

Eastern District of Virginia IP

Year In Review

2017





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INTRODUCTION

Although overall filings of patent cases declined slightly in the Eastern District of Virginia in 2017 (the District), the District still had its fair share of interesting cases and continues to be a go-to jurisdiction for litigants seeking swift justice and a top-notch judiciary.

With the Supreme Court's decision in *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, venue was at the forefront of the case law around the country, including in the District. The District also decided several § 101 patent eligibility cases, applying the post-*Alice* law that continues to develop in the Federal Circuit.

The District had an opportunity to weigh in on many important and evolving intellectual property law issues facing courts and litigants today. These include the scope of IPR estoppel, application of the Entire Market Value Rule, the need to “mark” a website, proof of contributory or induced infringement, whether “.com” has source identifying significance for purposes of trademark eligibility, and the scope of the private cause of action created by the federal Defend Trade Secrets Act.

We highlight many of these cases below in our annual Intellectual Property Year in Review for the Eastern District of Virginia.

PATENT CASES

VENUE AND JURISDICTION

Venue and personal jurisdiction continue to be important issues in patent infringement cases. This year we reviewed four decisions which address the threshold issue of whether the plaintiff's case can proceed in the chosen forum.

The patent venue statute provides that “[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.”¹

In *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, the US Supreme Court held that “a domestic corporation ‘resides’ only in its State of incorporation for purposes of the patent venue statute.”² The *TC Heartland* decision was issued in March 2017, and defendants in the Eastern District of Virginia immediately seized upon it as a means to object to venue in the District.

In *Cobalt Boats, LLC v. Sea Ray Boats, Inc.* the defendants moved to transfer venue based on *TC Heartland*.³ However, the defendants had already participated in the case for approximately two years, and did not raise their venue challenge until the final pretrial conference. The plaintiff argued that the defendants had waived any objection to venue. The defendants took the position that *TC Heartland* constituted an intervening change in the law, such that waiver did not apply. Senior Judge Henry Coke Morgan, Jr., rejected defendants’ argument. The court observed that *TC Heartland* merely reaffirmed prior Supreme Court precedent, namely *Fourco Glass Co. v. Transmirra Products Corp.*⁴ Judge Morgan noted that the Supreme Court never overruled *Fourco*. The court concluded that there was no “intervening change in the

law” because “*Fourco* has continued to be binding law since it was decided in 1957, and thus, it has been available to every defendant since 1957.”⁵ The court noted that although defendants’ “assumption that *Fourco* was no longer good law was reasonable” in light of the Federal Circuit’s decision in *VE Holding Corp.*, that assumption was “wrong, and it cannot be excused from its waiver by saying there was a change in the law.”⁶

In contrast, in *Symbology Innovations, LLC v. Lego Systems, Inc.*, the court granted a motion to transfer venue based on *TC Heartland*.⁷ In that case, the defendant initially moved to transfer venue to the district court in Connecticut on convenience grounds pursuant to 28 U.S.C. §1404(a).⁸ However, the defendant expressly reserved the right to raise improper venue pending the outcome of *TC Heartland*. The parties briefed the issue of transfer under § 1404(a), and while the motion was pending, the Supreme Court decided *TC Heartland*. Judge Arenda L. Wright Allen then invited supplemental briefing on the issue of improper venue.⁹

In *Symbology Innovations*, the parties did not dispute that the defendant had engaged in acts of infringement in the District. Thus, the venue issue turned on whether the defendant had a “regular and established place of business” in the Eastern District of Virginia. The plaintiff argued that the court should apply the four factor test in *Raytheon Co. v. Cray, Inc.* to answer this inquiry.¹⁰ However, Judge Allen observed that the “Federal Circuit soundly rejected the *Raytheon* test in a recent decision.”¹¹ Judge Allen, following the Federal Circuit, stated that a “regular and established place of business” requires three things: “(1) there must be a physical place in the district; (2) it must be a regular and established place of

¹ 28 U.S.C §1400(b).

² 137 S.Ct. 1514, 1517 (2017).

³ No. 2:15-cv-21, ___ F. Supp.3d ___, 2017 WL 2556679 (E.D.Va. June 7, 2017).

⁴ 353 U.S. 222 (1957).

⁵ 2017 WL 2556679, at *2-3.

⁶ *Id.* at *3.

⁷ No. 2:17-cv-86, 2017 WL 4324841 (E.D.Va. Sept. 28, 2017).

⁸ *Id.* at *5.

⁹ *Id.* at *5-6.

¹⁰ *Id.* at *7.

¹¹ *Id.* at *8.

business; and (3) it must be the place of the defendant.”¹² The court observed that this test is “more demanding than the minimum contacts test applied to personal jurisdiction.”¹³ The plaintiff attempted to satisfy these elements by arguing that the defendant derived revenue from products sold in the District, that the defendant was registered to do business in Virginia and had appointed an agent for service of process in Virginia, and that its subsidiary company operated three retail stores in the District. The plaintiff also argued that the defendant hosted promotional events in Virginia.¹⁴ The court held that none of this evidence supported a finding that the defendant had a “regular and established place of business” in the District.

The court also denied the plaintiff’s motion to take venue discovery given the lack of any evidence to support venue.¹⁵ Moreover, the court denied plaintiff’s request to transfer the case to Delaware, defendant’s place of incorporation, rather than Connecticut, as requested by defendant. The court explained: “Allowing [plaintiff] to interject its second-choice venue into [defendant’s] Motion to Transfer would encourage filing suit in improper venues based on tenuous connections to the forum, with the confidence that the plaintiff’s second-choice forum could be obtained should a defendant secure a hard-fought transfer.”¹⁶

In *Genetic Veterinary Sciences, Inc. v. LABOKlin GmbH & Co, KG* the court considered both personal jurisdiction and subject matter jurisdiction.¹⁷ The case involved a patent for genotyping Labrador retrievers. The patent was owned by the University of Bern (the University), an agency or instrumentality of Switzerland. LABOKlin, a German company, served as the exclusive licensee of the patent. After LABOKlin sent the plaintiff a cease and desist letter, plaintiff filed a complaint against both the University and LABOKlin seeking a declaration that the patent was invalid.¹⁸

LABOKlin filed a motion to dismiss for lack of personal jurisdiction. The court agreed with LABOKlin that it was not subject to jurisdiction under the patent long arm statute because it was an exclusive licensee and not assignee of the patent.¹⁹ However, Judge Morgan held that LABOKlin was subject to personal jurisdiction under Fed. R. Civ. P. 4(k)(2). Under this rule, service of a summons or filing a waiver of service establishes personal jurisdiction over the defendant

where the claim “arises under federal law” and the “defendant is not subject to jurisdiction in any state’s courts of general jurisdiction” and “exercising jurisdiction is consistent with the United States Constitution and laws.”²⁰ The court held that LABOKlin’s activities in the United States were sufficient to establish personal jurisdiction. Although sending a cease and desist letter alone was not sufficient, LABOKlin also had two sub-licensees in the United States and played an enforcement role in the United States for the patent owner.²¹ Thus, the court denied LABOKlin’s motion to dismiss.

