

UNITED STATES OF AMERICA  
BEFORE THE FEDERAL TRADE COMMISSION



COMMISSIONERS: Edith Ramirez, Chairwoman  
Maureen K. Ohlhausen  
Terrell McSweeney

In the Matter of

1-800 CONTACTS, INC.,  
a corporation

Docket No. 9372

**RESPONDENT 1-800 CONTACTS, INC.'S RESPONSES TO COMPLAINT COUNSEL'S  
SEPARATE STATEMENT OF UNDISPUTED FACTS IN SUPPORT OF THEIR  
MOTION FOR PARTIAL SUMMARY DECISION; RESPONDENT'S SEPARATE AND  
CONCISE STATEMENT OF MATERIAL FACTS THAT PRESENT GENUINE ISSUES  
FOR TRIAL**

Pursuant to Rule 3.24, Respondent 1-800 Contacts, Inc. ("1-800 Contacts") submits, in support of its opposition to Complaint Counsel's motion for partial summary decision, the following responses to Complaint Counsel's statement of undisputed material facts (Part I) and, in Part II of these submissions, its own separate and concise statement of material facts that present genuine issues for trial.

**Part I: Respondent's Responses To Complaint Counsel's Separate Statement Of Undisputed Facts<sup>1</sup>**

1. 1-800 Contacts, Inc. ("1-800 Contacts") is a retailer of contact lenses and sells contact lenses primarily over the internet. Matheson Decl. Tab 2, Answer ¶ 14.<sup>2</sup>

<sup>1</sup> The numbered paragraphs through this section repeat Complaint Counsel's Statement of Undisputed Facts followed by 1-800 Contacts' response to each one. The headings from Complaint Counsel's Statement of Undisputed Facts have been omitted because those do not constitute proposed statements of undisputed facts and accordingly do not require any response.

<sup>2</sup> "Matheson Decl." refers to the Declaration of Daniel Matheson, to which all exhibits and pleadings referred to herein are attached.

**Response by 1-800 Contacts:** The statement in paragraph 1 is undisputed.

2. 1-800 Contacts has more U.S. online sales of contact lenses than any other retailer. Matheson Decl. Tab 2, Answer ¶ 1.

**Response by 1-800 Contacts:** The statement in paragraph 2 is undisputed.

3. 1-800 Contacts sent cease-and-desist letters to online contact lens retailers whose advertisements appeared in response to a search engine query for “1-800 Contacts” (or variations thereof). Matheson Decl. Tab 2, Answer ¶ 17.

**Response by 1-800 Contacts:** The statement in paragraph 3 is undisputed. A few examples of the cease-and-desist letters referenced in paragraph 3 are attached as Exhibits P-W of the accompanying declaration by Steven M. Perry (“Perry Declaration”).

4. Those cease-and-desist letters stated that the conduct of the recipient may constitute trademark infringement. Matheson Decl. Tab 2, Answer ¶ 17.

**Response by 1-800 Contacts:** The statement in paragraph 4 is disputed because it is incomplete and misleading. The cease-and-desist letters referenced in paragraph 3 stated the conduct of the recipient may constitute trademark infringement (and in some cases noting trademark infringement under both “state and federal law”), and in certain cases those cease-and-desist letters also stated that the conduct of the receipt “may constitute unfair competition and false advertising under state law and similarly may violate Section 43(a) of the Trademark Act” and “may also violate the Federal Dilution Act of 1995.” {

}<sup>3</sup>

5. 1-800 Contacts filed complaints in federal court against certain of those online contact lens retailers for trademark infringement. Matheson Decl. Tab 2, Answer ¶ 18.

**Response by 1-800 Contacts:** The statement in paragraph 5 is disputed because it is incomplete. The complaints filed by 1-800 Contacts in federal court referenced in paragraph 5 asserted numerous different claims, including but not limited to claims for trademark infringement. The referenced complaints are attached to the Perry Declaration. Perry Decl., exs. A-O (complaints filed by 1-800 Contacts).

6. 1-800 Contacts entered into agreements resolving trademark disputes with thirteen online contact lens retailers. Matheson Decl. Tab 2, Answer ¶ 20.

**Response by 1-800 Contacts:** The statement in paragraph 6 is undisputed, although Respondents notes that some or all of the settlement agreements in question also resolved disputes regarding other claims, such as false advertising and unfair competition. Perry Decl., exs. A, C - O.

7. 1-800 Contacts entered into an agreement with {

} **Matheson Decl. Tab 3, {** }

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statement in paragraph 7 as incomplete and misleading. 1-800 Contacts entered into a "Settlement Agreement" with {

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<sup>3</sup> Because Complaint Counsel have taken the position that the identity of any party that settled a trademark infringement suit brought by Respondent is confidential, Respondent has, without conceding the point, redacted references to those parties.

} Matheson Decl. Tab 3.

8. 1-800 Contacts entered into an agreement with {

} **Matheson Decl. Tab 4, {**

} 1-800 Contacts later entered into another agreement with {

} which provided that the earlier agreement would remain in full force.

**Matheson Decl. Tab 5, {**

**}. The later**

agreement was incorporated in a consent decree entered by a court. Matheson Decl. Tab 6,

CX0316 (Order of Permanent Injunction). **“Prohibited Acts shall not include (i) use of the**

**other Party’s Trademarks on the Internet in a manner that would not constitute an**

**infringing use in an non-Internet context, e.g., the use on the Internet of comparative**

**advertising, parodies, and similar non-infringing, uses; and (ii) the purchase by either**

**Party of the key words that are generic words such as “contacts,” “contact lens,” and**

**“lens” (and both Parties acknowledge that any advertisements triggered by such key words**

**are not prohibited under this agreement.).**Response by 1-800 Contacts: 1-800 Contacts

disputes the statements in paragraph 8 as incomplete and misleading, and disputes the

characterization of the agreements as unsupported and inaccurate. 1-800 Contacts entered into a

“Settlement Agreement” with {

} Matheson Decl. Tab 4. 1-800

Contacts subsequently filed a complaint in United States District Court against {



} Matheson Decl. Tab

5, {

} Matheson Decl. Tab 6.

9. 1-800 Contacts entered into an agreement with {

} Matheson Decl. Tab 7, {

}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 9 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 7.

10. 1-800 Contacts entered into an agreement with {

} Matheson Decl. Tab 8, {

}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 10 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 8.

11. 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 9, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 11 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 9; Perry Decl., Ex.  
H (Complaint filed against {  
}).

12. 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 10, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 12 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 10.

13. 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 11, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 13 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 11.

- 14.** 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 12, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 14 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 12.

- 15.** 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 13, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 15 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 13.

- 16.** 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 14, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 16 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 14.

17. 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 15, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 17 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 15.

18. 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 16, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 18 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 16.

19. 1-800 Contacts entered into an agreement with {  
}. Matheson Decl. Tab 17, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 19 as incomplete and misleading. 1-800 Contacts entered into a “Settlement Agreement” with {

} Matheson Decl. Tab 17.

**20.** 1-800 Contacts also entered into a sourcing and services agreement with a contact lens retailer. Matheson Decl. Tab 2, Answer 1 20; Tab 18, {

} 1-800 Contacts has never sued {

} for infringement of 1-800 Contacts' trademark rights. 1-800 Contacts did not enter into the sourcing and services agreement to settle litigation. Matheson Decl. Tab 2, Answer 1 20.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 20 as incomplete and misleading. 1-800 Contacts entered into a {

} 1-800 Contacts does not dispute that it has never filed litigation against {

} for infringement of 1-800 Contacts' trademark rights. 1-800 Contacts disputes the statement in the final sentence of paragraph 20 to the extent that statement suggests that provisions of the { } were not intended, in whole or in part, to prevent or limit the possibility of litigation regarding the parties' respective trademark rights.

