

UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION  
OFFICE OF ADMINISTRATIVE LAW JUDGES



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In the Matter of )  
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1-800 Contacts, Inc., )  
a corporation, )  
 )  
Respondent. )  
\_\_\_\_\_ )

DOCKET NO. 9372

**ORDER DENYING COMPLAINT COUNSEL'S MOTION  
TO BAR TESTIMONY AND ARGUMENT**

**I.**

On January 26, 2017, Federal Trade Commission ("FTC") Complaint Counsel filed a Motion to Bar Presentation of Testimony and Arguments Contradicting Certain Issues Respondent Litigated and Lost in *1-800 Contacts v. Lens.com* ("Motion"). Respondent 1-800 Contacts ("Respondent" or "1-800") filed its Opposition to the Motion for Issue Preclusion on February 8, 2017 ("Opposition"). For the reasons set forth below, the Motion is DENIED.

On February 9, 2017, Complaint Counsel filed a Motion for Leave to File a Reply, together with its reply ("Reply"). Respondent filed an Opposition to Complaint Counsel's Motion for Leave on February 9, 2017. The Motion for Leave to Reply, the Reply, and the Opposition thereto have been considered and Complaint Counsel's Motion for Leave to File a Reply is GRANTED.

**II.**

Complaint Counsel seeks an order to preclude Respondent from contesting in this proceeding, through evidence or argument, certain findings purportedly made in a prior adjudication involving Respondent and a competitor, *Lens.com*. *1-800 Contacts, Inc. v. Lens.com, Inc.*, 755 F. Supp. 2d 1151 (D. Utah 2010), *aff'd 1-800 Contacts, Inc. v. Lens.Com, Inc.*, 722 F.3d 1229 (10th Cir. 2013) (collectively, "*Lens.com*"). Complaint Counsel also seeks to preclude Respondent from offering evidence or argument contesting a second issue, which was not decided by *Lens.com*, on the basis that such evidence or argument would be "necessarily inconsistent" with the findings made in *Lens.com*.

The doctrine of issue preclusion, also referred to as collateral estoppel, holds that "[i]n order to advance the efficient administration of justice, 'once a court has decided an issue of fact or law necessary to its judgments, that decision may preclude relitigation of the issue in a suit on

a different cause of action involving a party to the first case.’ *Allen v. McCurry*, 449 U.S. 90, 94 (1980) (emphasis omitted); *accord Montana v. United States*, 440 U.S. 147, 153 (1979).” *In re Rambus Inc.*, 2003 FTC LEXIS 24, at \*2-3 (Feb. 26, 2003).

Three elements must be satisfied for a final judgment to preclude litigation of an issue in a later case. First, it must be demonstrated that an issue raised in the later case is the same as one that was contested and submitted for judicial determination in the prior case, *i.e.*, it must be that the same issue was “actually litigated.” Second, the issue must have been actually and necessarily determined in the prior case. Third, preclusion in the later case must not work an unfairness. *Rambus*, 2003 FTC LEXIS 24, at \*3. *See also B&B Hardware, Inc. v. Hargis Indus.*, 135 S. Ct. 1293, 1306 (2015) (holding that for issue preclusion to apply, the issues in the two cases must be “identical”); *Martin v. Dep’t of Justice*, 488 F.3d 446, 454 (D.C. Cir. 2007) (explaining the three factor test for issue preclusion). Particular caution is required to prevent unfairness where, as here, a plaintiff (Complaint Counsel) seeks to apply collateral estoppel offensively, to foreclose the defendant (Respondent) from contesting an issue in the case. *Kloth v. Microsoft Corp. (In re Microsoft Corp. Antitrust Litig.)*, 355 F.3d 322, 326-27 (4th Cir. 2004). *See Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 326 n.4 (1979) (“[O]ffensive use of collateral estoppel occurs when the plaintiff seeks to foreclose the defendant from litigating an issue the defendant has previously litigated unsuccessfully in an action with another party.”). Such caution “counsels that the criteria for foreclosing a defendant from relitigating an issue or fact be applied strictly.” *Kloth*, 355 F.3d at 327.

### III.

The Complaint in this case alleges that certain agreements between Respondent and its competitors restricting those competitors’ use of Respondent’s trademark for keyword search advertising are anticompetitive (the “Challenged Agreements”).<sup>1</sup> According to Complaint Counsel, Respondent will defend the Challenged Agreements on the ground that the appearance of rivals’ advertisements in response to internet searches for Respondent’s trademark “1-800 Contacts,” or specified variations thereof, is inherently likely to confuse consumers and, therefore, the agreements serve a procompetitive purpose by eliminating such conduct.

