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UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

COMMISSIONERS: Joseph J. Simons, Chairman
Noah Joshua Phillips
Rohit Chopra
Rebecca Kelly Slaughter
Christine S. Wilson

In the Matter of: 1-800 Contacts, Inc., a corporation	DOCKET NO. 9372

RESPONDENT 1-800 CONTACTS, INC.'S APPLICATION FOR A STAY PENDING REVIEW BY A UNITED STATES COURT OF APPEALS

Pursuant to Commission Rule 3.56, 16 C.F.R. § 3.56, Respondent 1-800 Contacts, Inc. ("1-800") hereby timely[1] applies to the Federal Trade Commission (the "Commission") for a partial stay of the Final Order dated November 7, 2018 (the "Order") in the above-captioned matter, pending judicial review by a United States Court of Appeals. 1-800 respectfully requests a stay of the Order except to the extent it requires 1-800 to (1) cease enforcing the challenged search advertising provisions in the fourteen agreements targeted in this case and (2) notify the counterparties to those fourteen agreements of the Commission's decision.

December 10, 2018

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[1] Secretary Donald Clark published the Final Order on November 14, 2018, which was served on 1-800 Contacts, Inc. and its counsel on November 26, 2018 pursuant to Commission Rule 4.4(a)(1). 16 C.F.R. § 4.4(a)(1).

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I. INTRODUCTION

Respondent 1-800 seeks a partial stay pending appeal of the Commission's Order. 16 C.F.R. § 3.56. From the outset, this matter has been about halting the enforcement of trademark search advertising provisions in fourteen agreements. *See, e.g.*, Compl. ¶ 1 ("This action challenges a series of bilateral agreements between 1-800 Contacts and numerous online sellers of contact lenses . . ."). The Order achieves that result, and 1-800 does not seek to stay this aspect of the Order. Order §§ II, III.A. Thus, the provisions that motivated this matter will not be enforced during 1-800's appeal.

But the Order goes much further—well beyond trademark search advertising—and threatens irreparable harm to 1-800's trademark enforcement efforts and rights, relationships with industry partners, and competitive position generally. For example, the Order requires 1-800 to provide the Commission *every* communication regarding *every* trademark enforcement effort, and only permits trademark settlements that, "in effect, tell the counterparty that they cannot violate trademark laws." Dissent at 45. As the dissent explained, this type of question-begging mandate will reduce 1-800's incentive to bring, and ability to settle, trademark disputes—all to the detriment of its valuable brand. *Id.* at 45-46. Moreover, the Order prohibits 1-800 from agreeing to any advertising limitations with anyone "that markets or sells any contact lens product." Order §§ I.K, II.A-C, III.A. In effect, this bars 1-800—but not its competitors—from engaging in industry-standard practices with contact lens manufacturers and its marketing affiliate partners, creating an unequal playing field. Costello Decl. ¶ 9; Roundy Decl. ¶ 9.

For these reasons and those below, 1-800 respectfully requests that the Commission grant this partial stay request. The requested stay would not impact the core of the Order, as 1-800 will not enforce the challenged provisions in the fourteen agreements during the appeal and will notify the counterparties of the Commission's decision. At the same time, granting this motion will address 1-800's legitimate concerns—particularly with the breadth of the Order—pending the outcome of an appeal. 1-800's partial stay request appropriately balances the public interest and 1-800's rights, and should be granted. *See In the Matter of Cal. Dental Ass'n*, 1996 FTC LEXIS 277, at *5, 7 (May 22, 1996) (granting a "narrowly tailored request for a stay [that] would leave intact the order's core provisions" and that focused on "portions of the order that, when implemented, will engender irretrievable costs and have the potential to cause confusion if reversed by the court of appeals").

II. BACKGROUND

The Complaint. This case is about certain provisions pertaining to paid search advertising in thirteen trademark infringement settlement agreements—and one vertical supply agreement—between 1-800 and other sellers of contact lenses. Compl. ¶¶ 1, 3, 20, 33; Comm'n Op. at 10 ("the FTC issued an administrative Complaint against 1-800 Contacts, alleging that the thirteen settlement agreements and the [Luxottica] sourcing agreement (collectively, the 'Challenged Agreements')" violate Section 5 of the FTC Act).[2] Although the Challenged Agreements cover various topics and conduct,[3] the FTC focused only on specific provisions in them related to trademark search advertising. These provisions (hereinafter "Challenged Provisions") "require the parties, when bidding at search engine advertising auctions, to take

[2] As the dissent explained, the majority wrongly lumps together thirteen settlement agreements and a vertical sourcing agreement with Luxottica, deeming them all "inherently suspect" and omitting any discussion of the unique justifications with respect to the Luxottica sourcing agreement. Dissent at 45-46.

[3] For example, the Luxottica sourcing agreement is 60 pages long and sets up a comprehensive vertical supply relationship, with provisions related to search advertising as only one piece. CX0331. The settlement agreements at issue also reach more broadly than trademark search advertising—*e.g.*, by barring certain types of pop-up advertisements and other forms of infringement. *See*, *e.g.*, CX0311 (Vision Direct settlement prohibiting pop-up ads, infringing website modifications, and the use of trademarked terms in the text of advertisements); CX0310 (Coastal Contacts settlement addressing same); CX0147 (AC Lens settlement addressing same).

steps to ensure their ads do not appear in response to searches for the other party's trademark terms." Comm'n Op. at 1; *see also id.* at 59.