21. In total, 1-800 Contacts has entered into at least fourteen agreements with rival contact lens retailers (“Bidding Agreements”).

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 21 as incomplete and misleading, and disputes the characterization of the Settlement Agreements as “Bidding Agreements” as unsupported and inaccurate. As detailed herein, 1-800 Contacts has entered into “Settlement Agreements” to resolve *bona fide* litigation in federal court with thirteen other contact lens retailers. 1-800 Contacts entered into a {  
} with one other retailer of contact lenses.

22. An internet search engine is a website that uses software to locate information on other internet websites based on a search engine user’s “query,” which is a word or phrase entered by user. Search engines such as Google and Bing are available to the general public, and do not charge end users for entering queries. Matheson Decl. Tab 1, Compl. ¶ 7; Tab 2, Answer ¶ 7.

**Response by 1-800 Contacts:** Complaint Counsel cite no evidence or other factual basis provided for the statement in the first sentence of paragraph 22. Nevertheless, for purposes of the present motion only, 1-800 Contacts does not dispute the first sentence of paragraph 22. The statement in the second sentence of paragraph 22 is undisputed.

23. A search engine results page is the list of results produced by an internet search engine. A search engine results page includes “organic” or “natural” search results that are identified by the search engine’s software as relevant to the user’s query. A search engine results page may also include advertisements.

**Response by 1-800 Contacts:** Complaint Counsel cite no evidence or other factual basis for the statements contained in paragraph 23. Nevertheless, for purposes of the present motion only, 1-800 Contacts does not dispute the statements in paragraph 23.

**24.** Search engines use an auction process to sell advertising space on the search engine results page. Matheson Decl. Tab 1, Compl. ¶ 10; Tab 2, Answer ¶ 10. Advertisers seeking to place advertisements on a search engine results page submit bids to the search engine. A bid denotes the maximum amount the advertiser is willing to pay to the search engine each time a user clicks on a displayed advertisement.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 24. The only support provided for those statements is a citation to paragraph 10 of the Complaint and the corresponding Answer by 1-800 Contacts. 1-800 Contacts did not in its Answer admit the statements in paragraph 24. 1-800 Contacts admitted only “that the process by which some search engine companies currently sell certain types of advertising on their search engine results page includes variants of certain auction elements.” Matheson Decl. Tab 2, Answer ¶ 10. Complaint Counsel have not cited any other evidence to support the statements in paragraph 24.

Moreover, as the Federal Trade Commission, Division of Advertising Practices, Bureau of Competition has recognized, “the ways in which search engines retrieve and present results, and the devices on which consumers view these results, *are constantly evolving* . . . . Online search is far from static, and continues to evolve.” Letter by Mary K. Engle, Associate Director (dated June 24, 2013), attached as exhibit GG to the Perry Declaration (emphasis added). The methods and means by which search engines sell advertising space on search engine results (and how those methods and means have changed over the relevant time period) are topics of

outstanding discovery requests by both Complaint Counsel and 1-800 Contacts to various search engines. Perry Decl., ¶ 36. Those topics thus remain disputed issues of fact.

**25.** Advertisers choose the auctions they enter by placing bids on particular terms, called “keywords.” A keyword instructs the search engine to display an advertisement if the user enters that keyword as a search engine query and certain other conditions are met. Alternatively, the advertiser may allow the search engine to choose the auctions the advertiser enters by instructing the search engine to match its bids to queries that the search engine deems relevant to the advertiser.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 25. Complaint Counsel provided no citations or other factual support for those statements. Moreover, as the Federal Trade Commission, Division of Advertising Practices, Bureau of Competition has recognized, “the ways in which search engines retrieve and present results, and the devices on which consumers view these results, are constantly evolving . . . . Online search is far from static, and continues to evolve.” Letter by Mary K. Engle, Associate Director (dated June 24, 2013), attached as exhibit GG to the Perry Declaration. The methods and means by which search engines sell advertising space on search engine results, as well as the process and options available to advertisers from search engines, and how all of those have changed over the relevant time period are topics of outstanding discovery requests by both Complaint Counsel and 1-800 Contacts to various search engines. Perry Decl., ¶ 36. Those topics thus remain disputed issues of fact.

**26.** Advertisers may also ensure that their ads are not displayed in response to certain searches by submitting “negative keywords” to the search engine. A “negative keyword” instructs a search engine not to display an advertisement in response to a search query that



contains that particular term or terms. Matheson Decl. Tab 1, Compl. ¶ 13; Tab 2, Answer ¶¶ 13, 24.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 26. The only support provided for those statements is a citation to paragraph 13 of the Complaint and the corresponding Answer by 1-800 Contacts. 1-800 Contacts did not in its Answer admit the statements made in paragraph 26. 1-800 Contacts admitted “that some search engines allow an advertiser to specify ‘negative keywords.’ 1-800 Contacts avers that the advertiser often has options for the effect to be given to negative keywords, and that those options are not explained or even mentioned in paragraph 13 [of the Complaint]. The remaining allegations in paragraph 13 [of the Complaint] are too broad and generalized for 1-800 Contacts to admit, and 1-800 Contacts therefore denies them.” Matheson Decl. Tab 2, Answer ¶ 13. Moreover, as the Federal Trade Commission, Division of Advertising Practices, Bureau of Competition has recognized, “the ways in which search engines retrieve and present results, and the devices on which consumers view these results, are constantly evolving . . . . Online search is far from static, and continues to evolve.” Letter by Mary K. Engle, Associate Director (dated June 24, 2013), attached as exhibit GG to the Perry Declaration. The process and options available to advertisers from search engines (and how those have changed over the relevant time period) are topics of outstanding discovery requests by both Complaint Counsel and 1-800 Contacts to various search engines. Perry Decl., ¶ 36. Those topics thus remain disputed issues of fact.

27. When a user enters a query, the search engine evaluates relevant bids. Whether an advertisement is displayed depends upon the amount of the bid, the quality of the advertisement as determined by the search engine, and negative keywords, if any. Quality refers to the search engine’s assessment of whether the advertisement will be relevant and useful to the user.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 27.

Complaint Counsel provided no citations or other factual support for those statements.

Moreover, as the Federal Trade Commission, Division of Advertising Practices, Bureau of Competition has recognized, “the ways in which search engines retrieve and present results, and the devices on which consumers view these results, are constantly evolving . . . . Online search is far from static, and continues to evolve.” Letter by Mary K. Engle, Associate Director (dated June 24, 2013), attached as exhibit GG to the Perry Declaration. The methods and means by which search engines sell and display advertising on search engine results, as well as the process and options available to advertisers from search engines, and how all of those have changed over the relevant time period are topics of outstanding discovery requests by both Complaint Counsel and 1-800 Contacts to various search engines. Perry Decl., ¶ 36. Those topics thus remain disputed issues of fact.

**28.** While the Bidding Agreements were phrased in various ways, each required a rival of 1-800 Contacts to refrain from bidding on 1-800 Contacts’ specified trademark terms as keywords.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 28.

Complaint Counsel do not cite to any evidence or other factual support for those statements.

Notably, Complaint Counsel do not cite in support of the statements in paragraph 28 (or the statements in any other paragraph) any instance in which any of the agreements at issue refers to “bidding on 1-800 Contact’s specified trademark terms as keywords.” Those Agreements prohibited the parties from particular, specific, and narrow *uses* of each other’s trademarks (brand names and URLs), such as:

- {

} Matheson Decl. Tab 3, {  
}

• {

} Matheson Decl. Tab 9, {  
}

• {

} Matheson Decl. Tab 14, {  
}.

Furthermore, the Settlement Agreements contain important exceptions, including a broad exception for “comparative advertising,” that Complaint Counsel ignore in paragraph 28. For example:

• {

}

• {

Tab 7, {  
};  
} Matheson Decl.