The University also sought dismissal, but on different grounds. It argued that the court lacked subject matter jurisdiction over it because there was no case or controversy between it and the plaintiff.²² The court rejected this argument because the University authorized LABOKlin to send the cease and desist letter.²³ The University also argued that it was immune from suit as an agent or instrumentality of Switzerland under the Foreign Sovereign Immunities Act (FSIA).²⁴ The court held that FSIA immunity did not apply because the declaratory judgment claim was based on the University’s commercial activity—authorizing the cease and desist letter to enforce its patent.²⁵

Amazon Web Services, Inc. v. Global Equity Management, S.A. also involved a challenge to personal jurisdiction.²⁶ In that case, Amazon filed a declaratory judgment complaint against GEMSA seeking a declaration of non-infringement and invalidity regarding two patents purportedly assigned to and owned by the defendant, a foreign entity residing outside the United States. The court granted Amazon permission to serve process on GEMSA pursuant to 35 U.S.C. § 293—by publication in a newspaper of general circulation and by service on GEMSA’s outside counsel. GEMSA challenged both the method of service and the court’s exercise of personal jurisdiction over it. On the issue of service, Judge M. Hannah Lauck held that service complied with § 293, and there was nothing unconstitutional about the manner of service.²⁷ The court also concluded that it could exercise personal jurisdiction over GEMSA. The court stated “[n]o doubt exists that the Court has personal jurisdiction over GEMSA because GEMSA owns a patent registered with the USPTO.”²⁸ The court rejected GEMSA’s argument that the exercise of jurisdiction over it violated due process. The

¹² *Id.* at *9 (citations omitted).

¹³ *Id.*

¹⁴ *Id.* at *9-11.

¹⁵ *Id.* at *12.

¹⁶ *Id.* at *14.

¹⁷ No. 2:17-cv-108, 2017 WL 4638590 (E.D.Va. Oct. 16, 2017).

¹⁸ *Id.* at *1.

¹⁹ *Id.* at *2-3.

²⁰ *Id.* at *3 (quoting Fed. R. Civ. P. 4(k)(2)).

²¹ *Id.* at *4.

²² *Id.* at *5.

²³ *Id.*

²⁴ *Id.* at *6.

²⁵ *Id.*

²⁶ No. 3:16-cv-619, 2017 WL 4052381 (E.D.Va. Sept. 13, 2017).

²⁷ *Id.* at *4-5.

²⁸ *Id.* at *7.



court explained that “[f]ederal courts long have held that, in the § 293 context, registering a patent alone satisfies the constitutional inquiry.”²⁹

SECTION 101 INVALIDITY

Establishing venue and jurisdiction is just the first step for plaintiffs. As in years past, defendants continue to challenge patents under § 101, and continue to meet with success in the District. This year we reviewed five cases in which patents were challenged as invalid under § 101 and the standard set forth in *Alice Corp. Pty, Ltd. v. CLS Bank Int’l*.³⁰ Of these five, four resulted in invalidation of the patent. However, in *TecSec, Inc. v. Adobe Systems Inc.*, the patents at issue survived the § 101 challenge.³¹

A few days into the new year, the District decided *Virginia Innovation Sciences Inc. v. Amazon.com, Inc.*³² The case involved “a family of patents that cover a method, system, and apparatus for transferring video signals from a network to a mobile device and then converting those signals in a manner that allows them to be reproduced on an ‘alternative display terminal’ ” such as a television.³³ The plaintiff patent-holder filed a patent infringement suit against the defendant, and the defendant filed a motion to dismiss under § 101.

Judge Liam O’Grady held that the patents were invalid. In reaching this decision, the court engaged in a detailed discussion of § 101 and the *Alice* two-step inquiry for patent eligibility. The first step is for the court to determine “whether the patents at issue are directed to an abstract idea, law of nature, or natural phenomenon.”³⁴ If the answer is no, the inquiry ends. However, if the answer is yes, the

court moves to the second step. In the second step, the court “consider[s] the elements of each claim both individually and as an ordered combination to determine whether the additional elements provide an ‘inventive concept’ that ensures the patent ‘in practice amounts to significantly more than a patent upon the [abstract idea] itself.’ ”³⁵

The court noted that the first step of the inquiry is not a “precise science.”³⁶ Courts must not “overgeneralize claims” which could render “all inventions un-patentable because all inventions can be reduced to underlying principles of nature.”³⁷ At the same time, the court “should endeavor to root out creative ‘drafting effort[s] designed to monopolize the [abstract idea].’ ”³⁸ The step one question “is not whether the patent’s claims involve or relate to an abstract principle, but instead whether the ‘character as a whole’ or the *focus* of the claims center on an abstract idea.”³⁹ In some instances, that precise character or focus of the patent is difficult to determine, and “courts will often move to the ‘inventive concept’ inquiry without articulating the patent’s ‘character as a whole.’ ”⁴⁰

The court also discussed the second step of the inquiry and the recent Federal Circuit decision in *TLI Communications LLC Patent Litigation*.⁴¹ Judge O’Grady stated that “[d]istilled to a principle, TLI holds that when claims are laid out in purely functional language and use conventional technology in a typical manner, they are not patent eligible.”⁴² The court further observed that “[t]he invalidation of purely functional claims is a consistent theme in the Federal Circuit’s

²⁹ *Id.*

³⁰ 134 S.Ct. 2347 (2014).

³¹ No. 1:10-cv-115, 2017 WL 2269035 (E.D.Va. May 23, 2017).

³² 227 F.Supp.3d 582 (E.D.Va. 2017) (appeal filed).

³³ *Id.* at 586.

³⁴ *Id.* at 591.

³⁵ *Id.* (quoting *Alice Corp* 134 S.Ct. at 2355).

³⁶ *Id.* at 592.

³⁷ *Id.* (citation omitted).

³⁸ *Id.* (citation omitted).

³⁹ *Id.* (citations omitted) (emphasis in original).

⁴⁰ *Id.* (citations omitted).

⁴¹ 823 F.3d 607 (Fed. Cir. 2016).

⁴² *Virginia Innovation Sciences, Inc.*, 227 F.Supp.3d at 595.



recent § 101 jurisprudence.”⁴³ A patent-holder must show more than an unconventional idea—“they must show an unconventional *embodiment* of that idea.”⁴⁴

After reviewing the case law, the court set out to apply the two-step inquiry to the family of patents at issue. The court determined that the patents were directed to an abstract idea, that is the “generalized problem of reproducing a video from a mobile phone on a separate display device.”⁴⁵ The court then moved to the second step of the inquiry. The court stated that the “underlying question ... is whether the patent’s specific claims are narrow enough to avoid preempting an entire field of innovation.”⁴⁶ Stated another way, “do the claims remove the invention from the abstract and into the tangible world by patenting a means rather than an end?”⁴⁷ The court answered that question in the negative, and held that the patents were invalid under § 101.⁴⁸

The decision in *Virginia Innovation Sciences* also contains a discussion of the interplay between patentability, obviousness, and novelty.⁴⁹ The court considered whether a PTAB ruling of non-obviousness would “necessarily mean that the patent contains an inventive concept.”⁵⁰ The court held that patent eligibility is a separate issue, and that the PTAB’s ruling regarding obviousness was not dispositive of the eligibility question.⁵¹

The court considered another § 101 challenge in *CalAmp Wireless Networks Corp. v. ORBCOMM, Inc.*⁵² That case involved a patent that claimed a “system and method for

tracking an object by determining whether the object is presently located within a prescribed geographic area and taking appropriate action depending on whether the object is or is not within that area.”⁵³ Judge Henry E. Hudson determined that the claims, when considered as a whole, were directed to “the abstract idea of information collection and analysis.”⁵⁴ The court found that the patent “simply requires a user to collect information about an object’s current position and required position, analyze that information by comparing the current and required positions, and then respond to that information.”⁵⁵ The plaintiff argued that the patent contained an inventive concept “because a subset of database records is stored on the tracking device while the complete database is stored on the server” and that is an improvement over the prior art.⁵⁶ The court rejected this argument, and noted that long before the patent application was filed, “computer systems had been configured in such a way to allow remote terminals to access information stored on a centralized database.”⁵⁷ The court concluded that “[i]mplementing an abstract idea using existing technology in a conventional way cannot create patent eligibility.”⁵⁸ Thus, the court held that the patent was invalid under § 101.

