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VIA ECF

March 9, 2020

The Honorable Catherine O'Hagan Wolfe
Clerk of Court
United States Court of Appeal for the
Second Circuit
Thurgood Marshall United States Courthouse
40 Foley Square
New York, NY 10007

1-800 Contacts, Inc. v. Federal Trade Commission (Case No. 18-3848)

Dear Ms. O'Hagan Wolfe:

We write in response to the FTC's letter dated March 6, 2020 in the above-referenced case. During oral argument, the Court asked whether any of the counterparties to the settlement agreements tried to negotiate for permission to run paid search ads against 1-800 Contacts' trademarks provided they included a disclaimer of affiliation with 1-800 Contacts. Audio Tr. at 40:45-41:15. The FTC's March 6 submission is not responsive to this question and, instead, is an effort to supplement its arguments with incomplete and irrelevant information.

The information proffered about Lens Discounters is not responsive to the Court's question because Lens Discounters *is not one of the settling parties*. A-281 to 282 (listing settling parties and not including Lens Discounters). 1-800 Contacts sent Lens Discounters a cease and desist letter in 2005 after which Lens Discounters said it would "unilaterally" stop the alleged infringement. SPA-88. However, 1-800 Contacts did not file any claims against Lens Discounters and there was no settlement or discussion of settlement terms. Moreover, Lens Discounters subsequently changed its mind and decided that it *would* use 1-800 Contacts' trademarks to trigger its paid search ads. SPA-88. The empirical evidence from Google shows that, in fact, Lens Discounters ran hundreds of thousands of ads triggered by 1-800 Contacts' trademarks during the relevant period. A-1078.¹ In other words, Lens Discounters is an example

¹ While it was not included in the Appendix, 1-800 Contacts' expert calculated that Lens Discounters displayed 718,634 ads triggered by 1-800 Contacts' trademarks during the relevant period. RX0734-0092.

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of an online retailer who ultimately was *not* restricted from running ads against 1-800 Contacts' trademarks.

Moreover, the FTC's Lens Discounters example does not even reference a disclaimer of affiliation that would be responsive to the Court's question. Rather, it illustrates comparative advertising. As we discussed in oral argument, as part of resolving the disputes leading to the settlements with ten of the thirteen counterparties, comparative advertising was expressly permitted. A-547 (EZ Contacts settlement allowing use of 1-800 trademarks "on the Internet in a manner that would not constitute an infringing use in a non-Internet context, e.g., the use on the Internet of comparative advertising . . . and similar non-Infringing uses."); *accord*, A-518 (Vision Direct); A-602 (Lensfast); A-611 (AC Lens); A-620 (Lenses for Less); A-629 (Contact Lens King); A-638 (Empire Vision); A-652 (Tram Data); A-683 (Web Eye Care); A-710 (Standard Optical).

The FTC's discussion of so-called "take it or leave it" settlement offers also is irrelevant to the question of whether rivals sought settlement provisions allowing them to run ads with disclaimers of affiliation. The FTC cites no examples of settlement discussions about the use of disclaimers because there were none. Nor is the FTC correct that the settlement discussions were somehow entered under duress. As the ALJ found, the agreements were subject to negotiation. SPA-48. Indeed, some of the settling parties were either comparable in size to 1-800 or much larger (*e.g.* Walgreens, which is 200 times larger than 1-800 Contacts by revenue and agreed to similar settlement terms). Even the smaller companies had the ability to refuse settlements if they wished. Lens.com decided not to settle and ultimately prevailed against 1-800 Contacts on some claims. SPA-53. In short, the settling parties entered the settlements for the reason anyone settles: Because their assessment of the prospects for success on the legal and factual issues did not justify the litigation costs or risk. *See, e.g.*, SPA-54 to 55. The FTC's expert admitted that "firms act rationally in settling litigation" and that he saw "no reason that this general economic assumption should not apply in this case". SPA-55.

For the foregoing reasons, 1-800 Contacts respectfully submits that the FTC's proffered evidence does not answer the Court's question, nor does it support the FTC's position and, in fact, it supports 1-800 Contacts' position.

Sincerely,

/s/ Stephen Fishbein

Stephen Fishbein

cc: Counsel of Record (via ECF/CM)