To the extent the Settlement Agreements and the one Contact Lens Sourcing and Services Agreement prohibited the parties from using each other’s trademarks as Internet search keywords

to trigger their own Internet paid search advertisements, that is a simple and commonplace prohibition on a “use” of the trademark that the courts specifically and repeatedly have held is within the scope of the Lanham Act. *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 130 (2d Cir. 2009) (holding a search engine’s sale of a trademark as a keyword to trigger Internet search advertisements must be covered by the Lanham Act otherwise “operators of search engines would be free to use [others’] trademarks in ways designed to deceive and cause consumer confusion,” which “is surely neither within the intention nor the letter of the Lanham Act”); *Network Automation, Inc. v. Advanced Sys. Concepts, Inc.*, 638 F.3d 1137, 1145 (9th Cir. 2011). Thus, such a use is prohibited by federal trademark law if, for example, it is “likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, . . . or as to the origin, sponsorship, or approval of . . . goods [or] services.” *See Rescuecom*, 562 F.3d at 130.<sup>4</sup>

29. Four of the Bidding Agreements prohibit a rival of 1-800 Contacts from causing its website or advertisements to appear in response to any internet search for 1-800 Contacts’ brand name, trademarks, or URLs and from causing its brand name, internet link or websites to appear as a listing in a search engine results page when a user specifically searches for 1-800 Contacts’ brand name, trademarks or URLs. These agreements were reached between 1-800 Contacts and { }. Matheson Decl. Tab 3, {

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<sup>4</sup> Complaint Counsel’s motion and Separate Statement do not challenge the legal proposition that a purchase or sale of a company’s trademark is a “use” of that trademark under U.S. law, nor do Complaint Counsel contend in connection with this motion that it is undisputed that the underlying conduct was not likely to cause confusion or mistake or to deceive consumers. Respondent therefore bears no burden to come forward with evidence on these issues at this time. Out of an abundance of caution, Respondent has filed the March 17, 2016 report by Daniel L. Rubinfeld entitled “An Analysis of the Competitive Effects of the Settlements at Issue,” Perry Decl., ex. DD, which in part addresses the latter issues.

}; Tab 4, {  
 }; Tab 7, {  
 }; Tab 8, { }.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 29.

In fact, the Settlement Agreements in question prohibited the parties from particular, specific, and narrow *uses* of each other's trademarks (brand names and URLs), such as:

- {  
 } Matheson Decl. Tab 3, {  
 }
- {  
 } Matheson Decl. Tab 4, {  
 }
- {  
 } Matheson Decl. Tab 7, {  
 };
- {  
 } Matheson Decl. Tab 8, {  
 }.

Furthermore, the Settlement Agreements contain important exceptions, including a broad exception for “comparative advertising,” that Complaint Counsel ignore in paragraph 29. For example:

- {

Matheson Decl. Tab 4, {  
}

• {

Tab 7, {  
};

• {

} Matheson Decl.

} {

}.  
}

To the extent the Settlement Agreements at issue prohibited the parties from using each other's trademarks as Internet search keywords to trigger their own Internet paid search advertisements, that is a simple and commonplace prohibition on a "use" of the trademark that the courts specifically and repeatedly have held is within the scope of the Lanham Act. *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 130 (2d Cir. 2009) (holding a search engine's sale of a trademark as a keyword to trigger Internet search advertisements must be covered by the Lanham Act otherwise "operators of search engines would be free to use [others'] trademarks in ways designed to deceive and cause consumer confusion," which "is surely neither within the

intention nor the letter of the Lanham Act”); *Network Automation, Inc. v. Advanced Sys. Concepts, Inc.*, 638 F.3d 1137, 1145 (9th Cir. 2011). Thus, such a use is prohibited by federal trademark law if, for example, it is “likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, . . . or as to the origin, sponsorship, or approval of . . . goods [or] services.” *See Rescuecom*, 562 F.3d at 130.

30. Seven of the agreements prohibit a rival of 1-800 Contacts from engaging in internet advertising or any other action that causes any website, advertisement, or a link to any website to be displayed in response to any search that includes 1-800 Contacts’ trademarks, variations on 1-800 Contacts’ trademarks, or 1-800 Contacts’ URLs, as listed in an exhibit to the agreement. These agreements were reached between 1-800 Contacts and {

}. Matheson Decl. Tab 9, {

}; Tab 10, {

}; Tab 11, {

}; Tab 12, {

; Tab 13, {

};

Tab 15, {

}; Tab 16, {

}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 30. In fact, the Settlement Agreements at issue prohibited the parties from particular, specific, and

narrow *uses* of each other's trademarks (brand names and URLs), such as: {

} Matheson Decl. Tab 9, { }

*See also* Matheson Decl. Tab 10, {

}; Tab 11, {

}; Tab 12, {

}; Tab 13, {

}; Tab 15, {

}; Tab 16, {

}.

Furthermore, the Settlement Agreements at issue contain important exceptions, including a broad exception for “comparative advertising,” that Complaint Counsel ignore in paragraph 30. For example: {

} Matheson Decl. Tab 9, {

}. *See also* Tab 10, {

}; Tab 11, {



}; Tab 12, {  
}; Tab 13, {  
}; Tab 15, {  
}; Tab 16, {  
}.

To the extent the Settlement Agreements at issue prohibited the parties from using each other's trademarks as Internet search keywords to trigger their own Internet paid search advertisements, that is a simple and commonplace prohibition on a "use" of the trademark that the courts specifically and repeatedly have held is within the scope of the Lanham Act. *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 130 (2d Cir. 2009) (holding a search engine's sale of a trademark as a keyword to trigger Internet search advertisements must be covered by the Lanham Act otherwise "operators of search engines would be free to use [others'] trademarks in ways designed to deceive and cause consumer confusion," which "is surely neither within the intention nor the letter of the Lanham Act"); *Network Automation, Inc. v. Advanced Sys. Concepts, Inc.*, 638 F.3d 1137, 1145 (9th Cir. 2011). Thus, such a use is prohibited by federal trademark law if, for example, it is "likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, . . . or as to the origin, sponsorship, or approval of . . . goods [or] services." *See Rescuecom*, 562 F.3d at 130.

**31.** Two of the Bidding Agreements prohibit a rival of 1-800 Contacts from purchasing or using any of 1-800 Contacts' trademarks, variations on 1-800 Contacts' trademarks, or 1-800 Contacts' URLs, as listed in an exhibit to the agreement, as triggering keywords in any internet search advertising campaign. Matheson Decl. Tab 14, {

}; Tab 17, {

};

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 31. In fact, the Settlement Agreements at issue prohibited the parties from particular, specific, and narrow *uses* of each other's trademarks (brand names and URLs), such as: {

} Matheson Decl. Tab 14, {

} *See also* Tab 17, {

};

To the extent the Settlement Agreements at issue prohibited the parties from using each other's trademarks as Internet search keywords to trigger their own Internet paid search advertisements, that is a simple and commonplace prohibition on a "use" of the trademark that the courts specifically and repeatedly have held is within the scope of the Lanham Act. *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 130 (2d Cir. 2009) (holding a search engine's sale of a trademark as a keyword to trigger Internet search advertisements must be covered by the Lanham Act otherwise "operators of search engines would be free to use [others'] trademarks in ways designed to deceive and cause consumer confusion," which "is surely neither within the intention nor the letter of the Lanham Act"); *Network Automation, Inc. v. Advanced Sys. Concepts, Inc.*, 638 F.3d 1137, 1145 (9th Cir. 2011). Thus, such a use is prohibited by federal trademark law if, for example, it is "likely to cause confusion, or to cause mistake, or to deceive

as to the affiliation, ..., or as to the origin, sponsorship, or approval of ... goods [or] services.”

*See Rescuecom*, 562 F.3d at 130.