Complaint Counsel contends that Respondent should be barred from litigating the issue of consumer confusion as a justification for the Challenged Agreements. Complaint Counsel argues that (1) *Lens.com* found that “Lens.com’s Keyword Use [that is, Lens.com’s bidding in search advertising auctions on terms similar to Respondent’s trademark “1800CONTACTS”], which resulted in the display of [Lens.com] advertisements that did not include Respondent’s trademark (or variations), on search-results pages in response to user queries for Respondent’s trademark and variations thereof, was not likely to cause consumer confusion,” (“Issue 1”), Motion at 6; and (2) “subsumed” in *Lens.com* is an additional, “corollary finding” that “[s]earch advertising by a contact lens retailer other than Respondent in response to a user search for Respondent’s mark is not always or inherently likely to cause consumer confusion,” (“Issue 2”). Motion at 7. In its Reply, Complaint Counsel appears to have narrowed Issue 1, stating that it seeks preclusion only in connection with the finding in *Lens.com* that “based on the ads at issue

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<sup>1</sup> Complaint Counsel refers to the alleged anticompetitive agreements challenged in the Complaint as “bidding agreements,” while Respondent refers to them as “settlement agreements.”

before the [*Lens.com*] Court, at that time and in that context, . . . *Lens.com*'s ads were not confusing." Reply at 2.

Respondent argues that it should not be precluded from litigating the issue of consumer confusion in defense of the Challenged Agreements. Respondent contends that, on this issue, *Lens.com* determined only that the evidence presented in that case failed to support a finding that particular advertisements of *Lens.com* between 2005 and 2007, which were returned in response to a search for Respondent's mark or certain variations thereof, were likely to cause "initial-interest confusion" in violation of the Lanham Act. Respondent argues that because the findings in *Lens.com* were fact-specific to the advertisements challenged in that case, it would be improper to extend such findings to bar Respondent from defending the validity of the Challenged Agreements, which involve different advertisements of different competitors during a different time period. In its Opposition to Complaint Counsel's Motion for Leave to File a Reply, Respondent further contends that Complaint Counsel's modification of Issue 1, set forth in Complaint Counsel's Reply, is in agreement with Respondent's position that *Lens.com*'s findings on consumer confusion were based on the specific time and the context of the advertisements at issue in that case, and therefore should not be given preclusive effect in this proceeding.

In 2008, 1-800 sued *Lens.com* and its affiliates alleging violation of the Lanham Act, 15 U.S.C. §§ 1114, 1125. Motion Tab 4; *Lens.com*, 755 F. Supp. 2d at 1169. The elements of an infringement claim under the Lanham Act are "(1) that the plaintiff has a protectable interest in the mark, (2) that the defendant has used an identical or similar mark in commerce, and (3) that the defendant's use is likely to confuse consumers." *Lens.com*, 722 F.3d at 1242.

Ruling on the parties' cross-motions for summary judgment, the district court held, as a matter of law, that "a defendant's purchase of a search-engine keyword cannot, by itself, create the likelihood of confusion that is necessary for infringement liability; rather, . . . keyword use can generate a likelihood of confusion only in combination with the specific language" of the resulting advertisements. *Lens.com*, 722 F.3d at 1241. To determine whether there was a genuine dispute of fact as to the likelihood consumer confusion from *Lens.com*'s use of 1-800's mark, the district court, following Tenth Circuit precedent, considered the evidence presented on six factors, including: "(1) the degree of similarity between the marks; (2) the intent of the alleged infringer in adopting its mark; (3) evidence of actual confusion; (4) similarity of products and manner of marketing; (5) the degree of care likely to be exercised by purchasers; and (6) the strength or weakness of the marks." 755 F. Supp. 2d at 1174-81. The district court found that "for *Lens.com* advertisements that do not use Plaintiff's mark, there is (1) overwhelming dissimilarity between Plaintiff's mark and the advertisements; (2) a neutral intent; (3) no evidence of actual confusion; (4) similarity in the products and some similarity in the manner of marketing; (5) a low degree of care exercised by consumers when purchasing contacts; and (6) little likelihood of confusion due to an inverse relationship between the strength of Plaintiff's mark and the lack of encroachment by Defendant's advertisements." *Id.* at 1181. Weighing the foregoing factors, the court concluded that "[t]aken together, these factors show there is insufficient evidence for a jury to conclude that Defendant infringed on Plaintiff's mark for all advertisements that did not use Plaintiff's mark in them." *Id.* at 1181-82. Accordingly, the district court granted summary judgment in *Lens.com*'s favor on that issue. *Id.*

