulate[] the way a competitor can use a competing mark").

None of the advertising ban cases cited by the Commission to support its application of the "inherently suspect" standard implicates intellectual-property rights, the presence of which necessarily affects the analysis because trademarks have procompetitive value. This Court's decision in *Clorox* represents the most analogous case to the one at hand, as it presents an *ex post* antitrust challenge to agreements settling trademark infringement litigation. 117 F.3d at 53-54. The *Clorox* panel ultimately found that the rule of reason was the appropriate standard given the procompetitive effects of the trademarks at issue. *Id.* at 56. The court held that, "regardless of whether the agreement is entirely necessary to protect [the defendant's] trademark rights," a plaintiff still must show that the alleged anticompetitive restraint "may *significantly* harm competition as a whole." *Id.* at 57 (emphasis added). Under

Clorox, 1-800 Contact's trademark settlement agreements are anticompetitive under the rule of reason only if they significantly affect competition—a conclusion the facts of this case do not support.

A. *Actavis* Supports Application of the Rule of Reason in this Case

The Commission points to *FTC v. Actavis*, *Inc.*, 570 U.S. 136 (2013), a patent case, to assert that intellectual-property settlements are subject to antitrust scrutiny. The pay-for-delay settlements at issue in *Actavis* prevented competitors from entering the market and were much more restrictive than the trademark settlements at hand. Even so, the *Actavis* Court declined to apply the truncated analysis under the "inherently suspect" standard, holding that the "complexities" involved in evaluating the "existence and degree of any anticompetitive consequence" warranted the application of the full rule of reason. *Id.* at 159. While *Actavis* does not explicitly bar the application of the "inherently suspect" standard to all intellectual-property settlements, it does not support applying the "inherently suspect" standard in this case. The settlements in this case are clearly less onerous. Even the Commission's own brief in *Actavis*, filed after the Eleventh Circuit rejected its argument that the

Actavis settlements are subject to antitrust scrutiny, suggests that, without the presence of direct payments of money, the Commission itself is not certain that similar settlements should be subject to the "inherently suspect" standard.[3]

Additionally, the Commission contradicts statements in its own brief in *Actavis* when it suggests that commonplace settlements regarding the use of intellectual property are subject to antitrust scrutiny.[4] That brief distinguished the agreements at

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[3] The Commission's brief in *Actavis* opined that:

> Because the agreements challenged in this case involve direct payments of money, this case does not require this Court to address what other consideration would similarly justify a 'quick look' analysis. If the economic realities of a settlement coupling an alternative form of consideration with delayed generic entry paralleled those of the direct payments here, such that a court could draw a similarly 'confident conclusion about the principal tendency' of those alternative arrangements, then a similar "quick look" analysis would be justified.

Br. for Pet'r, *F.T.C. v. Watson Pharma., Inc.*, 570 U.S. 136 (2013) (No. 12-416), 2013 WL 267027, at *25 (2013) (citing *Cal. Dental*, 526 U.S. at 781) [hereinafter *F.T.C. Actavis Brief*].

[4] The Commission's opinion below held:

> The Court [in *Actavis*] did not state a general rule that removes settlement agreements from antitrust scrutiny, but rather characterized two specific types of settlements as commonplace, and made it clear that the form of the settlement alone is not what subjects an agreement to antitrust scrutiny.…There is no hint that the Court [in Actavis] was departing from precedent and implementing a new standard limiting antitrust liability to 'commonplace' forms of settlement agreements.

In re 1-800 Contacts, Inc., No. 9372, 2018 WL 6078349, at *12 (F.T.C. Nov. 7, 2018) [hereinafter *Comm'n Op.*].

issue in *Actavis* from other types of intellectual-property settlements when providing that, "a brand-name manufacturer's good-faith effort to enforce its patent through litigation cannot subject it to liability under the antitrust laws, even though the purpose of such litigation is to forestall competition." *F.T.C. Actavis Brief*, 2013 WL 267027, at *25. This language suggests the Commission did not intend to open up routine intellectual-property settlements to a flood of antitrust challenges. The Commission does exactly that in its *1-800 Contacts* decision.