32. One of the Bidding Agreements prohibits a rival of 1-800 Contacts from purchasing or using any of 1-800 Contacts’ trademarks, variations on 1-800 Contacts’ trademarks, or 1-800 Contacts’ URLs, as listed in a schedule to the agreement, as triggering keywords in any internet search advertising campaign. Matheson Decl. Tab 18, {

}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 32:

In fact, the agreement is a broad { } with the express stated purpose of creating a collaborative arrangement by which { }

Matheson Decl. Tab 18 {

}. Paragraph 32 also fails to mention that given the integrated and collaborative partnership established by the agreement, there are numerous provisions addressing the ability of each party to use certain intellectual property (including trademarks) of the other party, including express licenses to each party to use the other’s trademarks in specified ways and express restrictions on the use of the other party’s intellectual property. *See id.* { }.

The agreement at issue {

} *Id.* { }

To the extent the agreement at issue prohibits the parties from using each other's trademarks as Internet search keywords to trigger their own Internet paid search advertisements, that is a simple and commonplace prohibition on a "use" of the trademark that the courts specifically and repeatedly have held is within the scope of the Lanham Act. *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 130 (2d Cir. 2009) (holding a search engine's sale of a trademark as a keyword to trigger Internet search advertisements must be covered by the Lanham Act otherwise "operators of search engines would be free to use [others'] trademarks in ways designed to deceive and cause consumer confusion," which "is surely neither within the intention nor the letter of the Lanham Act"); *Network Automation, Inc. v. Advanced Sys. Concepts, Inc.*, 638 F.3d 1137, 1145 (9th Cir. 2011). Thus, such a use is prohibited by federal trademark law if, for example, it is "likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, . . . or as to the origin, sponsorship, or approval of . . . goods [or] services." See *Rescuecom*, 562 F.3d at 130.

33. Thirteen of the Bidding Agreements explicitly require a rival of 1-800 Contacts implement negative keywords.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statement contained in paragraph 33 in part because the Settlement Agreements cannot reasonably be referred to as "Bidding Agreements" given their terms, and because the statement is incomplete. The evidence at trial will show that the Settlement Agreements contain the referenced provisions in large part because Google had advised 1-800 Contacts (and, presumably, other trademark holders) that

negative keywords could be employed as “negating tools” in order to “control third parties bidding on – specifically on trademarked terms.” Perry Decl., ex. DD (11/15/2016 Dep. Tr. of Josh Aston (former employee of Respondent responsible for paid search advertising in 2004) at 78:23-79:2) (morning session). *See also id.*, ex. EE (11/15/2016 Dep. Tr. of Josh Aston at 35:3-44:7) (afternoon session) (testifying that Google employees had proposed or instructed that 1-800 Contacts (and Mr. Aston’s subsequent employer) inform other companies to “add those specific trademarked terms into their negatives for their Ad Word Campaigns”). *See also id.*, ex. FF (explanation of the utility of negative keywords, provided by Google, available at <https://support.google.com/adwords/answer/105671?hl=en>).

34. Seven Bidding Agreements explicitly require a rival of 1-800 Contacts to implement negative keywords in order to prevent any advertisement or a link to its website from appearing as a listing in the search results page of an internet search engine, when a user enters a search that includes 1-800 Contacts’ trademarks, variations on 1-800 Contacts’ trademarks, or 1-800 Contacts’ URLs, as listed in an exhibit to the agreement. These Bidding Agreements were reached between 1-800 Contacts and {

}. Matheson Decl. Tab

9, {

}; Tab 10, {

}; Tab 11, {  
}; Tab 12, {  
}; Tab 13, {  
}; Tab 15, {  
}; Tab 16, {  
}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 34 in part because the Settlement Agreements cannot reasonably be referred to as “Bidding Agreements” given their terms, and because the statement is incomplete. The evidence at trial will show that the Settlement Agreements contain the referenced provisions in large part because Google had advised 1-800 Contacts (and, presumably, other trademark holders) that negative keywords could be employed as “negating tools” in order to “control third parties bidding on – specifically on trademarked terms.” Perry Decl., ex. DD (11/15/2016 Dep. Tr. of Josh Aston (former employee of Respondent responsible for paid search advertising in 2004) at 78:23-79:2) (morning session). *See also id.*, ex. EE (11/15/2016 Dep. Tr. of Josh Aston at 35:3-44:7) (afternoon session) (testifying that Google employees had proposed or instructed that 1-800 Contacts (and Mr. Aston’s subsequent employer) inform other companies to “add those specific trademarked terms into their negatives for their Ad Word Campaigns”). *See also id.*, ex. FF (explanation of the utility of negative keywords, provided by Google, available at <https://support.google.com/adwords/answer/105671?hl=en>).

35. Two Bidding Agreements require a rival of 1-800 Contacts to implement negative keywords listed in an exhibit to the agreement whenever they purchased any keywords through any search engine provider, in order to prevent the generation of advertisements and internet

links triggered by those keywords. The list includes 1-800 Contacts' trademarks, variations on 1-800 Contacts' trademarks, and 1-800 Contacts' URLs. These Bidding Agreements were reached between 1-800 Contacts and { }. Matheson Decl. Tab 7, {

}; Tab 8, { }.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 35 in part because the Settlement Agreements cannot reasonably be referred to as "Bidding Agreements" given their terms, and because the statement is incomplete. The evidence at trial will show that the Settlement Agreements contain the referenced provisions in large part because Google had advised 1-800 Contacts (and, presumably, other trademark holders) that negative keywords could be employed as "negating tools" in order to "control third parties bidding on – specifically on trademarked terms." Perry Decl., ex. DD (11/15/2016 Dep. Tr. of Josh Aston (former employee of Respondent responsible for paid search advertising in 2004) at 78:23-79:2) (morning session). *See also id.*, ex. EE (11/15/2016 Dep. Tr. of Josh Aston at 35:3-44:7) (afternoon session) (testifying that Google employees had proposed or instructed that 1-800 Contacts (and Mr. Aston's subsequent employer) inform other companies to "add those specific trademarked terms into their negatives for their Ad Word Campaigns"). *See also id.*, ex. FF (explanation of the utility of negative keywords, provided by Google, available at <https://support.google.com/adwords/answer/105671?hl=en>.

36. Two Bidding Agreements require a rival of 1-800 Contacts to implement terms listed in an exhibit to the agreement as negative keywords in all search engine advertising campaigns. The list includes 1-800 Contacts' trademarks, variations on 1-800 Contacts' trademarks, and 1-800 Contacts' URLs. These Bidding Agreements were reached between 1-800 Contacts and { }.

**Matheson** Decl. Tab 14, {

}; Tab 17, {

}.

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 36 in part because the Settlement Agreements cannot reasonably be referred to as "Bidding Agreements" given their terms, and because the statement is incomplete. The evidence at trial will show that the Settlement Agreements contain the referenced provisions in large part because Google had advised 1-800 Contacts (and, presumably, other trademark holders) that negative keywords could be employed as "negating tools" in order to "control third parties bidding on—specifically on trademarked terms." Perry Decl., ex. DD (11/15/2016 Dep. Tr. of Josh Aston (former employee of Respondent responsible for paid search advertising in 2004) at 78:23-79:2) (morning session). *See also id.*, ex. EE (11/15/2016 Dep. Tr. of Josh Aston at 35:3-44:7) (afternoon session) (testifying that Google employees had proposed or instructed that 1-800 Contacts (and Mr. Aston's subsequent employer) inform other companies to "add those specific trademarked terms into their negatives for their Ad Word Campaigns"). *See also id.*, ex. FF (explanation of the utility of negative keywords, provided by Google, available at <https://support.google.com/adwords/answer/105671?hl=en>.