Limelight Networks, Inc. v. XO Communications, LLC presented another § 101 challenge.⁵⁹ The patent in that case described a “goal of speeding up a CDN network through the use of policies and a system for selecting those policies.”⁶⁰ On a motion for summary judgment, Judge John A. Gibney held that the patent was directed to an abstract idea because it lacked any specificity as to how to accomplish

⁴³ *Id.*
⁴⁴ *Id.* (citations omitted) (emphasis in original).
⁴⁵ *Id.* at 596.
⁴⁶ *Id.* at 597.
⁴⁷ *Id.*
⁴⁸ *Id.* at 604-605.
⁴⁹ *Id.* at 598.
⁵⁰ *Id.*
⁵¹ *Id.* at 599.
⁵² 233 F. Supp.3d 509 (E.D.Va. 2017).

⁵³ *Id.* at 510.
⁵⁴ *Id.* at 513.
⁵⁵ *Id.*
⁵⁶ *Id.* at 514.
⁵⁷ *Id.*
⁵⁸ *Id.*
⁵⁹ 241 F. Supp.3d 599 (E.D.Va. 2017).
⁶⁰ *Id.* at 607.



its stated goal.⁶¹ The court also determined that the patent lacked an inventive concept. Rather, it “merely uses generic components of a CDN to implement an abstract idea.”⁶² Thus, the court held that the patent was invalid under § 101.

The court also invalidated a patent under § 101 in *The Cleveland Clinic Foundation v. True Health Diagnostics, LLC*.⁶³ That case involved several patents that related to “a diagnostic test which can be used to determine whether an individual or test subject is at a lower risk or higher risk of developing or having cardiovascular disease than other individuals in a given population of human subjects.”⁶⁴ Judge Leonie M. Brinkema noted that “plaintiffs have advanced the diagnosis of CVD with the methods described in these patents” but that this was not sufficient to overcome the § 101 challenge.⁶⁵ The “patents teach no more than observing the law of nature using ‘well-understood, routine, conventional activity previously engaged in by researchers in the field.’”⁶⁶ Thus, the patents are “ineligible for protection under § 101.”⁶⁷

The court in *The Cleveland Clinic* reiterated that a § 101 challenge may be decided at the motion to dismiss stage, even in cases involving issues of “complex life sciences.”⁶⁸ The court also rejected plaintiff’s argument that a § 101 challenge to a patent issued after *Alice* is subject to a higher standard. The court held that the standard is clear and convincing for any invalidity challenge, whether the patent was issued pre- or post-*Alice*.⁶⁹

As noted above, *TecSec, Inc. v. Adobe Systems Inc.* is the one case we reviewed in which the patent survived the

§ 101 challenge.⁷⁰ That case involved a group of patents that “articulate a multi-level encryption method and system that allows encrypted files to be nested within other encrypted files.”⁷¹ The patents “further limit access by using labels in the form of a field of characters attached to the encrypted files.”⁷² Judge Liam O’Grady held that the patents “are not directed to an abstract idea, law of nature, or natural phenomenon” and thus never had to reach the second step of the *Alice* inquiry.⁷³

CLAIM CONSTRUCTION, INFRINGEMENT, AND OTHER VALIDITY CHALLENGES

In addition to § 101 cases, the District also tackled claim construction, other invalidity challenges, and infringement issues in 2017.

On the subject of claim construction, we note three decisions. In *ORBCOMM, Inc. v. CalAmp Corp.*, Judge Henry E. Hudson limited one term based on the patent specification and limited another based on prosecution disclaimer.⁷⁴ In *Virginia Innovation Sciences, Inc. v. Amazon.com, Inc.*⁷⁵ Judge Liam O’Grady engaged in a detailed analysis of eleven disputed terms, discussing various standards for construction, including claim differentiation and antecedent basis. Finally, in *TecSec, Inc. v. Adobe Systems, Inc.*, Judge O’Grady relied extensively on plain and ordinary meaning to construe the claim terms.⁷⁶

In *Zup, LLC v. Nash Manufacturing, Inc.*, the court granted the defendant’s motion for summary judgment on both obviousness and non-infringement.⁷⁷ The patent at issue involved a recreational water device that was designed to “allow any kind of rider, regardless of athleticism or amount

⁶¹ *Id.* at 607-608.

⁶² *Id.* at 608.

⁶³ No. 1:17-cv-198, 2017 WL 3381976 (E.D.Va. Aug. 4, 2017) (appeal filed).

⁶⁴ *Id.* at *2.

⁶⁵ *Id.* at *10.

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.* at *5.

⁶⁹ *Id.* at *6.

⁷⁰ No. 1:10-cv-115, 2017 WL 2269035 (E.D.Va. May 23, 2017).

⁷¹ *Id.* at *1.

⁷² *Id.*

⁷³ *Id.* at *3.

⁷⁴ No. 3:16-cv-208, 2017 WL 376152 (E.D.Va. Jan. 25, 2017).

⁷⁵ No. 1:16-cv-861, 2017 WL 3599642 (E.D.Va. Aug. 18, 2017).

⁷⁶ No. 1:10-cv-115, 2017 WL 6569592 (E.D.Va. Dec. 21, 2017).

⁷⁷ 229 F. Supp.3d 430 (E.D.Va. 2017) (appeal filed).

of upper body strength, to get up and achieve a full standing and riding position.”⁷⁸ The product, referred to as the Zup Board, “has a top surface and a bottom surface, two side-by-side foot bindings located on the middle section of the board, two side-by-side handles on the front section of the board, and a retractable tow hook attached to the front section of the board.”⁷⁹ Riders are also instructed on how to use the handles and foot-bindings to move into a standing position.⁸⁰ The patent included an apparatus claim (Claim 1) and a method claim (Claim 9).⁸¹

The accused product, known as the Versa Board, also “has a top surface and a bottom surface, with a retractable tow hook” on the front of the board. The Versa Board has several holes configured in various ways to attach handles or foot-bindings. Riders are instructed on four different configurations for use of the handles and bindings depending on whether the user wants to water ski, wakeboard, knee board, or surf, but none of those instructions called for using both at the same time to achieve a standing position.⁸²

The defendant filed a motion for summary judgment on several issues, including that Claims 1 and 9 of the patent were obvious. In granting the motion, Judge Henry E. Hudson noted that under Supreme Court precedent, “[t]he ultimate judgment of obviousness is a legal determination.”⁸³ This determination is to be made based on several “underlying factual findings” which include: “(1) the level of ordinary skill in the pertinent art at the time of the invention; (2) the scope and content of the prior art; (3) the differences between the prior art and the claims at issue; and (4) objective evidence of nonobviousness such as commercial success, long felt but unsolved needs, evidence of acclaim from the inventor’s peers, and the failure of others to innovate.”⁸⁴ The court cited prior decisions from the District which held that “[t]he determinative question in assessing a claim of obviousness is whether one of ordinary skill in the art would have been motivated to use the teachings of a prior art process, in its normal disclosed operation, to create a product that [he] claims in a subsequent patent.”⁸⁵

The court applied the first three factors and determined that there was a “strong *prima facie* case” that the claims are invalid.⁸⁶ The court then conducted an analysis of

“secondary considerations of nonobviousness” to “ensure against hindsight bias.”⁸⁷ In this regard, the court noted that “secondary considerations are inadequate to establish non-obviousness where the claimed invention represents no more than the predictable use of prior art elements according to established functions.”⁸⁸ Moreover, “even if secondary considerations exist, the patentee is still required to establish a *prima facie* case that a nexus exists between the novel aspects of the claimed invention and the evidence of secondary considerations in order for that evidence to be given substantial weight.”⁸⁹