The settlement agreements at issue in *Actavis* went far beyond those at issue here. In this case, no material amount of money was exchanged between the parties, no competitor agreed to stay out of the market, and no competitor agreed to cease advertising. As the *Actavis* Court noted, the pay-for-delay settlement is unique, not only because the usual direction of a settlement payment is reversed (*i.e.*, the plaintiff pays the defendant), but also because the sum of money exchanged is substantial and the recipient agrees to remove its product from the market. *Actavis*, 570 U.S. at 152-54.

The trademark settlement agreements here bear none of the more egregious qualities of the *Actavis* settlements, including the reverse payments, and therefore deserve, even more so than the *Actavis* settlements, to be evaluated under the rule of reason. Beyond that, they do not restrict the parties' *access* to particular media. Even more so than the *Actavis* settlements, they therefore deserve evaluation under the rule of reason.

B. The Link Between the Restraints at Issue and the Price/Output Effects is Attenuated

The truncated analysis under the "inherently suspect" standard is also inappropriate for the advertising restraints in this case because the link between the restraints in the settlements and any price/output effects is attenuated. In *California Dental*, the Court held that the blanket limitations on advertising, imposed by a state professional association of local dental societies, would have an obvious effect on price setting in the market because they would prevent the consumer from receiving information on price and quality, and therefore any connections between the restraint and pricing effects would provide direct evidence of anticompetitive effects. *Cal. Dental*, 526 U.S. at 773 ("'[P]rice advertising is fundamental to price competition,' and that '[r]estriction[] on the ability to advertise prices normally make[s] it more difficult for consumers to find a lower price and for dentists to compete on the basis of price.'" (citation omitted)). As even the Commission acknowledges, the *California Dental* Court noted that if "the normal linkage between advertising restrictions and price/output effects in the underlying product market [i]s attenuated," *Comm'n Op.*, 2018 WL 6078349, at *40, then the full rule of reason should be applied. *See*

Cal. Dental, 526 U.S. at 778. Here, the connection between the advertising restrictions in the trademark settlement agreements and price/output effects is not strong enough to warrant the application of the "inherently suspect" short cut, and therefore the rule of reason must apply.

This connection is attenuated because many forms of advertising concerning contact lenses remain available for the contact retailers to reach consumers. There is no restriction on price advertising. The settlements only restrict specific parties from using specific search words in paid internet keyword search advertising. This leaves open keyword advertising that employs numerous other relevant terms. The settlements also do not prevent the parties from enjoying the benefits of favorable placement in the purely organic search results arising from consumers' use of search engines. Consumers need only run another intuitive search, such as "contacts online," to discover a variety of competing sellers. Moreover, the settlements place no restrictions on search engine optimization, internet display, or the many other avenues of advertising available to the parties, *e.g.*, social media, affiliate marketing, print, television, and radio. The Commission is concerned the restriction in the settlements will not allow price information to reach consumers but, in reality, that information is readily available and unimpaired by the settlements.

Further, the case law on advertising restrictions distinguishes between complete advertising bans[5] and content bans,[6] and limited, non-content bans on advertisements employing trademarked terms.[7] The Commission relies on *Polygram* to support its application of the "inherently suspect" shortcut, but that case involved an agreement between distributors to completely suspend all advertising and price cut-

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[5] *See, e.g., Bates v. State Bar of Ariz.*, 433 U.S. 350 (1977) (state bar rule prohibiting all advertising by lawyers in newspapers or other media); *Polygram Holding, Inc. v. F.T.C.,* 416 F.3d 29, 33 (D.C. Cir. 2005) ("*Polygram II*") (agreement to prohibit discounts and advertising); *In re Am. Med. Ass'n*, No. 9064, 1979 WL 199033, at *231 (F.T.C. Oct. 12, 1979) ("[I]t is fair to say that almost all advertising and promotional activity is proscribed, with a few narrowly circumscribed exceptions.").

[6] *See, e.g., Cal. Dental*, 526 U.S. at 762 (dental association rules effectively prohibited price advertising in most cases and entirely prohibited quality advertising); *Morales v. Trans World Airlines, Inc.*, 504 U.S. 374, 388-89 (1992) (state restrictions on airlines fare (i.e., price) advertising); *In re Mass. Bd. of Registration in Optometry*, 1988 WL 1025476, at *27-29 (F.T.C. June 13, 1988) (complete ban on truthful advertising of discount prices and other categories of advertising).