37. One Bidding Agreement required a rival of 1-800 Contacts to agree to entry of a stipulated permanent injunction. Matheson Decl. Tab 5, {  
}. The injunction requires the rival, for the purpose of preventing the rival's internet advertising from appearing in response to a search for 1-800 Contacts' intellectual property rights, to implement as negative keywords 1-800 Contacts' trademarks, variations on 1-800 Contacts' trademarks, and 1-800 Contacts' URLs, as listed in an exhibit to the permanent injunction. This Bidding Agreement was reached between 1-800 Contacts and {  
}. *Id.* {

}; Tab 6, CX0316 at  
-004 (Order of Permanent Injunction, Exhibit A) (listing trademark terms and variations).

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 37 in part because the Settlement Agreements cannot reasonably be referred to as "Bidding Agreements" given their terms, and because the statement is incomplete. The evidence at trial will show that the Settlement Agreements contain the referenced provisions in large part because Google had advised 1-800 Contacts (and, presumably, other trademark holders) that negative keywords could be employed as "negating tools" in order to "control third parties bidding on – specifically on trademarked terms." Perry Decl., ex. DD (11/15/2016 Dep. Tr. of Josh Aston (former employee of Respondent responsible for paid search advertising in 2004) at 78:23-79:2)

(morning session). *See also id.*, ex. EE (11/15/2016 Dep. Tr. of Josh Aston at 35:3-44:7) (afternoon session) (testifying that Google employees had proposed or instructed that 1-800 Contacts (and Mr. Aston's subsequent employer) inform other companies to "add those specific trademarked terms into their negatives for their Ad Word Campaigns"). *See also id.*, ex. FF (explanation of the utility of negative keywords, provided by Google, available at <https://support.google.com/adwords/answer/105671?hl=en>).

38. One Bidding Agreement requires a rival of 1-800 Contacts to implement as negative keywords in all internet search engine advertising campaigns 1-800 Contacts' trademarks, variations on 1-800 Contacts' trademarks, and 1-800 Contacts' URLs, as listed in a schedule to the agreement. This agreement was reached between 1-800 Contacts and {Luxottica}. Matheson Decl. Tab 18, {

},

**Response by 1-800 Contacts:** 1-800 Contacts disputes the statements in paragraph 38 in part because the Settlement Agreements cannot reasonably be referred to as "Bidding Agreements" given their terms, and because the statement is incomplete. The evidence at trial will show that the Settlement Agreements contain the referenced provisions in large part because Google had advised 1-800 Contacts (and, presumably, other trademark holders) that negative keywords could be employed as "negating tools" in order to "control third parties bidding on – specifically on trademarked terms." Perry Decl., ex. DD (11/15/2016 Dep. Tr. of Josh Aston (former employee of Respondent responsible for paid search advertising in 2004) at 78:23-79:2)

(morning session). *See also id.*, ex. EE (11/15/2016 Dep. Tr. of Josh Aston at 35:3-44:7) (afternoon session) (testifying that Google employees had proposed or instructed that 1-800 Contacts (and Mr. Aston's subsequent employer) inform other companies to "add those specific trademarked terms into their negatives for their Ad Word Campaigns"). *See also id.*, ex. FF (explanation of the utility of negative keywords, provided by Google, available at <https://support.google.com/adwords/answer/105671?hl=en>).

39. The agreements are bilateral, meaning that 1-800 Contacts must also refrain from using each party's trademark terms as keywords for internet search advertising and must use each party's trademarks terms as negative keywords. Matheson Decl. Tab 2, Answer ¶ 23.

**Response by 1-800 Contacts:** 1-800 Contacts does not dispute that certain provisions in the Settlement Agreements and the one Contact Lens Sourcing and Services Agreement prohibit each party to the agreement from using the other party's trademarks in the specified manners, and require each party to implement as "negative keywords" in Internet paid search advertising campaigns specified terms that reflect the other party's trademarks. This aspect of the Settlement Agreements and the one Contact Lens Sourcing and Services Agreement plainly reflects, and is entirely consistent with, the legal claims asserted by 1-800 Contacts.

40. The Administrative Complaint alleges that the fourteen agreements unreasonably restrain competition and injure consumers. Matheson Decl. Tab 1, Compl. ¶ 31.

**Response by 1-800 Contacts:** Respondent 1-800 Contacts agrees that Paragraph 31 of the Complaint alleges that Respondent's conduct "had the purpose, capacity, tendency, and likely effect of restraining competition unreasonably and injuring consumers" in nine enumerated ways. Complaint Counsel's motion does not, however, assert or imply that it is undisputed that any or all of the enumerated effects on competition or injuries to consumers

occurred. As a consequence, Respondent bears no burden under the Federal Rules or the Commission's Rules to come forward at this time with contrary evidence. Out of an abundance of caution, however, Respondent responds as follows.

Paragraph 31 of the Complaint alleges, for example, that the Settlement Agreements “[u]nreasonably restrain[ed] price competition” and “[d]istort[ed] prices in...certain search advertising auctions.” Compl. ¶ 31a,b. However, the Settlement Agreements {

Perry Decl., ex. CC (Daniel L. Rubinfeld, An Analysis of the Competitive Effects of the Settlement at Issue (March 17, 2016), at 7 (hereinafter Rubinfeld)). These {

} *Id.* at 8. Thus, the impact of such a restraint, if any, is marginal. *Id.* at 3.

The Complaint further alleges injury from “[p]reventing search engine companies from displaying to users on the results page the array of advertisements that are most responsive to a user’s search” and “impairing the quality of the service provided to consumers by search engine companies.” Compl. ¶ 31c,d. The only advertisements that the Settlement Agreements prevent from populating in response to a user’s search for a competitor’s trademark are those generated by the other settling party. {

} Since evidence shows that the search queries for terms trademarked by 1-800 Contacts are navigational in nature, the display of a competitor’s advertisements are not “most responsive” to a user’s search. Rubinfeld, at 9-16 (outlining how search queries for terms trademarked by 1-800 Contacts have the recognized

indicia of navigational queries).<sup>5</sup> After all, a “consumer entering a navigational query would expect the most prominent link presented to her to be for her desired website,” not for a competitor’s link. *Id.* at 22. In fact, the prevented results, if allowed, may be disadvantageous to the user, and therefore removing competitors’ advertisements from the array of a specific search query for a 1-800 Contacts trademark improves the quality of service and convenience of a search engine, rather than impairing it. *Id.* at 30 (In the absence of the Settlement Agreements, “it is much more likely that the consumer is harmed as a result of distraction or confusion rather than benefited by serendipitous discovery”).

Similarly, whether the Agreements deprive “consumers of truthful and non-misleading information” or “the benefits of vigorous price and service competition,” or “[p]revent online sellers of contact lenses from disseminating truthful and non-confusing information” remains very much in dispute. *See* Compl. ¶ 31e,f,g. Users have many channels of advertising and exposure to truthful information about competing products, including offline advertising, organic links, and promotion on social media, which drive significantly more traffic than sponsored Internet search advertising. Rubinfeld at 7 (showing data on the distribution of advertising expenditure in the contact lens space); *id.* at 25 (detailing efforts to educate consumers through expenditures on television ads). A consumer makes a navigational query for a trademarked term once they have already obtained these various benefits of competition, and as Rubinfeld explains, at the user query stage the risk of distraction and confusion exceeds the possible added marginal return additional competition at this stage of consumer activity. *Id.* at 23 (“The

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<sup>5</sup> *See also id.* at 20 (“I have explained that navigational queries should be associated with relatively high conversion rates. I have shown that 1-800 CONTACTS’ trademark queries lead to relatively high conversion rates for ads for 1-800 CONTACTS. These results further support the interpretation of consumers’ queries for “1-800 CONTACTS” as reflecting the consumers’ intent to navigate to the 1-800 CONTACTS website.”).

challenged provisions prevent these confusing sponsored search ads from appearing in the specific circumstances where the consumer...has indicated her navigational intent"); *id* at 28 (the procompetitive benefits would outweigh any anticompetitive effect of the challenged agreements). Additionally, companies such as 1-800 Contacts make expenditures on truthful and beneficial advertising across platforms in order to promote and protect their brand, and practices that "divert consumers" from 1-800 Contacts "reduce 1-800 Contacts' incentives to provide this advertising." *Id.* at 25.