The Majority Decision and Order. Applying a rule of reason analysis, Administrative Law Judge Chappell ("ALJ") found that the Challenged Provisions violate Section 5 of the FTC Act. *See* ALJ Op. at 138-39. A majority of the Commissioners (with Commissioner Wilson not participating) affirmed, but departed significantly from the ALJ's application of antitrust principles. For example, unlike the ALJ, the majority deemed the Challenged Provisions "inherently suspect" and found "direct evidence of anticompetitive effects." Op. at 18. In so doing, the majority went well beyond the Supreme Court's decision in *Actavis*, which rejected the Commission's effort to deem reverse-payment settlements presumptively unlawful and strongly suggested that the mere ability of the patent holder to charge higher prices was not direct evidence of anticompetitive effects. *FTC v. Actavis*, 570 U.S. 136, 159 (2013).

The Commission majority then set out a broad "remedial" Order. This Order requires 1-800 not just to cease and desist from enforcing the Challenged Provisions within the fourteen Challenged Agreements; it also requires 1-800 to affirmatively "take whatever action is necessary to vacate or nullify" them. Order §§ II, III.A-B. The Order also reaches well beyond the Challenged Provisions and imposes onerous notice requirements. *Id.* § IV. Indeed, although this case centers on agreements not to use certain trademarked keywords in search advertising on the internet—one of many advertising platforms—the Order deputizes the Commission as overseer of 1-800's entire brand enforcement program. For example:

- 1-800 must provide "Commission staff a copy of any Communication by Respondent with any Person regarding that Person's suspected trademark infringement no later than ten (10) days" after the Communication. *Id.* § IV.B.1. "Communication" includes any "transfer" of information, "without regard to the manner or mean in which it was accomplished." *Id.* § I.C. In short, 1-800 is required to somehow provide Commission staff a copy of every written and oral communication regarding any type of trademark infringement claim—potentially including all litigation correspondence—within 10 days.

- 1-800 is barred from agreeing with any "Seller" regarding a "Seller's" participation in search advertising, absent certain narrow exceptions. *Id.* § II.A-B. Indeed, under the Order, 1-800 may not enter into any contractual provision with a "Seller" that "place[s] any limitation" on truthful, non-infringing advertising, *id.* § II.C, and must take affirmative action to void any such contractual provision that currently exists, *id.* § III.B. The definition of "Seller" includes both sellers *and* marketers of contact lenses. Order § I.K. Thus, the Order goes beyond 1-800's "horizontal" relationships with sellers of contact lenses—the focus of this Commission's decision. It also impacts advertising limitations in "vertical" agreements with contact lens manufacturers and marketing affiliates that deliver coupons to potential customers through their websites, or otherwise drive customers to 1-800's website, but do not themselves sell contact lenses. Costello Decl. ¶ 8; Roundy Decl. ¶ 8.

- 1-800 is forbidden from entering into any agreement with a Seller, including a settlement agreement in *any* type of case, that places "any limitation on truthful, non-deceptive, and non-infringing advertising or promotion." *Id.* § II.C. The terms "truthful, non-deceptive, and non-infringing" are not defined and, instead, are left to second-guessing.

- 1-800 must send a letter drafted by the Commission to anyone that it has ever communicated with about even a "suspected" trademark infringement claim of any kind. *Id.* § IV.A.2. 1-800 does not keep a centralized record of everyone whom it has threatened with trademark infringement, and would have to expend significant resources complying with this provision, if it could be done at all. Montclair Decl. ¶¶ 13-14. Moreover, if 1-800 is successful on appeal, it would have to send retraction letters that would result in confusion and increased monitoring costs.

The Dissent. Commissioner Noah Joshua Phillips wrote a 46-page dissent refuting the majority's decision and Order. As Commissioner Phillips explained, the majority's application of a "truncated" inherently-suspect analysis is a "drastic step" unsupported by the case law or sound policy. Dissent at 10-11. Commissioner Phillips further criticized the majority's direct effects analysis because the majority conceded no output effect and failed to demonstrate that the Challenged Agreements caused any relevant price or quality effect. *Id.* at 29-35. Finally, Commissioner Phillips noted that the Second Circuit upheld a trademark settlement agreement in a case "on all fours" with this one, recognizing that trademark settlements are "favored[] under the law." Dissent at 17-18 (citing *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50, 60 (2d Cir.

1997)). With respect to the Order, Commissioner Phillips recognized that it would deter legitimate trademark enforcement and hinder 1-800's ability to meaningfully resolve trademark disputes. *Id.* at 45-46.

III. STANDARD OF REVIEW

"Any party subject to a cease and desist order under section 5 of the FTC Act . . . may apply to the Commission for a stay of all or part of that order pending judicial review." 16 C.F.R. § 3.56(b). A stay application must address the following four factors: (1) the applicant's likelihood of success on appeal; (2) whether the applicant will suffer irreparable harm absent a stay if it succeeds on appeal; (3) the degree of injury to other parties if a stay is granted; and (4) whether the stay is in the public interest. 16 C.F.R. § 3.56(c); *In the Matter of Novartis Corp.*, 128 F.T.C. 233, 233 (1999). Each factor weighs in favor of the partial stay sought by 1-800 here.

IV. ARGUMENT

A. 1-800 is likely to succeed on the merits of the appeal.

In judging likelihood of success, the question is *not* whether the Commission believes its own opinion is erroneous. Indeed, "[p]rior recourse to the initial decision-maker would hardly be required as a general matter if it could properly grant interim relief only on a prediction that it has rendered an erroneous decision." *In the Matter of Cal. Dental Ass'n*, 1996 FTC LEXIS 277, at *10 (internal quotation marks and citation omitted). Thus, the likelihood of success factor can be met even when "[t]he Commission harbors no doubts about its . . . decision." *In the Matter of N.C. Bd. of Dental Exam'rs*, 2012 WL 588756, at *2 (F.T.C. Feb. 10, 2012). Instead, an applicant satisfies this factor if the case "involves a difficult legal question" or is "based on a complex factual record." *See, e.g.*, *id.* at *2; *In the Matter of Rambus, Inc.*, 2007 WL 901600, at *3 (F.T.C. Mar. 16, 2007); *Novartis*, 128 F.T.C. at 234-35.