[7] *See, e.g. Clorox*, 117 F.3d at 55 (agreement between competitors to restrict advertising including the use of one competitor's trademark); *Gander Mountain Co. v. Cabela's Inc.*, No. CIV.04-3125 RHK/AJB, 2005 WL 1995499, at *6 (D. Minn. 2005) (agreement between competitors not to use one competitor's trademarks for marketing "does not prevent competition altogether"); *Adidas-am., Inc. v. Payless Shoesource, Inc.*, 546 F. Supp. 2d 1029, 1081 (D. Or. 2008) ("Agreements that restrict a competitor's ability to use a particular mark cannot have any meaningful exclusionary or anticompetitive effect because the competitor remains free to sell its goods using a different mark.").

ting on certain products. *Polygram II*, 416 F.3d at 32. The court found the agreements between the distributors "inherently suspect" because they looked "suspiciously like a naked price fixing agreement between competitors," which would have been *per se* unlawful. *Id.* at 37. Such broad restrictions are not comparable to the agreements at issue here. Like the restraints in *California Dental*, which limited only specific price advertising that was potentially deceptive to consumers, the trademark settlement agreements here involve narrow restraints on advertising. In contrast, the *Polygram* restraints prohibited *all* advertising of certain products worldwide. *Id.* at 32. Additionally, *Polygram* also involved an agreement to refrain from price cutting *while* ceasing all advertising for the products—none of which is present in this case. *Id.*

The restraints at issue here are less restrictive than those in *California Dental* because they continue to allow price signals to reach the market. They do so by allowing advertising of price and quantity, and impose no restrictions on the content of the advertisements themselves. They prevent only continued infringement. The restraints in *California Dental* covered some 19,000 dentists (roughly three-quarters of dentists practicing in the state), while the settlement agreements at issue apply only to purely *online* contact lens retailers and affect only those consumers who search specifically for 1-800 Contacts' trademarks. In the market of all retailers of contacts (including independent eye care practitioners, national and regional optical retail chains, and mass merchants), purely online contact retailers account for only 17 percent of all contact sales. *In re 1-800 Contacts, Inc.,* No. 9372, Initial Decision, Finding of Facts, slip op. at 4 (F.T.C. Oct. 27, 2017).

C. The Commission Does Not Give Appropriate Weight to Procompetitive and Consumer-Protective Trademark and Settlement Considerations

The Commission devalues the procompetitive and consumer-protective effects of trademarks and trademark enforcement by concluding that a reduction in the volume of advertisements alone is enough to show direct adverse effects on competition. *See Comm'n Op.*, 2018 WL 6078349, at *47. By its very nature, trademark protection sets limits on advertising. To characterize the exclusion of infringers as a direct adverse effect on competition is to ignore the fact that such exclusion is ultimately procompetitive and inherent to the consumer-protective purpose and effect of trademark law. The reduction in paid search advertising among online contact retailers for trademarked terms, which the Commission points to as direct evidence of anticompetitive effect, is indistinguishable from the lawful and competition-enhancing exercise of the rights afforded under intellectual property law.

In addition to protecting consumers, trademarks and trademark enforcement foster competition by incentivizing companies to maintain their reputations, improve quality, and encourage brand investment. *See, e.g., Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 193 (1985) ("[T]rademarks desirably promote competition and the maintenance of product quality ...."); *Clorox*, 117 F.3d at 60 ("In the absence of evidence to the contrary it is reasonable to presume that such arms-length [trademark] agreements are pro-competitive."); William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 269 (1987) ("[T]rademark protection encourages expenditures on quality"). This Court recognized the value of trademark enforcement in *Clorox*, finding that "[e]fforts to protect trademarks, even aggressive ones, serve the competitive purpose of furthering trademark policies." 117 F.3d at 61. The Commission's order disincentivizes the procompetitive investment that trademark laws were meant to protect. *See, e.g., Car-Freshner Corp. v. Auto Aid Mfg. Corp.*, 438 F. Supp. 82, 87 (N.D.N.Y. 1977) ("[T]he acts of the plaintiffs in registering and enforcing the trademark in issue ... merely represent fair and aggressive competition which does not constitute a violation of the antitrust laws.").