The plaintiff made several arguments regarding secondary considerations. First, the plaintiff pointed to the defendant’s complimentary statements about the product (e.g., “you have a great product”) that were made when the two parties were negotiating a potential partnership. The plaintiff argued that these statements indicated there was an “unsolved need” in the industry.⁹⁰ The court rejected this argument as “devoid of merit.”⁹¹ The court held that these statements were “nothing more than passing compliments at the outset of a business relationship.”⁹² The plaintiff also argued the commercial success of its product supported a finding of non-obviousness. However, the only evidence that plaintiff offered regarding commercial success was the number of units sold. The court held that this evidence was insufficient to prove commercial success because it did not include any information about market share.⁹³

The *Zup* court also considered the defendant’s alternative motion for summary judgment on plaintiff’s contributory and induced infringement claims related to Claim 9 of the patent (the method claim). The court stated the well-established ruled that a claim for contributory infringement requires proof of direct infringement.⁹⁴ In order to show direct infringement, the plaintiff pointed to survey evidence that some purchasers of the Versa Board used the handles and foot-bindings at the same time in a manner consistent with Claim 9. The court expressed some reservations about the strength of this evidence, but held that it was sufficient to create a jury issue regarding direct infringement.⁹⁵

In addition to proof of direct infringement, the plaintiff must prove that the defendant was both aware of the patent and

⁷⁸ *Id.* at 434.

⁷⁹ *Id.*

⁸⁰ *Id.*

⁸¹ *Id.* at 439.

⁸² *Id.* at 436.

⁸³ *Id.* at 438 (quoting *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007)).

⁸⁴ *Id.* at 438 (internal quotations omitted) (citations omitted).

⁸⁵ *Id.* at 438 (internal quotations omitted) (citations omitted).

⁸⁶ *Id.* at 447-48.

⁸⁷ *Id.*

⁸⁸ *Id.* at 448 (internal quotations omitted) (citations omitted).

⁸⁹ *Id.*

⁹⁰ *Id.* 448-449.

⁹¹ *Id.*

⁹² *Id.* at 448.

⁹³ *Id.* at 450.

⁹⁴ *Id.* at 450-51.

⁹⁵ *Id.* at 451-452.

that its actions would lead to infringement.⁹⁶ The court held that the plaintiff had failed to prove that the defendant knew its actions would lead to infringement, because the accused product had multiple non-infringing uses. The court stated “[b]oth the Supreme Court and the Federal Circuit have repeatedly held, without qualification, that a claim for contributory infringement can only stand if the infringing product has *no* substantial non-infringing use.”⁹⁷

The court reached a similar result with respect to plaintiff’s claim for induced infringement. The court observed that induced infringement “requires knowledge that the induced acts constitute patent infringement.”⁹⁸ Moreover, “the inducement must involve the taking of affirmative steps to bring about the desired result.”⁹⁹ Stated another way, “specific intent and action to induce infringement must be proven.”¹⁰⁰ Further, where a product has substantial non-infringing uses, “intent to induce infringement cannot be inferred even when the defendant has actual knowledge that some users of its product may be infringing the patent.”¹⁰¹ In granting summary judgment for the defendant on the induced infringement claim, the court noted that the accused product had substantial non-infringing uses, and that the defendant’s promotional materials and user manual all directed customers to those non-infringing uses.¹⁰² The court concluded that there is “no evidence that [defendant] intended to or took active steps towards inducing its customers to infringe the method claim.”¹⁰³

In *Limelight Networks, Inc. v. XO Communications, LLC*, the court considered several issues, including whether

the subject patent was invalid as anticipated.¹⁰⁴ The case involved competing claims of infringement between Akamai Technologies, Inc. (Akamai) and Limelight Networks, Inc. (Limelight). Both parties moved for summary judgment on multiple issues.¹⁰⁵

Akamai argued that Limelight’s ‘324 patent was invalid as anticipated by the prior art. In considering the motion, Judge John A. Gibney observed that “[t]o prove invalidity by anticipation, Akamai must first prove that it practiced its prior art system in public use and second that every element and limitation of the ‘324 Patent could be found in a single reference in Akamai’s prior art.”¹⁰⁶ The court further noted that “[w]hen a claim covers several structures or compositions, either generically or as alternatives, the claim is deemed anticipated if any of the structures or compositions within the scope of the claim is known in the prior art.”¹⁰⁷ Stated another way, “if a patent claims to invent an apparatus that necessarily does two things, but the prior art already claims one of those things, the patent is anticipated and invalid.”¹⁰⁸ The court held that there were factual disputes that prevented entry of summary judgment on the anticipation defense, and that these issues would need to be submitted to the jury.¹⁰⁹

ATTORNEYS’ FEES AND DAMAGES

This year’s review includes several cases that discuss attorneys’ fees, damages, interest, and costs.

We examined two cases involving a request for attorneys’ fees under 35 U.S.C. § 285. In the first case, the defendant attempted to prove inequitable conduct to support a fee award, but was not successful. In the second case, the plaintiff

⁹⁶ *Id.* at 452.

⁹⁷ *Id.* at 453.

⁹⁸ *Id.* at 454 (internal quotations omitted) (citations omitted).

⁹⁹ *Id.* (internal quotations omitted) (citations omitted).

¹⁰⁰ *Id.* (internal quotations omitted) (citations omitted).

¹⁰¹ *Id.* (internal quotations omitted) (citations omitted).

¹⁰² *Id.*

¹⁰³ *Id.* at 455.

¹⁰⁴ 241 F.Supp.3d 599 (E.D.Va. 2017).

¹⁰⁵ *Id.* at 603.

¹⁰⁶ *Id.* at 605 (citations omitted).

¹⁰⁷ *Id.* (quoting *Brown v. 3M*, 265 F.3d 1349, 1351 (Fed. Cir. 2001)).

¹⁰⁸ *Id.* at 605.

¹⁰⁹ *Id.* at 605-606.

obtained a fee award based on the combination of a jury’s finding of willful infringement and the court’s determination that the defendant engaged in litigation misconduct.

In *Asghari-Kamrani v. USAA*, the defendant sought an exceptional case finding and an award of attorneys’ fees based on alleged inequitable conduct in the prosecution of the subject patent.¹¹⁰ The plaintiff initially filed suit against the defendant for patent infringement. The defendant asserted a counterclaim seeking to invalidate the patent for inequitable conduct and for attorneys’ fees. The plaintiff’s complaint was dismissed on § 101 grounds, and the case proceeded to a bench trial on the defendant’s counterclaim and request for fees.¹¹¹ Judge Robert G. Doumar heard the evidence and entered judgment in favor of plaintiff on the counterclaim.