This standard is easily met here. This matter arises from "a 19-day administrative hearing involving the testimony of 43 witnesses, either live or by deposition, and more than 1250 exhibits." Comm'n Op. at 2; *accord* ALJ Op. at 3 n.2. Thirteen expert reports were presented, covering everything from survey evidence to economics to the intricacies of search advertising and trademark enforcement. At the Commission level, there were three separate opinions totaling over 100 pages, including one of the longest dissents in Commission history. The majority and dissent, moreover, both departed from the ALJ, with the Commission majority refusing to follow the ALJ's methodology and the dissent rejecting the ALJ's conclusion of liability. *See, e.g.*, Comm'n Op. at 2 (majority acknowledging differences with the ALJ's analysis); *see also Schering-Plough Corp. v. FTC*, 402 F.3d 1056, 1062-63 (11th Cir. 2005) (a reviewing court "may examine the FTC's findings more closely where they differ from those of the ALJ"). In fact, the only thing the Commission majority and dissent *did* agree on is that this case presents complex issues about the role antitrust law should play in a new area of the economy—search advertising—where legitimate intellectual property rights and settlements are at issue. *See, e.g.,* Comm'n Op. at 1-2; Dissent at 2.

In light of the above, it is an understatement to say that this case presents "arguable difficulties arising from the application of the law to a complex factual record [that] can support a finding that a stay applicant has made a substantial showing on the merits." *Novartis Corp.*, 128 F.T.C. at 235. The fact that the Commission resorted to two infrequently-used modes of antitrust analysis to find liability—inherently suspect analysis and direct effects analysis—highlights the point. *See, e.g., Butler v. Jimmy John's Franchise, LLC*, 331 F. Supp. 3d 786, 793 (N.D. Ill. 2018) ("There is a third, albeit rarely used test: The quick look approach."); *Deborah Heart & Lung Center v. Virtua Health, Inc.*, 833 F.3d 399, 403 (3d Cir. 2015) ("We have noted that the difficulty of isolating the market effects of the challenged conduct means proof of actual anticompetitive effects . . . is often impossible to make.") (internal quotation marks and citation omitted).

Indeed, just five years ago, the Supreme Court rejected the Commission's efforts to deem an intellectual property settlement agreement inherently suspect under antitrust principles. *Actavis*, 570 U.S. at 159. In *Actavis*, pharmaceutical manufacturers entered into an "unusual" patent settlement where "the plaintiff agreed to pay the defendants millions to stay out of its market." *Id.* at 158; *see also* Dissent at 13. Even facing an "unusual" settlement that paid for market exclusion, the Court refused to adopt the Commission's requested "presumptive" rule of antitrust liability. *Actavis*, 570 U.S. at 159-160. Here, and unlike in *Actavis*, there was no "unusual" reverse payment, and "the counterparties to the Trademark Settlements are still capable of competing against 1-800 Contacts—including by selling to whomever they wish, advertising aggressively, and even buying advertisements on search engines, just not all advertisements." Dissent at 18-19; *see also Clorox*, 117 F.3d at 56-57 (trademark non-use agreements are "by their nature non-exclusionary" because they do not stop competitors from "producing and selling products"). The Commission's departure from *Actavis* is vulnerable on appeal.

The "direct effects" analysis of the majority is equally vulnerable, both as a matter of law and fact. Contrary to the majority's rule, an advertising restriction without more is not enough to show anticompetitive effects because it does not address the relevant question: whether the "advertising restriction limited output of the underlying product or service." Dissent at 30-31 (citing *Cal. Dental*, 526 U.S. at 776); *see also Macdermid Printing Sols. LLC v. Cortron Corp.*, 833 F.3d 172, 183 (2d Cir. 2016) ("[I]n no precedential opinion in this Circuit has a plaintiff successfully proved an adverse effect on competition without offering evidence of changed prices, output, or quality."). And even if it were, the facts do not support that the trademark search provisions reduced the total number of advertisements—or even the total number of search advertisements—available in the market. Dissent at 31, 41-42.

Nor did the majority identify the type of "actual, sustained, and substantial" price effects necessary to show direct anticompetitive effects. Dissent at 32. The majority points to the fact that 1-800 charged higher prices than some online competitors. But it is *undisputed* that these higher prices predate any of the Challenged Agreements, and, as the dissent recognized, the higher prices can be explained by "superior service and customers' preference for the 1-800 Contacts brand"—not the Challenged Agreements. Dissent at 32-33. Nevertheless, the majority finds that 1-800's "higher prices are not *fully* explained by the firm's service level," Comm'n Op. at 48 (emphasis added), but does not even consider whether brand effects (or other factors) could explain the rest. Moreover, "it is *obvious* that Complaint Counsel failed to meet their burden here because they did not proffer *any* evidence on margins." Dissent at 34 (emphasis added). For these reasons and others, the majority's direct effects analysis is vulnerable on appeal. *See, e.g.*, *Tenneco, Inc. v. FTC*, 689 F.2d 346, 353-54 (2d Cir. 1982); *Boise Cascade Corp. v. FTC*, 637 F.2d 573, 578 (9th Cir. 1980) ("In truth, the Commission has provided us with little more than a theory of the likely effect of the challenged pricing practices.").[4]

[4] The Commission also found direct evidence that the Challenged Provisions harmed search engines by reducing their advertising revenues and the quality of their search engine results. Comm'n Op. at 50-54. Remarkably, the Commission came to this conclusion despite Bing disclaiming that the Challenged Provisions harmed it in any way and Google instructing brand owners generally—and 1-800 specifically—to settle keyword advertising trademark disputes exactly as 1-800 did. Dissent at 38-39. Moreover, the evidence does not bear out either of the two theories of harm the Commission posits, as the dissent explained. Dissent at 40-41.