The Commission's order additionally threatens to disrupt the expectations of parties settling trademark infringement actions. As in other types of litigation, the parties to a trademark dispute may narrowly focus their attention on possible monetary relief, injunctive relief, or some other tangible aspects of the ultimate judgment;

if so, an amicable resolution is unlikely. Nevertheless, the very nature of adversarial proceedings incentivizes the parties to settle prior to trial, even if the terms of that settlement might not necessarily track those of the final judgment entered by the court. Chief among those incentives is certainty. By settling, the parties can avoid the risk of an adverse outcome, as well as obviate the need for the financial and intangible investments necessary to take a case through trial. An out-of-court resolution therefore can have compensating characteristics that outweigh particular demands or defenses bargained away by the parties during negotiations.

The consideration of certainty may be particularly important in trademark litigation. In the Tenth Circuit and most other jurisdictions, the test for likely confusion is a question of fact. *See, e.g.*, *Hot Shot Quality Prod., Inc. v. Sifers Chems., Inc.*, 452 F.2d 1080, 1081 (10th Cir. 1971). This makes predicting the outcome inherently difficult, and applications of Tenth Circuit case law are replete with the denials of motions to dismissal for failure to state a claim and motions for summary judgment. *See, e.g.*, *Team Tires Plus, Ltd. v. Tires Plus, Inc.*, 394 F.3d 831, 835 (10th Cir. 2005) (vacating grant of defense motion for summary judgment); *Health Grades, Inc. v. Robert Wood Johnson Univ. Hosp., Inc.*, 634 F. Supp. 2d 1226, 1242–43 (D. Colo. 2009) (denying motion to dismiss). Despite considering likely confusion a question of law dependent on subsidiary facts, this Court on occasion has similarly held that question inappropriate for summary resolution. *See, e.g.*, *Cadbury Beverages, Inc. v. Cott Corp*., 73 F.3d 474, 479 (2d Cir. 1996) (vacating grant of defense motion for summary judgment and observing, "there exist questions of material fact precluding a conclusion on summary judgment that confusion is or is not likely").

Because of the possibility of lengthy and expensive proceedings with no guarantee of success, and, additionally, the significance of shared promotional strategies and advertising media to the liability inquiry, litigants commonly settle trademark and unfair competition disputes with contractual restrictions bearing on those strategies and media. Thus, as one experienced practitioner explained well before the digital era, "settlement ideas include ... restrictions on advertising ...." Charles J. Faruki, *Litigation Involving Trademarks: Preparing the Trademark Case for Trial*, 16 U. DAYTON L. REV. 85, 126 (1990); *see also Clorox*, 117 F.3d at 57 (settlement agreement restricting advertising emphasizing disinfectant properties of party's goods); *Skyros, Inc. v. Mud Pie, LLC*, No. 2:16-CV-02255-STA-TMP, 2016 WL 3165625, at *3–5 (W.D. Tenn. June 3, 2016) (preliminarily enjoining violations of advertising restrictions set forth in settlement agreement); *Lopez v. Gap, Inc*., 883 F. Supp. 2d 400, 410 (S.D.N.Y. 2012) (referencing restrictions on plaintiff's advertising in prior settlement agreement with third party). Because advertising restrictions are so intertwined with the issue of likely confusion,[8] the Commission should have examined that connection thoroughly as part of a rule-of-reason analysis rather than ignore it in the context of the "inherently suspect" standard.

[8] Indeed, in the context of concurrent use proceedings before the Trademark Trial and Appeal Board, those restrictions are, for all practical purposes, *necessary*. *Compare Big M. Inc. v. U.S. Shoe Corp.*, 228 U.S.P.Q. 614, 616 (T.T.A.B. 1985) (declining to issue concurrent use registrations in accordance with a settlement agreement in part because "[t]he parties have not agreed that neither shall advertise their marks in the geographical area of the other") *with Precision Tune, Inc. v. Precision Auto-Tune, Inc.*, 4 U.S.P.Q.2d 1095, 1096 (T.T.A.B. 1987) (implementing agreement struck by the parties after noting that the senor user had committed itself not to advertise in markets occupied by two junior users). The Board has taken a similar approach to consent agreements, which are often submitted in support of applications blocked by prior registrations of arguably similar marks. *Compare In re Bay State Brewing Co.*, 117 U.S.P.Q.2d 1958, 1965 n.13 (T.T.A.B. 2016) (rejecting consent agreement with the observation that "consent agreements often refer to differences between the [parties'] goods, trade channels and classes of purchasers; the sophistication of purchasers; and dissimilar methods of advertising and promotion. The agreement is silent on all of these points") *with In re Am. Mgmt. Ass'ns*, 218 U.S.P.Q. 477, 478 (T.T.A.B. 1983) (accepting agreement reciting that "[n]o advertising or promotion [of the parties' publications] is done vis-a-vis the general lay public" and "[t]he parties have avoided and agree to avoid any advertising, promotion or marketing which could lead purchasers to believe that the two publications are published by the same source").