These arguments apply with equal force to contest whether "consumers' search costs relating to the online purchase of contact lenses" are increased. Compl. ¶ 31h. As Dr. Rubinfeld explains, that the confusion generated by causing users to "erroneously lan[d] on another retailer's site" and ultimately frustrating their intent adds to consumer search costs, which the Settlement Agreements thereby reduce. Rubinfeld at 29-30. Finally, the argument that the Agreements have caused "at least some consumers to pay higher prices for contact lenses than they would pay" in their absence is wholly unsupported and directly contradicted by the potential pricing impacts of the Settlements' pro-competitive benefits. Compl. ¶ 31.

**Part II: Respondent's Separate and Concise Statement of Material Facts That Present Genuine Issues For Trial**

Pursuant to Rule § 3.24(a)(2), Respondent 1-800 Contacts respectfully submits its Statement of Material Facts That Present Genuine Issues For Trial. Respondent limits this submission to just those issues raised by Complaint Counsel's motion; there are obviously numerous factual issues that will be addressed at trial in addition to those addressed here. Respondent also reserves its right to provide additional evidence at trial on the issues described in this submission. Finally, Respondent will not repeat its discussion of the many disputed issues

of fact addressed in Part I of this submission; that discussion is incorporated here by this reference.

**A. Complaint Counsel Have Not Met Their Burden Under *Actavis* To Present Evidence Proving That The Challenged Settlement Agreements Are Subject To Antitrust Scrutiny**

1. Complaint Counsel's Motion For Partial Summary Decision asks the Commission to "find that the agreements challenged here are subject to antitrust scrutiny . . . ." Mem. of Law at 6.

2. In order for antitrust scrutiny to apply to the challenged agreements under *Actavis*, Complaint Counsel must at a minimum prove that: (1) the challenged settlements are not a "commonplace" form of agreement traditionally used to settle trademark disputes; and (2) the "general legal policy favoring the settlement of disputes" is outweighed by the considerations that the *Actavis* court set forth when considering "reverse payment" patent settlements. *FTC v. Actavis*, 133 S.Ct. 2223, 2233-34 (2013). Complaint Counsel did not submit evidence on these threshold issues, which are genuine issues to be resolved at trial.

3. Although Respondent believes that the burden of production on these issues has not shifted to Respondent, Respondent has submitted with this filing a true and correct copy of the March 17, 2016 report by economist Daniel L. Rubinfeld entitled "An Analysis of the Competitive Effects of the Settlements at Issue," which addresses these and other issues. *See, e.g.*, Perry Decl., ex. CC. Section II ("Conclusions"); section VI ("The Challenged Provisions Are Not A Form of Bid Rigging or a Market Division"), and other evidence.

4. There is a genuine issue to be determined at trial as to whether the challenged settlements involved commonplace nonuse trademark agreements. *See* McCarthy on Trademarks and Unfair Competition § 18:82 (4th ed. 2016 update) ("An agreement not to use or register a mark, usually entered into to settle an infringement dispute, is not against public policy

and is an enforceable promise.”); *see also* *Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, 2008 WL 816794, at \*3 (M.D. Fla. 2008) (enjoining use of trademarks in internet keyword advertising); *MasterCard Int’l Inc. v. Trehan*, 629 F. Supp. 2d 824, 833 (N.D. Ill. 2009) (same); *Glob. Tel-Link Corp.* at \*1 (same).

5. In addition, the settlement of trademark disputes is favored under the law. *See, e.g., Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 55 (2d Cir. 1997) (trademark settlements are “favored under the law”); *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 in the absence of current confusion and encouraging litigants to “work together to try to resolve their differences cooperatively”).

6. The settlements at issue grew out of bona fide trademark infringement disputes, and their resolution was within the range of litigation outcomes. *See, e.g., Rescuecom Corp. v. Google Inc.*, 562 F.3d 123 (2nd Cir. 2009) (finding “use in commerce” in analogous situation); {

} (Ex. X to Perry Decl.); {

} (Tab 6 to Matheson Decl.); *Edible Arrangements, LLC v. Provide Commerce, Inc.*, 2016 WL 4074121 (D. Conn. 2016); *Glob. Tel-Link Corp. v. Jail Call Servs., LLC*, 2015 WL 1936502 (E.D. Va. Apr. 28, 2015); *LBF Travel v. Fareportal, Inc.*, 2014 U.S. Dist. LEXIS 156583 (S.D.N.Y. Nov. 5, 2014). Courts have also held that the non-“sham” nature of the litigation may bear on whether there are “suspicious” circumstances surrounding the settlements such that antitrust scrutiny should apply. *Asahi Glass Co. v. Pentech Pharms., Inc.*, 289 F. Supp. 2d 986, 993 (N.D. Ill. 2003) (Posner, J.).



7. The settlements did not involve monopoly rights or the division of monopoly profits. *See, e.g., Clorox Co.*, 117 F.3d at 56 (“A trademark, unlike other intellectual property rights, does not confer a legal monopoly on any good or idea; it confers rights to a name only.”).

8. These issues are, at least in part, factual in nature and are also commonly the subject of expert testimony. In this matter, the parties have issued numerous subpoenas duces tecum and subpoenas ad testificandum addressed to industry participants search engines and others that are intended in part to gather evidence on these issues. Perry Decl., ¶ 36. Those discovery efforts are ongoing. The deadline for completing fact discovery is January 27, 2017.

The deadline for completing expert discovery is March 20, 2017. Scheduling Order, issued September 7, 2016, at 2-3.

/s/ Gregory P. Stone  
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Dated: November 16, 2016

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Notice of Electronic Service

**I hereby certify that on November 16, 2016, I filed an electronic copy of the foregoing Respondent 1-800 Contacts, Inc.'s Responses to Complaint Counsel's Separate Statement of Undisputed Facts in Support of Their Motion for Partial Summary Decision; Respondent's Separate and Concise Statement of Material Facts that Present Genuine Issues for Trial, with:**

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**I hereby certify that on November 16, 2016, I served via E-Service an electronic copy of the foregoing Respondent 1-800 Contacts, Inc.'s Responses to Complaint Counsel's Separate Statement of Undisputed Facts in Support of Their Motion for Partial Summary Decision; Respondent's Separate and Concise Statement of Material Facts that Present Genuine Issues for Trial, upon:**

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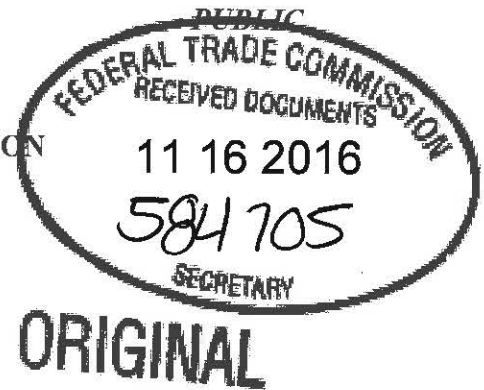
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UNITED STATES OF AMERICA  
BEFORE THE FEDERAL TRADE COMMISSION



COMMISSIONERS: Edith Ramirez, Chairwoman  
Maureen K. Ohlhausen  
Terrell McSweeney

In the Matter of

1-800 CONTACTS, INC.,  
a corporation

Docket No. 9372

**MEMORANDUM OF LAW OF RESPONDENT 1-800 CONTACTS, INC. IN  
OPPOSITION TO COMPLAINT COUNSEL'S MOTION FOR PARTIAL  
SUMMARY DECISION**

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**I. INTRODUCTION**

Complaint Counsel's Motion for Partial Summary Decision should be denied for two reasons. *First*, Complaint Counsel base their claim on litigation-related conduct that has long been recognized to be protected from antitrust liability unless shown to be objectively and subjectively unreasonable. In their motion, they describe their claim as exclusively challenging thirteen trademark settlement agreements and one vertical supply agreement. But what Complaint Counsel allege in their Complaint is quite different than what they describe in their motion. The Complaint alleges (¶ 16) that Respondent's efforts to enforce its trademark rights through the court system were part of a "plan" "devised" to keep prices for contact lenses high. According to the Complaint, Respondent executed this plan by sending cease-and-desist letters (¶ 17), making threats to sue (¶ 18), filing lawsuits (¶ 26), entering settlement agreements (¶¶ 20-21), and threatening further litigation against the settling parties if they violated those agreements (¶ 25). And although multiple courts have held that these actions were based on Respondent's reasonable belief that other retailers were infringing its trademarks, the Complaint asserts that Respondent acted "without regard to whether" these retailers "infringed [Respondent's] trademarks" (¶ 27) and that its infringement claims were "inaccurate" (¶ 18).