Finally, the majority's analysis "discards" 1-800's legitimate trademark rights and the benefits of settling trademark litigation, including through saved litigation costs. Dissent at 1, 27-28. Again contrary to *Actavis*, the majority holds that reduced litigation costs only matter if there is proof that the cost savings were passed on to consumers. *Compare* Comm'n Op. at 37, *with Actavis*, 570 U.S. at 156 (recognizing saved litigation costs as a procompetitive justification, without requiring proof of pass-on to consumers). In addition to lacking any legal basis, the majority's new pass-on standard "would be impossible" to satisfy as a practical matter and, thus, "cannot be the rule." Dissent at 36. More generally, "[n]owhere in their evaluation . . . do the majority recognize how trademark protections and the vigorous enforcement of trademarks encourage brand investment and competition. In fact, the majority dismiss the benefits of trademark policy entirely. This is inappropriate as a matter of law and ignores the facts of this case, including the tremendous amount of investment 1-800 Contacts has made in building its brand, lowering the price of contact lenses, and offering customers superior service." Dissent at 37.

For all these reasons, 1-800 has more than met its burden of showing a likelihood of success. That is particularly true since 1-800 is seeking only a partial stay that would permit the provisions directed at the core conduct to come into effect. *See Cal. Dental Ass'n*, 1996 FTC LEXIS 277, at *11-12 (holding "our skepticism regarding respondent's likelihood of success in this case does not preclude us from" granting a partial stay where "Respondent has not sought to stay those provisions of the order that prohibit continuation of the restraints found to be unlawful").

B. 1-800 is likely to suffer irreparable harm if the non-core provisions of the Order are not stayed during the appeal.

An applicant for a stay must establish that it will be irreparably harmed if the Commission's order is not stayed during the appeal. *N.C. Dental*, 2012 WL 588756, at *3. Irreparable harm can include damage to intellectual property rights, compliance costs that cannot be recovered after a successful appeal, and "the potential [for an Order] to cause confusion if reversed by the court of appeals." *In the Matter of Cal. Dental Ass'n*, 1996 FTC LEXIS 277, at *7 (finding irreparable harm and granting a partial stay request that "focuses on the portions of the order that, when implemented, will engender irretrievable costs and have the potential to cause confusion if reversed by the court of appeals."); *see also NYP Holdings v. N.Y. Post Publ'g Inc.*, 63 F. Supp. 3d 328, 341 (S.D.N.Y. 2014). Here, 1-800 does not seek to stay the Order's core mandate that it halt enforcement of the Challenged Provisions. Instead, 1-800's stay request is aimed at the rest of the Order, which reaches more broadly and threatens the very type of irreparable harm recognized by the Commission.

First, Section III.B of the Order requires 1-800 to "take whatever action is necessary to vacate or nullify" any provision in any agreement that limits a "Seller's" ability to engage in search advertising. Thus, 1-800 must take action to permanently void the Challenged Provisions, including by altering court orders that contain such provisions. Order § III.B (must nullify provisions in "any court order or agreement"). This will impose costs that cannot be recovered after a successful appeal and create confusion among the parties to the Challenged Agreements—both in terms of how to "nullify" the Challenged Provisions now[5] and what might

[5] Notably, each Challenged Agreement contains reciprocal search advertising provisions, requiring both 1-800 and its counterparties to refrain from bidding on each other's trademark keywords. This raises the question whether 1-800 can or must take action to void its *own* obligations to refrain from trademark search advertising, how it could do so, and what the reactions of the counterparties may be. Moreover, the Challenged Agreements contain numerous

happen if the appeal is successful. Indeed, it is no stretch to say that 1-800's right to appeal the Commission's decision will be vitiated absent a stay, as it will be forced to "nullify" the Challenged Provisions with no apparent way to revive them later if the appeal is successful. *See NCAA v. Regents of Univ. of Okla.*, 463 U.S. 1311, 1313-14 (1983).

Second, the Order irreparably harms 1-800 because it effectively precludes it from resolving trademark litigation in any meaningful way, and interjects the Commission into every 1-800 trademark enforcement effort—*regardless of whether it has anything to do with trademark search advertising or even search advertising more generally.* But the Commission does not have authority to regulate 1-800's trademark enforcement efforts outside of the trademark search advertising context at issue here. The Commission's decision hinges on the supposedly unique nature of trademark enforcement in the paid search advertising context, while acknowledging that trademark enforcement generally serves procompetitive goals. *See* Comm'n Op. at 23-24 ("we consider protecting trademark rights to be a legitimate procompetitive justification"). To be sure, the Commission can enjoin more than just the challenged conduct, but the additionally enjoined conduct must be an alternate "road to the prohibited goal"—*i.e.*, it must provide a pathway for the respondent to "by-pass" the Commission's command to halt the challenged conduct. *Id.* at 54 (the Commission "'must be allowed to effectively close all roads to the prohibited goal, so that its order may not be by-passed with impunity'") (quoting *FTC v. Ruberoid Co.*, 343 U.S. 470, 473 (1952)). Here, there is no suggestion whatsoever that 1-800's general trademark enforcement somehow provides a potential "road to the prohibited goal" of imposing trademark search restrictions on competitors or otherwise causing higher prices. As a result, the Commission has no basis to insert its staff as an omnibus compliance monitor for

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provisions beyond limitations on trademark search advertising, raising questions about the Order's impact on these other terms.