II. LIMITING *EX POST* REVIEW OF TRADEMARK INFRINGEMENT CLAIMS PROVIDES PREDICTABILITY, RELIABILITY, AND ENCOURAGES SETTLEMENT

A. The Commission Applied a Novel, Vague, and Unworkable Standard to the Review of Trademark Claims

The Commission inappropriately conducted an *ex post* evaluation of the infringement claims underlying the trademark settlements to determine whether they cross "a minimum threshold of validity." *Comm'n Op.*, 2018 WL 6078349, at *38. Under the Commission's approach, trademark protection is a valid procompetitive justification for purposes of an antitrust analysis only if the underlying claims cross that threshold. *Id.* Rather than adopt this vague standard, the Commission should have applied relevant Second Circuit precedent, which increases *ex ante* predictability and reliability when evaluating antitrust challenges to trademark settlements by establishing a bright-line rule—that a trademark settlement is legitimate unless the underlying infringement litigation was a sham. *See Clorox*, 117 F.3d at 60 ("In the absence of evidence to the contrary it is reasonable to presume that such arms-length agreements are pro-competitive."). It also should have recognized that the initiation of the underlying lawsuits itself was protected petitioning activity under the First Amendment. *See generally Prof'l Real Estate Invs., Inc. v. Columbia Pictures Indus.*, 508 U.S. 49, 60-61 (1993); *E. R. R. Presidents Conf. v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

The Commission's vague standard requires the Commission and federal courts to re-litigate fact-specific trademark infringement claims in every antitrust challenge to a settlement agreement, an approach that is neither feasible nor supported by precedent. *See Actavis*, 570 U.S. at 153, 157 (acknowledging that re-litigation of a patent's validity would "prove time consuming, complex, and expensive" and noting, "it is normally not necessary to litigate patent validity to answer the antitrust question (unless, perhaps, to determine whether the patent litigation is a sham)"); *In re Androgel Antitrust Litig. (No. II)*, No. 1:09-CV955-TWT, 2018 WL 2984873, at *12 (N.D. Ga. June 14, 2018) (noting that "determining the ultimate outcome of the underlying patent litigation is both fundamentally unknowable and procedurally impossible" and that "any arguments based on the actual validity or invalidity of the patent, or about what would have happened in the underlying patent litigation, are inappropriate and will be disallowed regarding the antitrust violation question.").

Moreover, the Commission neither clearly demarcates what constitutes a "minimum threshold of validity" nor provides guidance on how to apply this standard to determine whether to credit the procompetitive benefits of protecting a trademark.[9] The Commission's vague standard creates uncertainty that will make it difficult for courts to conduct *ex post* reviews, and nearly impossible for parties to evaluate, *ex ante*, the legality of potential settlements under the antitrust laws.

B. The Commission's Vague Standard Is Incompatible with the Inherently Factual Nature of the Inquiry

The unworkability of evaluating the merits of trademark claims on an *ex post* basis and without the benefit of a fully developed factual record in the underlying case is especially apparent in light of the inherently factual nature of trademark infringement. Whether confusion is, in fact, likely to arise from a defendant's conduct turns on a multifactored test that varies in form (although generally not in substance) from circuit to circuit. For example, this Court has held that the test for likely confusion properly turns on a series of nonexclusive factors, including (1) the strength