The decision in *Asghari-Kamrani* includes a detailed discussion of the legal standards for an award of fees and for a finding of inequitable conduct. The court noted that “[e]xceptional cases are those that stand out ‘from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.’”¹¹² The court further stated that the determination of whether a case is “exceptional” is within the discretion of the court and is based on a “totality of the circumstances.”¹¹³ The court also observed that inequitable conduct may serve as a basis for an award of fees.¹¹⁴

The defendant in *Asghari-Kamrani* sought to prove inequitable conduct based on the plaintiff’s conduct in prosecuting the subject patent. The court noted that the party seeking to prove inequitable conduct must show

“that the patent applicant (1) misrepresented or omitted information material to patentability and (2) did so with specific intent to mislead or deceive.”¹¹⁵ The intent to deceive must be proved by clear and convincing evidence.¹¹⁶ The materiality required is “but-for” materiality, *i.e.*, the misrepresentation affected the issuance of the patent.¹¹⁷ There is an exception to the but-for materiality requirement where the “patentee has engaged in affirmative acts of egregious misconduct, such as the filing of an unmistakably false affidavit.”¹¹⁸ In those circumstances, the misconduct is considered to be material without proof of but-for causation.¹¹⁹

The court applied these legal principles to the evidence presented, and determined that the defendant had failed to prove inequitable conduct. In discussing the specific facts, the court stated on several occasions that although an intent to deceive was a plausible explanation for plaintiff’s conduct before the PTO, the plaintiff had offered a plausible alternative explanation. Under these circumstances, the court could not find a specific intent to deceive and held that the defendant did not prove inequitable conduct.¹²⁰ The defendant did not pursue any other basis for an award of fees, and thus, the court declined to make an exceptional case finding.

In *Cobalt Boats, LLC v. Brunswick Corp.* it was the plaintiff who sought both enhanced damages and an exceptional case finding.¹²¹ In that case, the jury returned a verdict in the plaintiff’s favor and found that the defendant’s infringement was willful. After the verdict, the plaintiff sought enhanced damages and attorneys’ fees.

The defendant argued that the jury’s finding of willfulness was advisory only. Judge Morgan rejected this argument,

¹¹⁰ No. 2:15-cv-478, 252 F.Supp.3d 562, 2017 WL 2303759 (E.D.Va. May 18, 2017) (appeal filed).

¹¹¹ *Id.* at *1-2.

¹¹² *Id.* at *3 (citing *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S.Ct. 1749, 1756 (2014)).

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.* at *5 (citations omitted).

¹¹⁶ *Id.*

¹¹⁷ *Id.* at *6.

¹¹⁸ *Id.* (citations omitted).

¹¹⁹ *Id.*

¹²⁰ *Id.* at * 13.

¹²¹ No. 2:15-cv-21, ___ F. Supp.3d ___, 2017 WL 4938230 (E.D.Va. Oct. 31, 2017) (appeal filed).





but noted it was moot because the court agreed with the jury's finding.¹²² The court then went on to consider plaintiff's request for enhanced damages and fees.

In considering whether to award enhanced damages, the court examined the nine (9) factors set forth in *Read Corp. v. Portec, Inc.*:

- 1) whether the infringer deliberately copied the ideas or design of another;
- 2) whether the infringer, when he knew of the other's patent, investigated the patent and formed a good faith belief that it was invalid or that it was not infringed;
- 3) the infringer's behavior in the litigation;
- 4) the infringer's size and financial condition;
- 5) the closeness of the case;
- 6) the duration of the misconduct;
- 7) the remedial action of the infringer;
- 8) the infringer's motivation for harm;
- and (9) whether the infringer attempted to conceal its misconduct.¹²³

The court noted that while several of the factors, including 1, 2, 3, 6, 7, and 8, favored enhancement, the remaining factors were neutral. The court placed weight on defendant's continued infringement during the pendency of the case, failure to take immediate remedial action after the jury verdict, and certain misrepresentations during the litigation. Based on the analysis of the *Read* factors, the court determined that enhancement of the compensatory damage award by 1.5 times, rather than treble damages, was appropriate.¹²⁴

The plaintiff also requested an exceptional case finding and an award of attorneys' fees. The court granted the motion in light of the jury's finding of willfulness and certain conduct

by defendant during the course of the litigation, including a misrepresentation in its Answer concerning when it first learned of the patent, misleading information the defendant provided in discovery about whether it had contact information for a certain former employee, and defendant's delay in the production of certain documents.¹²⁵ The court awarded approximately \$2.5 million in attorneys' fees.

The *Cobalt Boats, LLC* court also considered issues concerning prejudgment interest. The court agreed with the plaintiff that prejudgment interest at the prime rate, rather than the 52-week Treasury bill rate, was appropriate.¹²⁶ The court also agreed with the plaintiff that interest should compound quarterly, rather than annually, and described quarterly compounding as the "District's apparent general practice."¹²⁷ In addition, the court determined that prejudgment interest should be limited to the compensatory damage award.¹²⁸

The court also considered what the appropriate time period was for an award of prejudgment interest. The court observed that "an award of interest for the entire infringement period would overcompensate Cobalt because the infringing sales occurred over time."¹²⁹ Thus, the court determined the midpoint between the first date of infringement and the date of judgment, and calculated interest from this date.¹³⁰

In a subsequent decision in the same case, *Cobalt Boats, LLC v. Brunswick Corp.*, the court considered post-trial motions, including one directed to the calculation of the reasonable royalty.¹³¹ The patent at issue in the case was on a "swim

¹²² *Id.* at *4.

¹²³ *Id.* (citing *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992), *abrogated in part on other grounds by Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996)).

¹²⁴ *Id.* at *7.

¹²⁵ *Id.* at *8.

¹²⁶ *Id.* at *2.

¹²⁷ *Id.* at *3.

¹²⁸ *Id.*

¹²⁹ *Id.* at *2.

¹³⁰ *Id.*

¹³¹ No. 2:15-cv-21, 2017 WL 6034504 (E.D.Va. Dec. 4, 2017) (appeal filed).



step” that was sold as an accessory to a boat. The plaintiff’s expert calculated a royalty rate of \$3,750 per boat sold with the accessory. In order to reach this number, the expert first determined the defendant’s profits on each boat sold with the step (approximately \$20,000). He then apportioned \$5,496 of this amount to the patented component. He calculated the royalty rate from this, and reached a rate of \$3,750 per unit sold. The jury apparently accepted the general methodology, but reduced the rate to \$2,500 per unit sold.¹³²

The defendant argued that this calculation was improper because it included the profits on the entire boat in the royalty base. The defendant argued that the step was the Smallest Saleable Patent Practicing Unit (SSPPU), and thus the royalty must be based solely on defendant’s profits on the step.¹³³ Judge Morgan rejected this argument. He noted that the Federal Circuit “has held that the proper royalty base may be less than or greater than the SSPPU.”¹³⁴ The court further observed that in a license negotiation, “the reasonable royalty reflects the value of a patent to a company, not the net profit upon the one component to the exclusion of all other value to the company.”¹³⁵ For this reason, the Federal Circuit “has repeatedly rejected rigid approaches to patent damages and has emphasized that the trial court has broad discretion to fashion a damages methodology appropriate to the particular case before it.”¹³⁶

The court also discussed the Entire Market Value Rule (EMVR). The EMVR is both a “substantive legal rule” and an “evidentiary principle.”¹³⁷ As a legal principle, EMVR is a rule of apportionment such “that the ultimate combination of royalty base and royalty rate must reflect the value

attributable to the infringing features of the product, and no more.”¹³⁸ A reasonable royalty should reflect the “value of what was taken.”¹³⁹ The EMVR, “read literally, bans a party from assessing a royalty based on profits of the entire multi-component product.”¹⁴⁰ The court noted, however, that the EMVR is “flexible” and not subject to rigid application.¹⁴¹

The court then applied these principles to the damages calculation presented by the plaintiff’s expert. The court held that the expert did not calculate the royalty based on the profits for the sale of a full boat, but rather apportioned a percentage of those profits to the patented component. Thus, the calculation did not violate the EMVR.¹⁴² The court stated that “[o]nce the jury found that Cobalt’s evidence of the step increasing [boat] sales was credible, a royalty that accounted for no increase in [boat] sales would not be ‘adequate to compensate for the infringement.’”¹⁴³ The court noted that “the problem with Brunswick’s argument ... is that Brunswick presumes that the step’s only value is the profits on that component alone.”¹⁴⁴ However, the evidence established that “the value of the step is that it functions as a market differentiator to help sell boats.”¹⁴⁵ Thus, “[t]his factual record justifies some award that recognizes the value of the swim step patent above a single component’s profits and below total profits, which is exactly what occurred.”¹⁴⁶

The defendant also argued that no hypothetical negotiation would produce a \$2,500 royalty. The court disagreed. The court stated that “[t]he hypothetical negotiation must be a

¹³² *Id.* at *9.