1-800's general trademark enforcement program, as the Order tries to do. *See ITT Cont'l Baking Co. v. FTC*, 532 F.2d 207, 222 (2d Cir. 1976) (striking sections of the Commission's order directed at conduct lacking a "reasonable relationship" to the conduct found illegal and finding them "too broad to be sustained").

In any event, 1-800 will suffer irreparable harm as the Order imposes additional costs and interjects uncertainty into its brand enforcement efforts. For example, the Order requires 1-800 to notify the Commission every time it communicates with a person about his or her potential trademark infringement—even if the communication is oral. Order § IV.B.1, I.C. Read one way, this provision would require 1-800 to notify the Commission of many (maybe all) communications in trademark cases brought by 1-800—a massive burden that would raise serious questions of confidentiality.[6] Montclair Decl. ¶ 16. But even if this provision requires something less, it will raise 1-800's enforcement costs and thus decrease 1-800's incentive to protect its trademark. *Id.*

As the dissent recognized, the Order also inhibits 1-800's ability to settle trademark litigation. The Order prohibits any agreement with a Seller that limits "truthful, non-deceptive, and non-infringing advertising or promotion." Order § II.C. This means that "the only agreements that 1-800 Contacts can enter are those that, in effect, tell the counterparty that they cannot violate the trademark laws." Dissent at 45. Such a provision is meaningless to settling litigation and will only result in more trademark litigation. The Order's provisions that regulate how 1-800 may enforce its trademarks and settle its trademark infringement cases, and the substantial uncertainty that those provisions introduce, irreparably harm 1-800.

[6] Not only does this raise 1-800's enforcement costs, but it also puts potential infringers on notice that 1-800's trademark enforcement program is subject to governmental regulation and likely will change their risk/reward calculus in engaging in potentially infringing activities.

Third, Section II of the Order forbids 1-800 from entering into any agreement that limits any "Seller's" ability to engage in search advertising auctions. *See, e.g.*, Order § II. And it does not stop there: it purports to ban any agreement with a "Seller"—no matter the context or type—that would "*place any limitation*" on truthful, non-infringing advertising generally. *Id.* § II.C (emphasis added). Importantly, a "Seller" is defined to include anyone that sells *or markets* contact lenses. *Id.* § I.K (emphasis added). Thus, Section II impacts not just the type of "horizontal" agreements that the Commission challenged; it also reaches advertising limitations in "vertical" agreements with contact lens manufacturers and marketing affiliates, for example. Costello Decl. ¶ 8; Roundy Decl. ¶ 8. This is true even though vertical agreements are favored under antitrust law, have nothing to do with this case, and do not raise the same antitrust concerns motivating the Commission's decision. *See, e.g.*, *Republic Tobacco Co. v. N. Atl. Trading Co.*, 381 F.3d 717, 737 (7th Cir. 2004) ("As horizontal agreements are generally more suspect than vertical agreements, we must be cautious about importing relaxed standards of proof from horizontal agreement cases into vertical agreement cases.").

This is no hypothetical concern. For example, in this industry, purchasing contracts with contact lens manufacturers ("Sellers" within the meaning of the Order) contain various limitations on advertising generally, and trademark use specifically, that plausibly fall within Section II's broad reach. Costello Decl. ¶¶ 3, 5-7. Similarly, agreements with marketing affiliates commonly impose limitations on search advertising and advertising more generally. Roundy Decl. ¶¶ 3, 5-7. Thus, Section II threatens 1-800's ability to engage in industry-standard business practices with business partners. This places 1-800 at a competitive disadvantage—as *none* of its competitors face any similar requirements—and creates irreparable harm.

Fourth, the Order contains numerous notice provisions, including one requiring 1-800 to notify all persons with whom it has ever communicated about suspected trademark infringement of the Commission's decision. Order § IV. This notice provision will be costly, if not impossible, for 1-800 to comply with, as 1-800 has long maintained a robust trademark enforcement program and does not systematically maintain a list of every person with whom it communicates about trademark infringement. Montclair Decl. ¶¶ 13-14. And, if 1-800 is successful on appeal in reversing the Commission's decision, 1-800 would have to send retractions to all those who received the notices. 1-800 would be unable to recover the cost of locating and notifying these persons (and sending retractions), and would be unable to cure the confusion that would result from the multiple notifications. This establishes irreparable harm. *See N.C. Dental*, 2012 WL 588756, at *3.[7]

Overall, the parts of the Order that do more than preclude the enforcement of the Challenged Provisions while the appeal is pending (and require notice to the Challenged Agreement counterparties) will irreparably harm 1-800 by chilling its ability to enforce its trademarks, prohibiting it from entering into competition-enhancing arrangements, and putting it at a competitive disadvantage.