[9] The Commission's decision creates an overbroad rule—that trademark protection can *never* be a valid procompetitive justification if a settlement agreement restricts a practice that "has never been found to violate the trademark laws, and the weight of authority overwhelmingly points to non-infringement." *Id.* The perils of such a rule will arise in areas, such as in this case, where trademark law remains unsettled. As noted by Commissioner Phillips's dissent, the Commission "overstates the clarity of trademark law at the time of the Trademark Settlements" and, at most, has "shown that the legal status of using trademarked terms as keywords in paid search advertising was uncertain." *In re 1-800 Contacts, Inc.,* No. 9372, 2018 WL 6042897, at *21 (F.T.C. Nov. 18, 2018) (Phillips, Comm'r, dissenting). In its decision, the Commission took it upon itself to decide previously unsettled, complex, and fact-specific intellectual-property issues.

of the plaintiff's mark; (2) the degree of similarity between the parties' marks; (3) the proximity of the parties' goods or services; (4) the likelihood of the senior user bridging any gap between its goods or services and those of the junior user; (5) evidence of actual confusion between the parties' marks; (6) whether the defendant adopted its mark in good faith; (7) the quality of the defendant's goods or services; and (8) the sophistication of the parties' respective customers. *See Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961). Although those factors do not expressly contemplate the parties' advertising practices, the Court has considered those practices in past cases. *See, e.g.*, *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538, 542 (2d Cir. 1956) (affirming preliminary injunction based in part on similarities in parties' advertising).[10]

Consistent with that methodology, the tests for likely confusion in several other circuits *do* expressly include the extent to which the parties employ similar promotional strategies. These include the Tenth Circuit, in which 1-800 Contacts

[10] The Commission purports to use the Federal Trade Commission Act to protect consumers from the harm of unfair advertising, but it fails to recognize the corresponding role of trademark law in doing the same by preventing consumer confusion. The relative effectiveness of each of these legal regimes to protect consumers from harm cannot be reliably determined in the truncated proceedings that apply under the "inherently suspect" standard. The Commission's choice of that standard here marginalizes the fact-intensive inquiry that trademark law requires to achieve its mandate of consumer protection.

undertook its enforcement efforts. *See 1-800 Contacts, Inc. v. Lens.com, Inc.*, 722 F.3d 1229, 1239 (10th Cir. 2013); *see also Mercado-Salinas v. Bart Enters. Int'l, Ltd.*, 671 F.3d 12, 23 (1st Cir. 2011) (requiring consideration of the parties' advertising practices in the likelihood-of-confusion inquiry); *Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460, 463 (3d Cir. 1983) (same); *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1527 (4th Cir. 1984) (same); *Nat'l Bus. Forms & Printing, Inc. v. Ford Motor Co.*, 671 F.3d 526, 532 (5th Cir. 2012) (same); *Innovation Ventures, LLC v. N.V.E., Inc.*, 694 F.3d 723, 731 (6th Cir. 2012) (same); *Suntree Techs., Inc. v. Ecosense Int'l, Inc.*, 693 F.3d 1338, 1346 (11th Cir. 2012) (same).

Similarities in the parties' promotional media and strategies therefore can, and do, play a role in the resolution of the likelihood-of-confusion inquiry. For example, in *Sports Authority, Inc. v. Prime Hospitality Corp.*, 89 F.3d 955, 965 (2d Cir. 1996), this Court vacated the grant of a defense motion for summary judgment with the observation that "we think it significant that although [the parties'] services are not proximate, they do use the same medium—in fact, the same sports radio station—to advertise their restaurants and stores, respectively." *Id.* at 965.[11] The significance to

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[11] In contrast, in *Pan Am. World Airways, Inc. v. Panamerican Sch. of Travel, Inc.*, 648 F. Supp. 1026 (S.D.N.Y.), *aff'd*, 810 F.2d 1160 (2d Cir. 1986), a finding that

the liability inquiry of the shared pre-settlement promotional strategies of the parties therefore should inform any evaluation of the reasonableness of 1-800 Contact's enforcement efforts.

In particular, 1-800 Contacts filed and prosecuted the actions leading to the settlements in question beginning in 2002, at a time when it reasonably could expect to prevail on the merits of its claims. For example, three years before 1-800 Contacts undertook its enforcement strategy, the Ninth Circuit held that the use of a plaintiff's mark in hidden metatags not visible to consumers was actionable as infringement. *See Brookfield Commc'ns v. W. Coast Entm't Corp*., 174 F.3d 1036, 1065 (9th Cir. 1999). The Seventh Circuit reached the same conclusion by 2002, five years before 1-800 Contacts' circa-2007 complaint against Lens.com. *See Promatek Indus. v. Equitrac Corp.*, 300 F.3d 808, 812-13 (7th Cir. 2002). The "invisibility" of a defendant's use of a plaintiff's mark to increase traffic to the defendant's website therefore was no obstacle to liability for infringement in that context.