¹³³ *Id.* at *7.

¹³⁴ *Id.*

¹³⁵ *Id.* at *8.

¹³⁶ *Id.* (internal quotations omitted) (citations omitted)

¹³⁷ *Id.* at *8.

¹³⁸ *Id.* (internal quotations omitted) (citations omitted).

¹³⁹ *Id.* (internal quotations omitted) (citations omitted).

¹⁴⁰ *Id.* at *9 (internal quotations omitted) (citations omitted).

¹⁴¹ *Id.* at *8.

¹⁴² *Id.* at *9.

¹⁴³ *Id.* (citing 35 U.S.C. §284).

¹⁴⁴ *Id.* at *10.

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

fair one, and no reasonable Cobalt negotiator would accept a royalty rate that does not account for the effect on sales.”¹⁴⁷

In *Limelight Networks, Inc. v. XO Communications, LLC* the court considered a marking defense and pre-suit damages.¹⁴⁸ The subject patent related to a Content Delivery Network (CDN). A CDN connects content providers, such as a website, to internet users, through servers.¹⁴⁹ As explained by the court, “[t]he content providers pay the CDNs to accelerate delivery of their content over the internet to end users.”¹⁵⁰

The plaintiff in *Limelight Networks* maintained a website that allowed customers to access their accounts.¹⁵¹ The defendant moved for summary judgment and argued that the plaintiff could not recover pre-suit damages because it did not mark its website.¹⁵² Judge John A. Gibney denied the motion for summary judgment, and held that marking was not required.¹⁵³ The court noted that “[w]hether a website counts as an ‘article’ that a patentee must mark has been a topic of debate among the district courts.”¹⁵⁴ The court noted that “courts considering the issue have determined that a patentee must mark a website either where the website is somehow intrinsic to the patented device or where the customer downloads patented software from the website.”¹⁵⁵ The court held that the plaintiff’s website satisfied neither of these conditions. “It is not a portal to access the CDN system nor do Limelight’s customers download software from the site.”¹⁵⁶ Moreover, the defendant “failed to show that a patentee must mark user manuals or welcome letters

for a patented system which otherwise lacks a tangible item to mark.”¹⁵⁷ The court concluded that the plaintiff’s products “do not amount to ‘articles’ which require marking.”¹⁵⁸

In *Certusview Technologies, LLC v. S&N Locating Services, LLC* the clerk taxed costs against the plaintiff, as the losing party, in the amount of \$42,305.83.¹⁵⁹ The plaintiff filed a motion to review the taxation of costs and argued that the court should deny costs, or in the alternative, stay any award of costs until plaintiff’s appeal on the merits was resolved.¹⁶⁰ Judge Mark S. Davis held that a stay pending resolution of the appeal was appropriate, but ordered plaintiff to post a supersedeas bond.¹⁶¹ The court explained that “[a] stay of payment of costs is appropriate because of the Court’s interest in judicial economy by avoiding piecemeal appeals: by staying the payment of costs, any review of the taxation of costs may be consolidated with any review of attorneys’ fees after final disposition of the appeal currently pending before the Federal Circuit.”¹⁶²

PLEADING, DISCOVERY, AND EVIDENTIARY ISSUES

We close out our discussion of this year’s patent cases with a discussion of several cases involving pleading, discovery, and evidentiary issues.

Jenkins v. LogicMark, LLC involved a 12(b)(6) challenge to a *pro se* complaint for patent infringement.¹⁶³ Judge Henry E. Hudson dismissed the complaint for failure to state a claim, without prejudice. The parties later reached a settlement, which included the payment of a license fee by LogicMark to Jenkins.

¹⁴⁷ *Id.* at *12.

¹⁴⁸ 241 F. Supp.3d 599 (E.D.Va. 2017).

¹⁴⁹ *Id.* at 604.

¹⁵⁰ *Id.*

¹⁵¹ *Id.* at 608.

¹⁵² *Id.* at 608.

¹⁵³ *Id.*

¹⁵⁴ *Id.*

¹⁵⁵ *Id.*

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

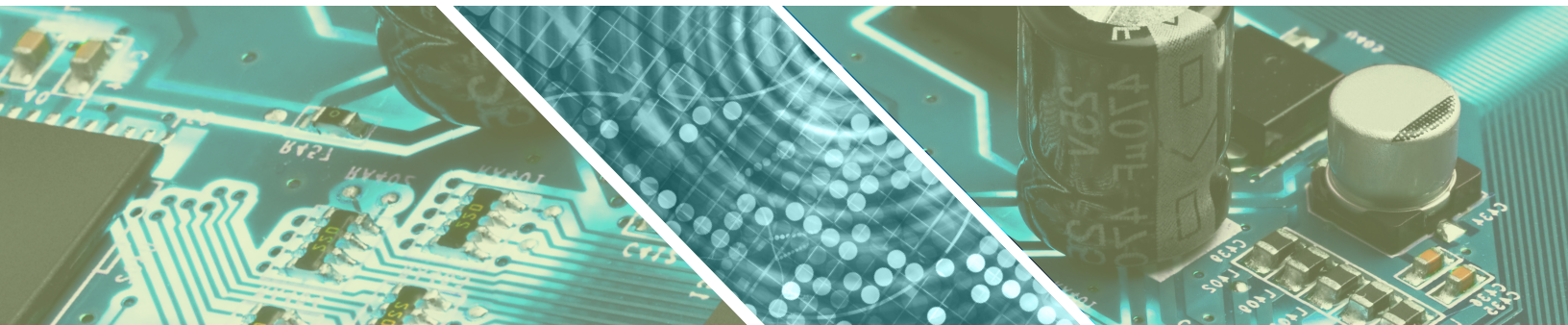
¹⁵⁹ No. 2:13-cv-346, 2017 WL 1745046 (E.D.Va. May 2, 2017)

¹⁶⁰ *Id.* at *3.

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ No. 3:16-cv-751, 2017 WL 376154 (E.D.Va. Jan. 25, 2017).



In considering the motion to dismiss, the court noted that claims for patent infringement are subject to the pleading standards set forth in *Iqbal* and *Twombly*.¹⁶⁴ In holding that the complaint failed to meet these standards, the court observed that the complaint “failed to identify which specific patent claims are alleged to be infringed.”¹⁶⁵ The complaint also failed “to specify which features of LogicMark’s products correspond to the limitations of any claims in the identified patents.”¹⁶⁶ Moreover, the complaint failed to “identify with any particularity *how* each allegedly infringing feature of the accused products infringes any of the named patents, either literally or under the doctrine of equivalents.”¹⁶⁷ The court also discussed plaintiff’s claim of willful infringement. The court held that in order to state a claim for willful infringement, the plaintiff must “plead facts sufficient to support an inference ‘plausible on its face’ that the alleged conduct is of the egregious nature described in *Halo Electronics*—that is “egregious cases of misconduct beyond typical infringement.”¹⁶⁸ The complaint—which “merely makes naked accusations devoid of any details to warrant their plausibility”—failed to meet this standard.¹⁶⁹