A fair reading of the Complaint suggests that *all* of these allegations are part of the challenged conduct in this case. Indeed, the Complaint alleges (at ¶ 31) that "Respondent's conduct, as alleged herein, had the purpose, capacity, tendency, and likely effect of restraining competition unreasonably and injuring consumers...." And the "Notice of Contemplated Relief" confirms the broad scope of these allegations. Complaint Counsel would do more than enjoin Respondent from just entering into settlement agreements. They would prospectively prohibit

the same litigation and pre-litigation activity alleged throughout their Complaint. *See* Compl. at 9 (Nos. 2-5).<sup>1</sup>

The Complaint's allegations thus plainly include petitioning activity protected by the First Amendment. It has been settled for decades that the *Noerr-Pennington* doctrine shields the filing of lawsuits and pre-litigation communications from antitrust scrutiny, unless it is shown that those actions are not objectively and subjectively reasonable. As a consequence, Respondent's Second and Third Affirmative Defenses, taken together, properly assert that Complaint Counsel's claim is barred "in whole or in part" by the *Noerr-Pennington* doctrine. Accordingly, Complaint Counsel's motion for partial summary decision should be denied.

*Second*, Complaint Counsel do not dispute, nor could they, that it is their burden under *FTC v. Actavis*, 133 S. Ct. 2223 (2013), to prove that Respondent's settlement agreements are subject to antitrust scrutiny. As the Complaint suggests, Complaint Counsel may try to avoid their *Actavis* burden by challenging the *bona fides* of the underlying litigation. Such a challenge would require Complaint Counsel to show that the lawsuits described in the Complaint were objectively and subjectively unreasonable and that Respondent's conduct is not protected by *Noerr* and the First Amendment. Should Complaint Counsel attempt that end-run, they first must overcome Respondent's Second and Third Affirmative Defenses, which are properly asserted in anticipation of such an effort by Complaint Counsel to sidestep their burden under *Actavis*.

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<sup>1</sup> Such relief would be a prior restraint in violation of the First Amendment. *See Simon Prop. Grp., Inc. v. Taubman Cts., Inc.*, 262 F. Supp. 2d. 794 (E.D. Mich. 2003).

## II. RESPONDENT'S SECOND AND THIRD AFFIRMATIVE DEFENSES SHOULD NOT BE STRICKEN

### A. The Noerr-Pennington Doctrine Protects Litigation and Pre-Litigation Activity

Because “[t]he right of access to the courts is ... but one aspect of the right to petition,” the *Noerr-Pennington* doctrine provides antitrust immunity based on the filing of a lawsuit. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972). So long as the litigation is not a “sham,” it is immunized under *Noerr-Pennington*. See *Prof'l Real Estate Inv'rs v. Columbia Pictures*, 508 U.S. 49, 60 (1993). For litigation to qualify as “sham,” an antitrust plaintiff must prove *both* that (1) the litigation was “objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits” and (2) that the lawsuit was brought for a subjectively anticompetitive purpose. *Id.*

The *Noerr-Pennington* doctrine also protects activities that are “‘incidental’ to a valid effort to influence governmental action.” *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 499 (1988). *Noerr-Pennington* immunity thus applies to a wide range of good faith pre-litigation activities. These activities include sending cease-and-desist letters and making threats to sue.<sup>2</sup> Immunizing these kinds of pre-litigation communications serves the greater interests of the judicial system<sup>3</sup>, and excluding them “from the reach of *Noerr* is simply bad

<sup>2</sup> See, e.g., *Sweet St. Desserts, Inc. v. Chudleigh's Ltd.*, 2016 WL 3924239, at \*4 (3d Cir. Jul. 21, 2016) (cease-and-desist letters) (unpublished); *Rock River Commc'ns, Inc. v. Universal Music Grp., Inc.*, 745 F.3d 343 (9th Cir. 2013) (same); *Sosa v. DIRECTV, Inc.*, 437 F.3d 923 (9th Cir. 2006) (demand letters); *Globetrotter Software v. Elan Computer Grp.*, 362 F.3d 1367 (Fed. Cir. 2004) (threats to litigate); *Coastal States Mktg. v. Hunt*, 694 F.2d 1358 (5th Cir. 1983) (same); but see *Cardtoons, L.C. v. Major League Baseball Players Ass'n*, 208 F.3d 885 (10th Cir. 2000) (en banc).

<sup>3</sup> E.g., *Sosa*, 437 F.3d at 936 (sending demand letters “permits parties to frame their legal positions, often streamlining any subsequent litigation, and thereby reducing legal costs and facilitating access to the courts”); *Coastal States Mktg.*, 694 F.2d at 1367 (“The litigator should not be protected only when he strikes without warning. If litigation is in good faith, a token of (footnote continued)

policy.” Hovenkamp, et al., IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law § 11.3 (2d. ed., 2015 Supp.).

**B. The Complaint Challenges Plainly Protected Conduct**

Complaint Counsel do not dispute that *Noerr-Pennington* protects the filing of non-“sham” lawsuits. Mem. of Law at 3. Nor do they dispute that the doctrine bars antitrust liability for restraints “incidental” to legitimate petitioning activity. *Id.* Nevertheless, they base much of their claim on such protected conduct, describing a course of conduct that includes an array of litigation-related activity alleged to be part of Respondent’s purported “plan” (§ 16) to restrain competition:

- Paragraphs 17 and 18 allege that Respondent sent “inaccurate” cease-and-desist letters to contact lenses retailers, accusing them of trademark infringement;
- Paragraph 18 alleges that Respondent “threatened to sue” companies that did not cease their infringing activity;
- Paragraph 20 questions Respondent’s infringement claims, calling them “purported”;
- Paragraph 25 alleges that Respondent “aggressively policed” the settlement agreements, including by “threatening further litigation and demanding compliance” when it suspected violations;
- Paragraph 26 discusses Respondent’s trademark litigation against Lens.com; and

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that sincerity is a warning that it will be commenced and a possible effort to compromise the dispute.”); *Select Comfort Corp. v. The Sleep Better Store*, 838 F.Supp.2d 889, 899 (D. Minn. 2012) (noting that the trademark statutes require that defendants be placed on notice in order to claim monetary remedies, and holding that cease-and-desist letters “are desirable methods of petitioning by effectively and efficiently vindicating intellectual property rights”).

- Paragraph 27 alleges that Respondent undertook all of these actions “without regard to whether the advertisements were likely to cause consumer confusion or infringed 1-800 Contacts’ trademarks.”

Tying these allegations together, Paragraph 31 charges that “Respondent’s conduct, as alleged herein, had the purpose, capacity, tendency, and likely effect of restraining competition unreasonably and injuring consumers and others” in several ways.