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confusion was unlikely rested in part on evidence that one party advertised in "classified" sections of newspapers while the other advertised in the "travel section." *Id.* at 1036

Indeed, within a year of that complaint, a plaintiff asserting a substantively identical cause of action not only prevailed, but did so as a matter of law. In *Soilworks, LLC v. Midwest Industrial Supply, Inc.*, 575 F. Supp. 2d 1118 (D. Ariz. 2008), *order clarified*, No. CV-06-2141-PHX-DGC, 2008 WL 4173623 (D. Ariz. Sept. 5, 2008), the counterclaim defendant's advertisements apparently did not include visible uses of the counterclaim plaintiff's marks. Nevertheless, the court entered summary judgment of liability because "the undisputed evidence in this case establishes that [the counterclaim defendant] diverts the initial attention of potential Internet customers to its websites by using [the counterclaim plaintiff's] trademark in keywords and metatags." *Id.* at 1132.

Of equal importance, both during and after the pendency of the litigation underlying the Commission's investigation, courts have held that the standalone purchase of a competitor's mark as a keyword can defeat a motion for nonliability as a matter of law. Thus, for example, in *Rescuecom Corp. v. Google, Inc.*, 562 F.3d 123 (2d Cir. 2009), this Court vacated the grant of a motion to dismiss an action arising from Google's sale of the plaintiff's mark as a keyword, despite the apparent absence of any allegations that purchasers used that mark in the visible text of their advertisements. *Id.* at 131. Consistent with that outcome, other courts have routinely found that the purchase of competitors' marks as triggers for paid advertising supports a finding of infringement. *See, e.g., Trehan v. Kikkerland Design, Inc.*, No. 13 C 8023, 2014 WL 1018319, at *4 (N.D. Ill. Mar. 17, 2014) (denying motion to dismiss); *Morningware, Inc. v. Hearthware Home Prods., Inc.*, No. 09 C 4348, 2012 WL 3721350, at *13 (N.D. Ill. Aug. 27, 2012) (denying cross-motions for summary judgment); *Hearts on Fire Co. v. Blue Nile, Inc.*, 603 F. Supp. 2d 274, 288 (D. Mass. 2009) (denying motion to dismiss because "[w]hile these advertisements may not have displayed the mark itself, the surrounding context supplies a sufficient basis to support allegations of consumer confusion at this early stage of the litigation").

Beyond the liability inquiry, the injunctive relief entered by courts once they have found infringement therefore often focuses on the advertising used by the defendant. *See, e.g.*, *Taylor Wine Co. v. Bully Hill Vineyards, Inc.*, 569 F.2d 731, 736 (2d Cir. 1978) (ordering restrictions on use of defendant's personal name in advertising). Because of the discretion reserved to district courts when fashioning injunctions, *Patsy's Italian Rest., Inc. v. Banas*, 658 F.3d 254, 273 (2d Cir. 2011), that relief can include prohibitions on the purchase of plaintiffs' marks as keywords. *See, e.g.*, *CJ Prods. LLC v. Snuggly Plushez LLC*, 809 F. Supp. 2d 127, 161 (E.D.N.Y. 2011). It also can include the mandatory use of negative keywords by defendants. *See, e.g.*, *Ingrid & Isabel, LLC v. Carey*, No. C-11-0914 MMC, 2011 WL 5983316, at *1 (N.D. Cal. Nov. 30, 2011); *Transamerica Corp. v. Moniker Online Servs., LLC*, No. 09-60973-CIV, 2010 WL 1416979, at *7 (S.D. Fla. Apr. 7, 2010); *Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, No. 807CV1753T26MAP, 2008 WL 816794, at *3 (M.D. Fla. Mar. 25, 2008). Then and now, it therefore is not unreasonable for a trademark plaintiff to seek such an outcome.