Audio MPEG, Inc. v. Dell Inc. involved a motion to bifurcate and try separately the defendants’ counterclaims.¹⁷⁰ In that case, the plaintiffs sued Dell for patent infringement. Dell filed counterclaims against the plaintiffs alleging various antitrust claims and also asserted patent misuse as an affirmative defense. Dell alleged that plaintiffs “are direct competitors with each other but have illegally pooled their patents together ... which improperly restrains trade and creates a monopoly.”¹⁷¹ Plaintiffs moved to bifurcate

the counterclaims and patent misuse defense, and Judge Mark S. Davis, granted the motion. Judge Davis noted that patent infringement claims and antitrust counterclaims are “frequently” bifurcated for trial.¹⁷² The court considered factors such as convenience and judicial economy, jury confusion, and prejudice to the parties, and found that each of these factors weighed in favor of bifurcation.¹⁷³

In *Asghari-Kamrani v. USAA*, Magistrate Judge Robert J. Krask considered a motion to compel the plaintiff to respond to requests for admission.¹⁷⁴ The plaintiffs objected to certain requests as seeking “speculation about the mental impressions of their former patent attorneys” and argued that they had no duty to inquire of third parties in order to respond to the requests. The court disagreed, and held that the “[t]he duty to conduct a reasonable inquiry extends to counsel who represented plaintiffs during the pertinent time period.”¹⁷⁵

Cobalt Boats, LLC v. Sea Ray Boats, Inc., involved several motions in limine.¹⁷⁶ The first issue concerned the scope of IPR estoppel and an interpretation of *Shaw Indus. Grp., Inc. v. Automated Creel Svcs., Inc.*¹⁷⁷ In *Shaw*, the court stated in dicta that “arguments on which the USPTO declines to institute IPR are not estopped by a subsequent written decision.”¹⁷⁸ Judge Morgan noted that there was a split in the district courts as to the import of this language. The broad view holds that estoppel applies only to those issues that were raised in the petition and instituted, such that issues not raised in the petition are exempt from estoppel.¹⁷⁹ The narrow view holds that “estoppel applies to grounds that the petitioner raised at the IPR itself and could have raised in

¹⁶⁴ *Id.* at *3.

¹⁶⁵ *Id.*

¹⁶⁶ *Id.*

¹⁶⁷ *Id.* (emphasis in original).

¹⁶⁸ *Id.* at *5 (citing *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S.Ct. 1923, 1935 (2016)).

¹⁶⁹ *Id.*

¹⁷⁰ No. 2:15-cv-73, 2017 WL 2374077 (E.D.Va. May 31, 2017).

¹⁷¹ *Id.* at *2.

¹⁷² *Id.* at *4.

¹⁷³ *Id.* at *7-8.

¹⁷⁴ No. 2:15-cv-478, 2017 WL 659973 (E.D.Va. Jan. 17, 2017).

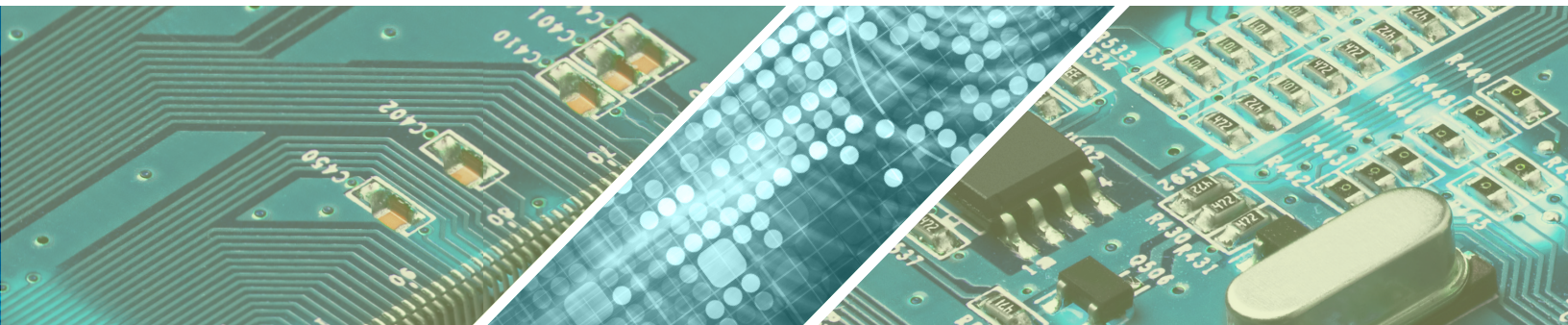
¹⁷⁵ *Id.* at *1.

¹⁷⁶ No. 2:15-cv-21, 2017 WL 2605977 (E.D.Va. June 5, 2017).

¹⁷⁷ *Id.* at *2 (citing *Shaw Indus. Grp., Inc. v. Automated Creel Svcs., Inc.*, 817 F.3d 1293, 1297-1300 (Fed. Cir. 2016)).

¹⁷⁸ *Id.* at 2.

¹⁷⁹ *Id.* at *3.



the IPR petition.”¹⁸⁰ This view is mindful of “policy concerns that Defendants will preserve patent invalidity arguments from the IPR petition and get two chances to argue invalidity, completely eviscerating the advantages of staying litigation for an IPR petition.”¹⁸¹ Judge Morgan adopted the narrow view, noting that “[i]t would waste this Court’s time to allow a stay for a year during IPR proceedings and then review invalidity arguments that Defendants could (and perhaps should) have raised in their IPR petition.”¹⁸²

Cobalt Boats, LLC also addressed the advice of counsel defense and waiver of privilege. The defendants wanted to introduce evidence that their engineers talked to counsel, but they did not want to waive privilege. Defendants argued that they could present this evidence without waiving privilege because the mere fact of communication does not reveal any privileged information.¹⁸³ The court held that the implication of this evidence was that “counsel told [the] engineers ... that their actions were legal.”¹⁸⁴ Thus, the court concluded that this was essentially an advice of counsel defense that would waive privilege.¹⁸⁵

COPYRIGHT CASES

In last year’s review, we reported on *BMG Rights Management (US) LLC v. Cox Communications, Inc.*, in which BMG Rights Management LLC (BMG) and Round Hill Music LP (Round Hill), the owners or administrators of copyrights in approximately 1,400 musical compositions, brought copyright infringement claims against Cox Communications, Inc., and Coxcom, LLC (collectively, Cox), providers of high-

speed internet services.¹⁸⁶ BMG and Round Hill asserted that Cox’s subscribers were using peer-to-peer file sharing to illegally upload and download their copyrighted music files, and that Cox was liable for contributory and vicarious copyright infringement.

Ruling on cross-motions for summary judgment, Judge O’Grady held that: (1) BMG owned the copyrights at issue; (2) Round Hill did not own the copyrights (and was therefore dismissed for lack of standing); and (3) Cox was not entitled to the DMCA safe-harbor defense under § 512(i) of the DMCA¹⁸⁷ because it had failed to implement a repeat infringer policy as required to receive DMCA protections.

After a two-week jury trial, the jury found Cox liable for contributory infringement but not for vicarious infringement. It awarded BMG \$25 million in statutory damages.

Judge O’Grady entered final judgment on the verdict, and Cox filed its notice of appeal.¹⁸⁸ On February 1, 2018, the Fourth Circuit issued its decision reversing the judgment based on errors in the jury instructions, and remanded for a new trial.¹⁸⁹

While the appeal was pending, BMG filed a motion to recover its costs and fees in the district court. Relying on its success in getting plaintiff Round Hill dismissed from the case, Cox filed a motion to recover its costs and fees as well. In a February 14, 2017, decision, Judge O’Grady awarded BMG \$8,383,468.06 in attorneys’ fees and \$146,790.76 in costs,

¹⁸⁰ *Id.*

¹⁸¹ *Id.*

¹⁸² *Id.*

¹⁸³ *Id.* at *5.

