Warby Parker Beats Back 1-800's Infringement Claims

Published by *Kattison Avenue* | Issue 9

September 28, 2022

Court applies Polaroid *factors to determine likelihood of confusion*

By David Halberstadter

In ourFall 2021 issue, we reported on the Second Circuit's decision in *1-800-Contacts, Inc. v. Federal Trade Commission*, 1 F.4th 102 (2d Cir. 2021). In that case, the Second Circuit reviewed the online contact lens retailer's practice of filing trademark infringement lawsuits against competitors who purchased 1-800-Contacts related "keywords" so that their own paid advertisements would appear in the search results of consumers searching online for 1-800's website. 1-800 typically then entered into settlement agreements in which the competitors agreed not to bid on 1-800's name or variations of its trademarks in future keyword auctions conducted by search engines. The Federal Trade Commission considered these settlement terms a method of unfair competition under the FTC Act, but the Second Circuit disagreed.

Our article questioned whether 1-800's trademark claims against competitors were meritorious and noted that 1-800 had just filed another federal lawsuit, in which it asserted that eyeglasses retailer, Warby Parker, infringed on 1-800's trademarks by purchasing search engine keywords such as "1-800 Contacts" and other variations, in order to advertise its recently-launched contact lens business. *1-800 Contacts Inc. v. JAND Inc., d/b/a Warby Parker*, Case No. 21-cv-06966 (S.D.N.Y., filed August 18, 2021). As promised, we are keeping tabs on this lawsuit. Here's the latest.

On June 27, United States District Judge P. Kevin Castel of the Southern District of New York granted Warby Parker's motion for judgment on the pleadings and entered judgment for Warby Parker. To be sure, this is only one district court's decision; it has no precedential value and it is based upon the specific allegations of 1-800's complaint. Nevertheless, the court's summary dismissal of 1-800's claims could put a serious dent in the company's litigation strategy for deterring competitors from engaging in keyword advertising. This decision could embolden other competitors to ramp up their bidding on keywords related to 1-800's marks and to refuse to settle should 1-800 sue

them. And other retailers with a substantial online presence and strong trademarks may think twice about engaging in similar litigation-and-settlement tactics.

1-800's Key Allegations

1-800 alleged that Warby Parker, as part of its recent foray into the online contact lens market, sought to confuse and mislead consumers searching for 1-800's online store. 1-800 asserted that, among other things, Warby Parker bid for keywords relating to 1-800's trademarks in search engine auctions, so that when a consumer conducts an online search for "1800 contacts" or using similar search terms, the search results page will display a paid search result for Warby Parker's website at or near the top of the results page, often above the "organic" search results for the actual 1-800 website.

According to the complaint, if a consumer clicked on the Warby Parker advertisement that appeared in the search results for "1800 contacts," he or she was directed to a "landing page" for contact lenses on Warby Parker's website that allegedly mimicked the look and feel of 1-800's website. By contrast, 1-800 claimed, if a consumer instead searched for "Warby Parker contacts" and clicked on those search results, they were directed to a different landing page that replicated the overall look and feel of the Warby Parker website. In other words, 1-800 claimed that consumers searching for 1-800's website were directed to a Warby Parker web page that looked similar to 1-800's, while consumers searching specifically for Warby Parker contact lenses landed on a different page that looked more like Warby Parker's other web pages.

The Court Applies the *Polaroid* Factors

The principal question before the court was whether 1-800's complaint plausibly pleaded that Warby Parker's use of 1-800's marks through search-term advertising and the linking of a particular landing page on Warby Parker's website would likely cause confusion as to the origin or sponsorship of Warby Parker's goods. The court therefore evaluated 1-800's allegations against the Second Circuit's test for determining the likelihood of consumer confusion, commonly referred to as the Polaroid Factors, so-named for the Second Circuit's decision in *Polaroid Corp. v. Polaroid Elecs. Corp.,* 287 F.2d 492 (2d Cir.1961).

(For readers outside the Second Circuit, each federal circuit has its own, comparable test for likelihood of confusion. For example, the Ninth Circuit applies the *Sleekcraft* Test, established in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979). The Third Circuit uses the *Lapp* Test, based on *Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460 (3d Cir. 1983). The Fourth Circuit uses factors developed in two appellate decisions, *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522 (4th Cir. 1984) and *Sara Lee Corp v. Kayser-Roth Corp*., 81 F.3d 455 (4th Cir. 1996).)