1-800 Contacts' lawsuits therefore cannot be considered sham litigation. Although one district court held in 2005 on similar facts that keyword-driven advertising was not actionable if it did not feature the plaintiff's mark in its visible text, *Government Employees Insurance Co. v. Google Inc.*, 77 U.S.P.Q.2d 1841, 1847 (E.D. Va. 2005), no federal appellate court clearly reached a similar conclusion before the Tenth Circuit in *1-800 Contacts, Inc. v. Lens.com, Inc.*, 722 F.3d 1229 (10th Cir. 2013). Thus, as one court accurately remarked during the pendency of 1-800 Contacts' later enforcement actions, "[s]ubstantially divergent views have been expressed by both federal judges and academics regarding the theoretical and policy underpinnings of the initial interest confusion doctrine, the doctrine's appropriate parameters, and how the doctrine should evolve and apply not only to existing technology but also as technology changes." *Tokyo Broad. Sys. v. Am. Broad. Cos.*, No. CV 08-06550-MAN, 2009 WL 10668456, at *5 (C.D. Cal. Aug. 12, 2009). 1-800 Contacts' infringement actions therefore were well within the bounds of responsible advocacy.

C. An *Ex Post* Review of Trademark Settlements Undermines the Public Interest

The Commission's decision additionally undervalues the finality of settlements, which allow parties to mitigate the costs of lengthy litigation, save judicial resources, and promote trademark enforcement. The decision will discourage parties from settling, contrary to "a general legal policy favoring the settlement of disputes." *Actavis*, 570 U.S. at 153. This Court has recognized a strong public interest in preserving incentives to settle lawsuits, particularly in the context of fact-specific and complex trademark disputes. *See, e.g., Clorox*, 117 F.3d at 60 ("[T]rademark agreements are favored in the law as a means by which parties … avoid[] time-consuming litigation."); *Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280, 284 (2d Cir. 1985) (criticizing the district court's opinion for imposing "the heavy burden on trademark defendants of having to continue to litigate when they would prefer to settle, a ruling without precedent"). This Court has further provided that, because parties to trademark disputes are "in the best position to determine what protections are needed and how to resolve disputes," the parties' "determination of the scope of needed trademark protections is entitled to substantial weight" and "it is usually unwise for courts to second-guess such decisions." *Clorox*, 117 F.3d at 60. The risk that trademark settlement agreements may be subject to *ex post* review or re-litigation will likely deter parties from settling their trademark disputes in the future, or even enforcing their trademarks to begin with if costly litigation is the only way forward.

By engaging in an inappropriate *ex post* review of legitimate infringement claims, the Commission adopts a rule that undermines the predictability and reliability of the law, and discourages settlement. The application of that rule is even more inappropriate in light of the Commission's failure to appreciate the complex relationship between the advertising practices of the parties and the issue of likely confusion. These oversights further illustrate why a full rule-of-reason analysis is necessary to capture the complex implications of this case.

CONCLUSION

For the reasons set forth above, AIPLA urges the Court to vacate the Commission's order and remand this action for an application of the rule-of-reason standard.

Respectfully submitted,

SHELDON H. KLEIN
President
American Intellectual
Property Law Association
1400 Crystal Drive
Suite 600
Arlington, Virginia 22202
(703) 415-0780

/s/ Theodore H. Davis Jr.
THEODORE H. DAVIS JR.
Counsel of Record
Kilpatrick Townsend &
Stockton LLP
1100 Peachtree Street
Suite 2800
Atlanta, Georgia 30309
(404) 815-6534
TDavis@KTSLaw.com

CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitations of Federal Rule of Appellate Procedure 32(a)(7)(B) and the Rules of this Court, because it contains 6,591 words as determined by the Microsoft 2010 word-processing system used to prepare the brief, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii). This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a) and Local Rule 32.1(a) and the type-style requirements of Federal Rule of Appellate Procedure 32(a)(6) because it has been prepared in a proportionally spaced typeface using the Microsoft Word 2010 word-processing system in 14-point Times New Roman font.

/s/ Theodore H. Davis Jr.

CERTIFICATE OF SERVICE

I certify that on June 14, 2019, I caused the foregoing Brief of Amicus Curiae the American Intellectual Property Law Association in Support of Petitioner and Vacatur to be electronically filed with the Clerk of the Court for the United States Court of Appeals for the Second Circuit through the Court's CM/ECF system.

/s/ Theodore H. Davis Jr.