C. No one will be harmed if the Commission grants the partial stay that 1-800 requests.

The third factor the Commission must consider is whether other parties will be harmed if a stay is granted. Although 1-800 disagrees with the Commission's decision that the limited search advertising provisions contained in the Challenged Agreements caused any competitive

[7] These notice provisions further irreparably harm 1-800 by requiring it to send notice to the parties that are most likely to be encouraged to engage in additional acts of infringement, knowing that the government is scrutinizing how 1-800 polices its trademark rights. *See supra* note 6.

harm, 1-800 does not move to stay the provisions of the Order that prohibit 1-800 from enforcing those provisions. Thus, even if the Commission's decision is ultimately upheld, no one will be harmed while the appeal is pending. *Cal. Dental Ass'n*, 1996 FTC LEXIS 277, at *8 ("In light of [respondent's] compliance with the order's core provisions enjoining further unlawful activity, a stay of the remedial provisions . . . until the court of appeals has disposed of the case appears here to be a reasonable measure . . .").

D. A partial stay is in the public interest.

The fourth and final factor is whether the stay is in the public interest. Here, a partial stay is undoubtedly in the public interest. Courts repeatedly have allowed (in fact, required) aggressive trademark enforcement because it fosters consumer welfare. *See, e.g.*, *Clorox*, 117 F.3d at 61; *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179 (7th Cir. 1991); *Saul Zaentz Co. v. Wozniak Travel, Inc.*, 627 F. Supp. 2d 1096, 1110-11 (N.D. Cal. 2008) ("[A] trademark owner has a duty to police its rights against potential infringers."). A partial stay provides 1-800 with the flexibility to enforce its trademarks and resolve disputes during the appeals process. *See* Montclair Decl. ¶¶ 5-12. Moreover, as discussed above, advertising limitations generally—and trademark use provisions specifically—are common in various vertical supply and marketing arrangements. The Order's provisions that inhibit 1-800's ability to enter into (or remain in) these sorts of competition-enhancing arrangements will place 1-800 at a competitive disadvantage and harm competition. Thus, a partial stay is in the public interest because it preserves 1-800's ability to enter into industry-standard agreements and promotes an equal playing field.

V. CONCLUSION

For the foregoing reasons, the Commission should partially stay the Order.

December 10, 2018

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UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

COMMISSIONERS:	Joseph J. Simons, Chairman Noah Joshua Phillips Rohit Chopra Rebecca Kelly Slaughter Christine S. Wilson

In the Matter of: 1-800 Contacts, Inc., a corporation	DOCKET NO. 9372

[PROPOSED] ORDER GRANTING RESPONDENT 1-800 CONTACTS, INC.'S APPLICATION FOR A STAY PENDING REVIEW BY A UNITED STATES COURT OF APPEALS

The Commission issued its Opinion and Final Order in this matter on November 14, 2018 (the "Order"), and 1-800 Contacts, Inc. ("1-800") was served on November 26, 2018. 1-800 applied to the Commission on December 10, 2018, pursuant to 16 C.F.R. § 3.56, for a partial stay of the Order pending appellate review.

Having considered 1-800's Application and all supporting and opposition papers,

IT IS ORDERED that the effective date and enforcement of the Order be stayed upon the filing of a timely petition for review of the Order in an appropriate United States court of appeals pursuant to 15 U.S.C. § 45(c) except to the extent the Order requires 1-800 to:

(1) Cease any enforcement of the provisions related bidding on keywords in search advertising auctions in the fourteen agreements that are listed on pages 8-10 of the Commission's Opinion (the "Challenged Agreements"); and

(2) Notify the counterparties to the Challenged Agreements of the Commission's Opinion and Order and the requirement listed as (1) above. As part of such notification, 1-800 shall provide the counterparties with a copy of the Commission's Opinion and Order, as well as this order granting 1-800's application for a partial stay.

This stay shall remain effective until the expiration of all periods for petitions for rehearing, rehearing en banc, or certiorari to the United States Supreme Court, or until final disposition of all such petitions and any proceedings initiated by a grant of such a petition.

By the Commission.

Donald S. Clark
Secretary

SEAL:

ISSUED:

CERTIFICATE OF SERVICE

I hereby certify that on December 10, 2018, I filed the foregoing Application for a Stay Pending Appeal using the FTC's E-Filing System, which will send notification of such filing to all counsel of record as well as the following:

Donald S. Clark, Esq.
Secretary
Federal Trade Commission
600 Pennsylvania Avenue, NW, Rm. H-113
Washington, DC 20580

The Honorable D. Michael Chappell
Chief Administrative Law Judge
Federal Trade Commission
600 Pennsylvania Avenue, NW
Suite 110
Washington, DC 20580

Dated: December 10, 2018 /s/ Ryan A. Shores

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: December 10, 2018 /s/ Ryan A. Shores

PUBLIC

NOTICE OF ELECTRONIC SERVICE

I hereby certify that on December 10, 2018, I filed an electronic copy of the foregoing Application for a Stay Pending Appeal with:

The Honorable D. Michael Chappell
Chief Administrative Law Judge
600 Pennsylvania Avenue, NW
Suite 110
Washington, DC 20580

Donald Clark
600 Pennsylvania Avenue, NW
Rm. H-113
Washington, DC 20580

I hereby certify that on December 10, 2018, I served via E-Service an electronic copy of the foregoing Application for a Stay Pending Appeal with:

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/s/ Ryan A. Shores

UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of: 1-800 Contacts, Inc., a corporation	DOCKET NO. 9372

DECLARATION OF ROY MONTCLAIR

I, Roy Montclair, declare as follows:

1. I am General Counsel for 1-800 Contacts, Inc. ("1-800"). I make this declaration in support of 1-800's application to the Federal Trade Commission (the "Commission") to partially stay its final order dated November 7, 2018 (the "Order"). The facts stated herein are within my personal knowledge based on my role as General Counsel and other in-house legal positions with 1-800 over the last 17 years. If called as a witness, I could and would testify competently to the facts stated herein.