All of these allegations target protected petitioning activity. Respondent’s lawsuits fall squarely within *Noerr-Pennington*. Its cease-and-desist letters and threats to sue are incidental to litigation and fully protected. And its efforts to enforce settlement agreements are equally protected under *Noerr-Pennington*, because a threat to sue based on a settling party’s continued trademark infringement is still a threat to sue, whether or not it follows a settlement.

Although Complaint Counsel’s motion does not argue otherwise, it is important to note that Respondent’s litigation-related activity was objectively and subjectively reasonable. Although the Complaint alleges that Respondent’s trademark infringement claims were “inaccurate” and “purported,” courts have held that 1-800 Contacts’ claims were *not* “sham.” In *1-800 Contacts, Inc. v. Memorial Eye, P.A.*, 2010 WL 988524 (D. Utah 2010), the court rejected defendant’s argument that Respondent’s trademark infringement litigation was “sham,” explaining:

[T]he Tenth Circuit has held that the purchase of another’s trademark through a search engine for the purpose of diverting internet traffic and using goodwill associated with that trademark, as alleged here, violates the Lanham Act. Consequently, the Court finds that Plaintiff’s claim is not baseless and, it is therefore, protected by *Noerr-Pennington* immunity.

*Id.* at \* 6.

Another court similarly rejected Lens.com’s contention that Respondent’s trademark claim was a “sham,” explicitly noting that the lawsuit was found to have a “legal and factual

basis”—and that the Tenth Circuit affirmed that decision. *See Lens.com, Inc. v. 1-800 Contacts, Inc.*, No. 2:12-cv-352, Order, Docket Item 91, at 2 (D. Utah Mar. 2, 2014) (Ex. Z to Perry Decl.). Complaint Counsel make no argument that the situation was any different with respect to the other infringers. And for good reason: numerous courts have found that trademark claims may lie for uses of trademarks in internet keyword advertising similar to those that Respondent challenged.<sup>4</sup>

Given these holdings, the trademark infringement claims that Respondent asserted in its lawsuits and pre-litigation communications cannot be considered “sham.” Complaint Counsel do not contend otherwise in their motion. Instead, they argue that “the issue of sham litigation is inapposite here, because the Complaint in this matter challenges agreements among private parties that resolved lawsuits, not the filing of the lawsuits themselves.” Mem. of Law at 5. But that argument ignores the many other allegations of the Complaint, summarized above, that seek to establish liability on the basis of constitutionally-protected conduct. Respondent’s Second and Third Affirmative Defenses are properly raised in response to these allegations.

**C. Complaint Counsel Has Not Clearly Ruled Out An Effort To Evade Their Actavis Burden By Challenging The *Bona Fides* Of The Underlying Litigation**

Complaint Counsel do not contend that antitrust scrutiny applies to *all* private settlements such that it necessarily applies to the trademark settlement agreements at issue here. Even before *Actavis*, the Commission recognized that antitrust liability “ordinarily” does not “attach” to traditional settlement agreements, and that it is “well-established that [voluntary settlement] agreements do not generally violate the antitrust laws.” Brief for Petitioner at 26, *FTC v. Watson*

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<sup>4</sup> *E.g., Edible Arrangements, LLC v. Provide Commerce, Inc.*, 2016 WL 4074121 (D. Conn. 2016); *Glob. Tel-Link Corp. v. Jail Call Servs., LLC*, 2015 WL 1936502 (E.D. Va. Apr. 28, 2015); *LBF Travel v. Fareportal, Inc.*, 2014 U.S. Dist. LEXIS 156583 (S.D.N.Y. Nov. 5, 2014).

*Pharms., Inc.*, (2013) (No. 12-416), 2013 WL 267027; *see also id.* at 25 (acknowledging that a patent holder’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”).

*Actavis* reaffirmed that settlement agreements are subject to antitrust scrutiny only in limited situations. As the Court explained, “[i]nsofar as the dissent urges that settlements taking these commonplace forms have not been thought for that reason alone subject to antitrust liability, we agree, and do not intend to alter that understanding.” 133 S. Ct. at 2233. For antitrust scrutiny to apply after *Actavis*, Complaint Counsel must at a minimum prove that the challenged settlements: (1) are not a “commonplace” form of agreement traditionally used to settle trademark disputes; and (2) that the “general legal policy favoring the settlement of disputes” is outweighed by the considerations that the Court set forth when considering “reverse payment” patent settlements. *Id.* at 2234. Complaint Counsel make no attempt in their motion to meet this burden.

Moreover, Complaint Counsel could not meet their burden if they tried. The settlements involved commonplace non-use trademark agreements.<sup>5</sup> They grew out of *bona fide* trademark infringement disputes. *See infra* at 5-6.<sup>6</sup> The agreements were within the range of litigation

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<sup>5</sup> *See* McCarthy on Trademarks and Unfair Competition § 18:82 (4th ed. 2016 update) (“An agreement not to use or register a mark, usually entered into to settle an infringement dispute, is not against public policy and is an enforceable promise.”); *see also Orion Bancorp, Inc. v. Orion Residential Fin., LLC*, 2008 WL 816794, at \*3 (M.D. Fla. 2008) (enjoining use of trademarks in internet keyword advertising); *MasterCard Int’l Inc. v. Trehan*, 629 F. Supp. 2d 824, 833 (N.D. Ill. 2009) (same); *Glob. Tel-Link Corp.* at \*1 (same).

<sup>6</sup> Courts have held that the non-“sham” nature of the litigation may bear on whether there are “suspicious” circumstances surrounding the settlements such that antitrust scrutiny should apply. *Asahi Glass Co. v. Pentech Pharms., Inc.*, 289 F. Supp. 2d 986, 993 (N.D. Ill. 2003) (Posner, J.).



outcomes.<sup>7</sup> The resolution of trademark disputes is to be encouraged.<sup>8</sup> Unlike reverse payments, there is no risk that parties settling trademark disputes will seek to divide monopoly profits because trademarks do not confer monopoly rights.<sup>9</sup> And there is no “workable surrogate” like the size of a reverse payment that a court could use to avoid a “detailed exploration” of the underlying trademark dispute. *Actavis*, 133 S.Ct. at 2236-37.

Unable to sustain their *Actavis* burden for these and other reasons, Complaint Counsel may try to avoid it by challenging the *bona fides* of the underlying litigation. In that event, Complaint Counsel would have the burden to prove “sham” litigation, but Respondent would be entitled to demonstrate, as set forth in its Second and Third Affirmative Defenses, that its conduct was not objectively and subjectively unreasonable and was protected by the First Amendment under *Noerr-Pennington*. This, too, suffices to defeat Complaint Counsel’s motion for partial summary judgment.

### **III. CONCLUSION**

For the foregoing reasons, Complaint Counsel’s Motion for Partial Summary Decision should be denied.

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<sup>7</sup> E.g., *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123 (2nd Cir. 2009) (finding “use in commerce” in analogous situation); {

} (Tab 6 to Matheson Decl.).

<sup>8</sup> E.g., *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 55 (2d Cir. 1997) (trademark settlements are “favored under the law”); *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 in the absence of current confusion and encouraging litigants to “work together to try to resolve their differences cooperatively”).

<sup>9</sup> E.g., *Clorox Co.*, 117 F.3d at 56 (“A trademark, unlike other intellectual property rights, does not confer a legal monopoly on any good or idea; it confers rights to a name only.”)

DATED: November 16, 2016

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that on November 16, 2016, I filed the foregoing document using the FTC's E-Filing System, which will send notification of such filing to:

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**CERTIFICATE FOR ELECTRONIC FILING**

I hereby 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.

DATED: November 16, 2016

By: /s/ Gregory P. Stone  
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Notice of Electronic Service

I hereby certify that on November 16, 2016, I filed an electronic copy of the foregoing Memorandum of Law of Respondent 1-800 Contacts, Inc. In Opposition to Complaint Counsel's Motion for Partial Summary Decision, with:

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