On cross-appeals to the Tenth Circuit, the court, *inter alia*, affirmed the district court's entry of summary judgment on the issue of the likelihood of consumer confusion arising from the use of 1-800's mark as a keyword for internet search advertising. 722 F.3d at 1234. The court noted that the type of confusion alleged by 1-800 was "initial-interest confusion," which "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." *Id.* at 1239. 1-800 contended that "although Lens.com never published any ads with 1-800's mark in their text, its bidding on the nine [keywords challenged in the case] caused its ads to appear in response to searches for the mark, thereby diverting customer interest away from 1-800's website and toward Lens.com's websites." *Id.* at 1242. Market data showed, however, that, of the total instances in which a keyword search for 1-800's mark or variations thereof returned Lens.com advertisements, a consumer "click[ed] on" the Lens.com advertisement only 1.5% of the time. The court held that this number could not "support an inference that Lens.com's keyword activity was *likely* to 'lure[]' consumers away from 1-800." *Id.* at 1244. The court further held that analysis of traditional factors, as performed by the district court, further supported the unlikelihood of consumer confusion. *Id.* at 1245. The court rejected 1-800's proffered evidence of actual consumer confusion as speculative and/or *de minimis*. *Id.*

#### IV.

Based on the foregoing, Complaint Counsel has failed to demonstrate that the findings in *Lens.com* should be given preclusive effect as requested in the Motion (Issue 1) or that issue preclusion should be extended to what Complaint Counsel characterizes as "corollary" findings (Issue 2). As explained above, *Lens.com* decided that Lens.com's use of Respondent's mark or variations thereof to generate advertisements that did not include Respondent's mark was not likely to create initial-interest confusion, and therefore did not violate the Lanham Act. Complaint Counsel fails to persuasively explain why this determination, based on the application of multiple factors to the specific evidence in that case, is identical to any issue in the instant case. While Respondent would logically be estopped from arguing in the instant case that Lens.com's keyword use was, in fact, likely to cause consumer confusion, giving preclusive effect to the findings of *Lens.com* as requested by Complaint Counsel would effectively bar Respondent from proving that other competitors' use could have caused, or was likely to cause, such confusion. Furthermore, because Complaint Counsel seeks to use issue preclusion offensively, to bar Respondent from proving a defense to this action, the factors allowing issue preclusion must be applied strictly to prevent unfairness. *See Kloth*, 355 F.3d at 327. On the present record, it would be unfair to allow the findings in *Lens.com* to preclude Respondent from presenting evidence and argument that the Challenged Agreements were justified.<sup>2</sup>

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<sup>2</sup> The record on the Motion shows that on February 4, 2017, after Complaint Counsel filed the Motion, but before Respondent's response was due to be filed, Respondent proposed to resolve the Motion by agreeing to stipulate that: "Based on how search engines displayed organic search results and paid search advertising in 2005 through 2007, and on the totality of evidence before the court in the *Lens.com* case, the incidence of potential confusion (1.5%) from Lens.com advertisements in those years did not support a finding that confusion was likely where the advertisements were substantially dissimilar, were clearly labeled as advertisements, clearly identified their source, and did not include Respondent's trademark or variations thereof in their text." Opposition, Ex. 1. Complaint Counsel rejected the offer as "not accurately reflect[ing] the scope of the estoppel effect that Lens.com has in this case." *Id.* Nothing in this Order is intended to bar the Parties from stipulating to the facts or findings of *Lens.com*.

V.

For all the foregoing reasons, Complaint Counsel's Motion is DENIED.

ORDERED:

Dm Chappell  
D. Michael Chappell  
Chief Administrative Law Judge

Date: February 21, 2017

Notice of Electronic Service

**I hereby certify that on February 21, 2017, I filed an electronic copy of the foregoing Order Denying Complaint Counsel's Motion to Bar Testimony and Argument, with:**

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**I hereby certify that on February 21, 2017, I served via E-Service an electronic copy of the foregoing Order Denying Complaint Counsel's Motion to Bar Testimony and Argument, upon:**

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