2. In my various roles with 1-800 over the last 17 years, I am familiar with 1-800's trademarks and the efforts that it has undertaken to protect its trademarks and preserve the goodwill associated with its brand.

3. 1-800 began using the words "1800 Contacts" and related design mark in commerce in connection with the sale of contact lenses and related products in July of 1995.

4. 1-800 applied to the U.S. Patent and Trademark Office for a trademark on the word "1800 Contacts" and related design on July 8, 1999. That application matured into a registration on January 21, 2003 (Reg. No. 2675866). 1-800 has subsequently obtained trademarks on various other words and designs.

5. 1-800's trademarks are very valuable owing to 1-800's superior customer service, strong reputation, and substantial brand-building investments. These investments include hundreds of millions of dollars in advertising through various channels.

6. Because of 1-800's strong brand and reputation, 1-800's competitors use 1-800's trademarks, online and elsewhere, as a way to gain sales without making the same investments in customer service and brand-building that 1-800 has made. For example, competitors have wholesale copied 1-800's landing pages and deceptively used them as the apparent landing page of their search engine advertisements, used software to cover 1-800's page with pop-up ads, used

1-800's trademarks in the title and text of their ads, and displayed website links that deceptively incorporate 1-800's trademarks.

7. Non-competitors also have used 1-800's trademarks in potentially infringing ways. For example, PetMed Express, Inc. dba 1-800 PetMeds, misappropriated the color scheme and branding of the 1-800 Contacts trademark, embodied in U.S. Trademark Registration No. 2731114. Additionally, a number of news agencies have infringed 1-800's trademarks in their written and broadcast reports. In each of these instances, the infringement was resolved with a phone call to the suspected infringer.

8. 1-800 has maintained an active trademark policing program to identify instances of potentially infringing use. This policing program includes manual searches for "1-800 Contacts" and other related terms, as well as using third party trademark monitoring services, such as Thompson Compumark's Clarivate Analytics.

9. Despite 1-800's active trademark policing program, instances of potential, and even egregious, infringement are frequent. Indeed, just this week, on December 4, 2018, 1-800's Chief Marketing Officer forwarded the legal department a screenshot of Facebook groups that appear in response to a search for "1-800 Contacts." The results page showed several unaffiliated groups that use 1-800's trademarked images and even nearly identical company names (*e.g.*, "1-800 Contacts INC" (capitalization error in original)). I have attached the screenshot to this declaration as Exhibit A. In Exhibit A, the first three results are affiliated with 1-800, but the rest are not.

10. Instances of potential infringement are resolved in different ways. Sometimes 1-800 can resolve the issue with a phone call or email, other instances require a cease and desist letter, and still others may require a lawsuit.

11. As part of 1-800's trademark enforcement efforts, it must balance the cost of enforcement against the value of the enforcement efforts to 1-800's brand. If enforcement costs increase, 1-800's brand-protection efforts will likely decrease, as well.

12. I estimate that, in my tenure, 1-800 has communicated with many dozens of potential infringers through various current and former employees and outside counsel.

13. 1-800 does not systematically track every person with whom it has communicated about potential infringement in its 20 years in business, particularly those instances in which the dispute was resolved informally.

14. I have reviewed Section IV.A.2 of the Order and do not believe that 1-800 can reliably notify every person with whom it has communicated about potential infringement due to 1-800's lack of systematic recordkeeping of such communications. Any attempt to comply with this provision would be costly, as 1-800 would have to work with not only current employees and outside counsel, but also identify and locate former employees and outside counsel to try to develop a list of suspected infringers over the last two decades. Even if 1-800 were to engage in such an effort, the list 1-800 would generate will likely be incomplete.

15. I also have reviewed Section IV.B.1 of the Order, which says 1-800 must provide "Commission staff a copy of any Communication by Respondent with any Person regarding that Person's suspected trademark infringement no later than 10 days" after the Communication. "Communication" includes any "transfer" of information, "without regard to the manner or mean in which it was accomplished." Order § I.C.

16. This provision raises a series of questions, issues, and the prospect of substantial costs. For example, if this means that 1-800 must provide Commission staff a copy of every communication in any trademark infringement case, that would impose enormous costs on 1-800, including additional outside counsel fees who would have to provide their communications and address confidentiality and protective order issues. Even if it means something more modest, 1-800 will incur additional outside counsel fees and expend internal resources complying with this provision. I also do not know how 1-800 can provide "a copy" of an oral communication, as the Order suggests. Finally, this provision raises serious issues of confidentiality.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on December 7th, 2018, in Draper, Utah.

Roy Montclair

Roy Montclair

EXHIBIT A

1-800 CONTACTS
145K like this · Product/Service
The fastest, easiest, and most enjoyable way to order contact lenses on...
Like

Courtney, the 1-800 Contacts chatbot
4 like this · Health/Beauty
Instead of cursing the heavens when you run out of contact lenses, chat...
Like

South Valley Optical at 1-800 Contacts
33 like this · Draper, Utah · Sunglasses & Eyewear Store
See for yourself the South Valley Optical difference--vision care and eye...
Like

1-800 Contacts INC
Website
Like

1-800 Contacts Coupons
1 likes this · Shopping District
Get 1-800 Contacts coupons, promo codes and discount codes 2018 a...
Like

1800 Contacts Coupons
Shopping District
Get 1800 Contacts Coupons, promo codes and discount codes 2018 at...
Like

1-800 Homeopathy
41K like this · Richford, Vermont · Alternative & Holistic Health Service
Delivering Homeopathic Products To Your Door Since 1853
Like

The 1-800-CONTACTS commercials - soooo funny!!
26 like this · Community
The new commercials are so funny!!
Like