To begin, the court noted that the *Polaroid* test for determining the likelihood of consumer confusion "is a fact-intensive inquiry that depends greatly on the particulars of each case," and that no single factor is determinative. In this case, the court chose to focus on the *Polaroid* factors that it considered most relevant to the circumstances alleged: the strength of 1-800's marks; the degree of similarity of the marks at issue; the proximity, competitiveness and relative quality of the products sold by the parties; alleged evidence of bad faith by Warby Parker; and the sophistication of consumers in the relevant market.

Taking the allegations of 1-800's complaint as true, the court concluded that 1-800's marks are strong. However, the court also concluded that the marks at issue were substantially different. In many trademark infringement cases, the defendant is using a mark that looks or sounds similar to the plaintiff's mark; for example, when a drug store chain offers a "house brand" for a product that is packaged and labeled in a way that copies a brand name's packaging. In this instance, the court rejected 1-800's argument that "the marks used by the parties are identical" because Warby Parker was using 1-800's marks as keywords to trigger search result advertisements. Rather, the appropriate comparison was between 1-800's marks and Warby Parker's marks:

> While Warby Parker "uses" the 1-800 Contacts Marks by bidding on search results for the marks, the crux of 1-800 Contacts's claims here is that after the search results for the 1-800 Contacts Marks are displayed to the consumer, there is an appreciable number of consumers who cannot discern, either before or after clicking on the paid links to Warby Parker's website, that the contacts being sold by Warby Parker on their website are actually unrelated to 1-800 Contacts or the 1800contacts.com website.

The court observed that when a consumer's search results are displayed, Warby Parker's paid search result is prominently labeled as an "Ad" and displays Warby Parker's own website address.

With regard to the proximity of the products at issue, their competitiveness with one another and their relative quality, the parties did not dispute, and the court concluded, that the parties' products are virtually identical and are in direct competition with one another.

Turning to 1-800's allegations that Warby Parker acted in bad faith, the court concluded that there was some evidence of bad faith by virtue of Warby Parker providing links to different contact lens landing pages, depending on whether a consumer searched using variations of 1-800's name and marks or using variations of Warby Parker's name and marks. The latter landing page matched the overall aesthetics of the rest of Warby Parker's website while, according to the complaint, the former landing page was specifically designed to mimic the aesthetics of the 1-800 website, such as a light blue box near the top of the page, or a discount offer for the consumer's first order, both of which were missing from the regular Warby Parker website page for contacts. That said, the court also

pointed out significant differences between 1-800's website and the Warby Parker landing page at issue, including the fact that Warby Parker's name is clearly displayed on that page.

The court observed that 1-800's complaint focused on would-be consumers of 1-800's contact lenses. Because 1-800 is exclusively an online retailer, the court determined that "the relevant consumer base, conducting internet searches in the year 2022, would likely be familiar with both the concept of paid search results and the significance of website address links." It concluded that "the relevant consumer base here would be sophisticated enough to (1) review the results of their online search — including linked website addresses that will navigate them to a different website when clicked — before clicking on such links, and (2) review the contents of any website that they have navigated to before taking further action, such as making an online purchase and providing sensitive payment information."

After considering the relevant *Polaroid* factors, the court reached the conclusion that 1-800 had failed to plausibly allege a likelihood of confusion as a matter of law and entered judgment against 1-800. So where does that leave the online retailer? First, the judgment has no precedential value; it is only a district court decision. It also is unlikely to prevent 1-800 from making similar allegations against another competitor based on that competitor's unique uses of 1-800's marks; and the court's decision likely would not be a basis for a different defendant to assert collateral estoppel or *res judicata* as a defense, because the decision was based exclusively on 1-800's allegations in this case, a comparison of the relevant search results and a selection of the parties' web pages.

On July 27, 1-800 filed a formal notice of appeal from the district court's decision. We will update readers on the status of that appeal in a subsequent publication.

Meanwhile, the district court's decision could well have a chilling effect on 1-800's strategy of using litigation and resulting settlements to prevent competitors from using 1-800's marks as keywords for paid advertising, and might encourage competitors sued by 1-800 from quickly capitulating to 1-800's trademark infringement lawsuits, or from settling such litigation on terms that include refraining from bidding on 1-800 marks in the future. More broadly, all online retailers — those with highly-recognizable and very strong marks and those seeking to compete with such companies — should take note of this dispute and its summary dismissal before heading down a similar path.

To read the full newsletter, please click here.

CONTACTS

For more information, contact your Katten attorney or any of the following attorneys.

David Halberstadter
+1.310.788.4408
david.halberstadter@katten.com