1800contacts coupons
320 like this · Community
7+ Matching Posts
Un-Official 1800contacts coupons Fan Page for 1800contacts Lovers | ...
Like

MY BRAND!!!!! 1-800-contacts commercial
Like

Eng
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Coo
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UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of: 1-800 Contacts, Inc., a corporation	DOCKET NO. 9372

DECLARATION OF BRADY ROUNDY

I, Brady Roundy, declare as follows:

1. I am the Search Marketing Manager for 1-800 Contacts, Inc. ("1-800"). I make this declaration in support of 1-800's application to the Federal Trade Commission (the "Commission") to stay its final order dated November 7, 2018 (the "Order"). The facts stated herein are within my personal knowledge based on my role as Search Marketing Manager with 1-800 for nearly six years and in roles with other companies managing paid search advertising. If called as a witness, I could and would testify competently to the facts stated herein.

2. In my role with 1-800, I am familiar with the various agreements that 1-800 has entered with its marketing affiliates and general business practices with marketing affiliates.

3. Like other retailers of contact lenses (and retailers of products more generally), 1-800 uses a variety of marketing affiliates to promote 1-800's contact lens sales, distribute coupons, build brand awareness, and drive traffic to 1-800's website, among other reasons. Many of 1-800's marketing affiliates appear to fall under the Order's definition of "Seller," as they market contact lenses. Order § 1.K.

4. 1-800's business arrangements with marketing affiliates generally are subject to confidentiality restrictions. Therefore, I will not disclose specific arrangements with specific marketing affiliates.

5. However, I can say that it is common for marketing affiliates and their business partners to limit use of one another's trademarks, including in the search advertising context.

6. More generally, it is common for arrangements with marketing affiliates to contain provisions related to advertising that are intended to support the marketing relationship. For example, some provisions condition the marketing affiliate's ability to link directly to the retailer's website, and some condition how (and whether) the retailer can describe any affiliation between itself and the marketing affiliate.

7. Because business practices with marketing affiliates typically are dictated by templates or standardized contracts, I expect that other retailers do business with marketing affiliates in a similar fashion as 1-800. Moreover, in my roles with other companies, I have seen similar provisions related to trademark use and advertising as those discussed above.

8. I have reviewed Sections II and III of the Order, and depending on how broadly they are read, I believe they would affect how 1-800 does business with marketing affiliates—both now and in the future. In effect, the Order could preclude 1-800 from entering into industry-standard agreements, and cause 1-800 to depart from industry-standard practices, with marketing affiliates.

9. 1-800's competitors would not be subject to mandates like those in the Order, so 1-800 would face an unequal playing field.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on December 7, 2018, in Draper, Utah.

Brady Roundy

UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of: 1-800 Contacts, Inc., a corporation	DOCKET NO. 9372

DECLARATION OF CHAD COSTELLO

I, Chad Costello, declare as follows:

1. I am the Vice President of Supplier Relations for 1-800 Contacts, Inc. ("1-800"). I make this declaration in support of 1-800's application to the Federal Trade Commission (the "Commission") to partially stay its final order dated November 7, 2018 (the "Order"). The facts stated herein are within my personal knowledge based on my employment with 1-800 over the last six years and in my role with other companies, including more than a decade with a contact lens manufacturer. If called as a witness, I could and would testify competently to the facts stated herein.

2. Based on my experience, I am familiar with the various agreements that 1-800 has entered into with contact lens manufacturers, and, more generally, the types of agreements contact lens manufacturers enter into with retailers.

3. Like most other contact lens retailers, 1-800 has supply contracts with contact lens manufacturers. Contact lens manufacturers appear to be "Sellers" within the meaning of the Order, as they sell contact lenses. Order § 1.K.

4. These agreements are subject to confidentiality provisions. Therefore, I will not disclose the contents of the specific agreements with specific manufacturers.

5. However, I can say that it is common for supply agreements with contact lens manufacturers to contain provisions governing how the retailer may use the manufacturers' trademarks. Indeed, these agreements often contain broad trademark non-use provisions that prohibit the retailer from using the manufacturers' trademarks except as authorized, which could be read to apply in any context, including search advertising.

6. More generally, these agreements often contain provisions related to truthful, non-infringing advertising that are intended to support the supply arrangement. For example, some of these agreements prohibit the retailer from making promotional claims about the manufacturer's contact lenses except as specifically stated in the manufacturer's marketing materials. Other

supply agreements state that the retailer may not use the manufacturer's name or other information associated with the manufacturer (*e.g.*, product names or codes) except in the context of the sale of new contact lenses that are purchased from the manufacturer. Still others govern how the retailer may describe its affiliation with the manufacturer. In fact, before releasing advertising pertaining to a manufacturer's products, it is not uncommon for 1-800 to provide the proposed advertisement to the manufacturer for its review, comment, and ultimately, approval.

7. Because contact lens manufacturer supply contracts are typically template contracts, I expect that other retailers are subject to the same or similar provisions. Moreover, in my career with a contact lens manufacturer, I recall entering into agreements with other retailers that imposed obligations on how the retailers could use the manufacturer's trademarks and advertise the manufacturer's products.

8. I have reviewed Sections II and III of the Order, and depending on how broadly they are read, I believe they would affect how 1-800 does business with its contact lens suppliers—both now and in the future. In effect, the Order could preclude 1-800 from entering into industry-standard agreements with the main suppliers that allow it to compete in the market.

9. 1-800's competitors would not be subject to mandates like those in the Order, so 1-800 would face an unequal playing field.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on December 10, 2018, in Draper, Utah.

Chad Costello