¹⁸⁴ *Id.*

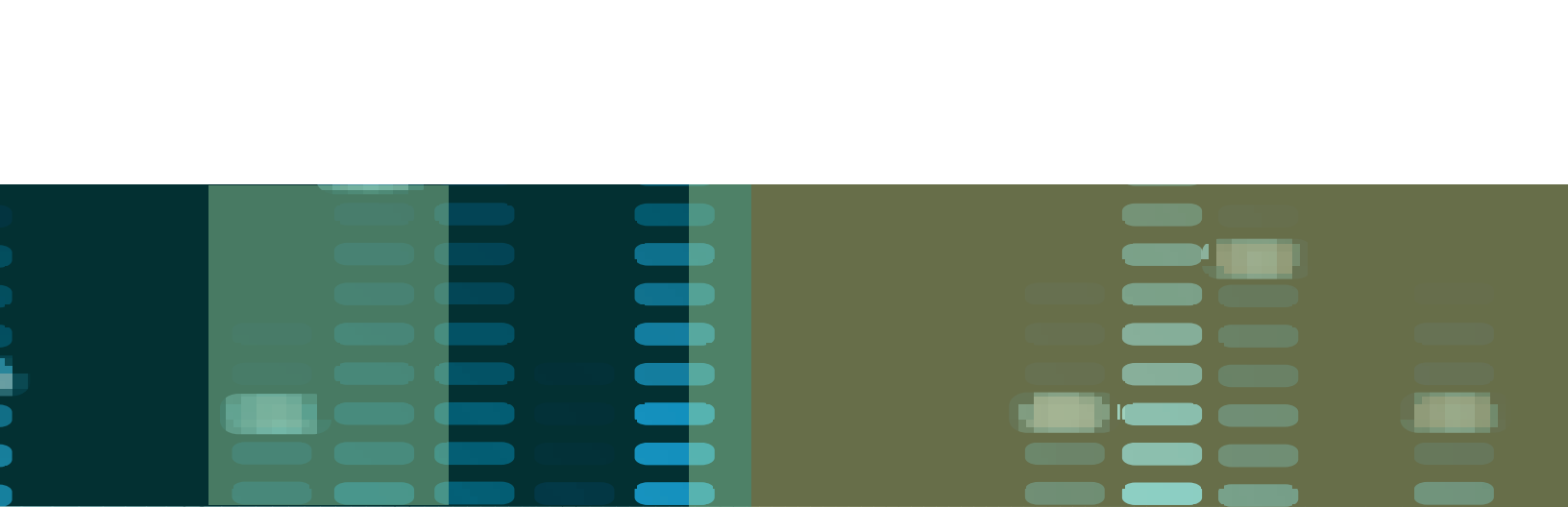
¹⁸⁵ *Id.*

¹⁸⁶ 199 F. Supp. 3d 958 (E.D. Va. 2016), rev’d and remanded, __ F.3d __, 2018 WL 650316 (4th Cir. Feb. 1, 2018).

¹⁸⁷ 17 U.S.C. §512(i).

¹⁸⁸ Case No. 16-1972 (4th Cir. Aug. 19, 2016).

¹⁸⁹ The Fourth Circuit upheld the district court’s decision denying Cox the §512(a) DMCA safe harbor defense. 2018 WL 650316 at *7. However, the court reversed the judgment because the district court’s jury instructions permitted the jury to find Cox liable for contributory infringement on a negligence theory. The Fourth Circuit held that contributory infringement requires intentional conduct, or at least, willful blindness. *Id.* at *11.



and he denied Cox’s motion.¹⁹⁰ Although the judgment has now been reversed, the decision still warrants discussion. In his ruling, Judge O’Grady recited familiar principles for costs and fees in copyright cases, and provided insight on some more novel issues as well.

Pursuant to § 505 of the Copyright Act, “the court in its discretion may allow the recovery of full costs ... [and] a reasonable attorney’s fee to the prevailing party as part of the costs.”¹⁹¹ Prevailing plaintiffs and defendants are equally eligible for fee awards.¹⁹² But fees are not awarded to a prevailing party automatically; a court “must make a ... particularized, case-by-case assessment” in deciding whether to award them.¹⁹³

The Fourth Circuit has provided four factors for district courts to consider when deciding whether to award fees: “(1) the motivation of the parties; (2) the objective reasonableness of the parties’ legal and factual positions; (3) the need to advance considerations of compensation and deterrence; and (4) any other relevant factor.”¹⁹⁴

In finding BMG entitled to fees, Judge O’Grady noted that it was undisputed that BMG was a “prevailing party” under § 505 of the Copyright Act. And although BMG did not succeed on all of its claims, the jury found Cox liable for willful contributory infringement and awarded BMG \$25 million in damages.¹⁹⁵ Cox argued against an award of fees to BMG by asserting that Cox’s positions in the litigation were objectively reasonable and served to clarify important and novel areas of the law, and that the litigation advanced the interests of the Copyright Act.

Judge O’Grady rejected Cox’s argument. With respect to the objective reasonableness factor, although the DMCA defense that Cox asserted in the litigation may have been reasonable in the abstract, certain arguments that Cox made in “support” of this defense were objectively unreasonable as a matter of fact and law. Specifically, Cox attempted to obscure the nature of its “abuse practices”—its termination and reinstatement of its customers who had engaged in copyright infringement—in a number of ways. For example, Cox provided a 30(b)(6) witness who had no knowledge of Cox’s abuse practices; it provided another witness who had “selective recollection” of those abuse practices; and it delayed producing documents relevant to its abuse policy.

As for the motivation of the parties, the jury had found that Cox was a willful infringer since it knew, or should have known, that its behavior was wrong and continued in spite of that awareness.

As for compensation and deterrence, the award of fees was appropriate to give Cox a financial incentive to change its policies and procedures, since the jury found it had engaged in willful and large-scale contributory infringement. Responding to Cox’s argument that the \$25 million verdict was sufficient compensation to BMG and an award of attorneys’ fees would be a “double recovery,” Judge O’Grady found this argument foreclosed by the Copyright Act itself, which allows a prevailing party to potentially obtain fees in addition to damages. He also found that, given the \$25 million verdict and the fact that BMG incurred more than \$10 million in attorneys’ fees, denying attorneys’ fees would erode approximately 40 percent of that verdict.

With respect to other factors, Judge O’Grady noted that a court may consider the relative size of the parties, as well as the ability of a party to pay a fee award. And he found that Cox

¹⁹⁰ *BMG Rights Management (US), LLC v. Cox Communications, Inc.*, 234 F. Supp. 3d 760 (E.D. Va. 2017) (appeal filed).


¹⁹¹ *Id.* at 765 (quoting 17 U.S.C. § 505).

¹⁹² *Id.* (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994)).

¹⁹³ *Id.* (quoting *Kirtsaeng v. John Wiley & Sons, Inc.*, ___ U.S. ___, 136 S.Ct. 1979, 1988 (2016)).

¹⁹⁴ *Id.* (citing *Rosciszewski v. Arete Associates, Inc.*, 1 F.3d 225, 234 (4th Cir. 1993)).

¹⁹⁵ *Id.*



was “a massive company with \$18 billion in annual revenue,” that BMG took a risk in expending more than \$10 million litigating against Cox, and that entities like BMG should be rewarded for vindicating individuals’ copyright rights through litigation against willful infringers with deep pockets.¹⁹⁶

Once a court determines that a fee award is appropriate, it uses the lodestar method to determine the amount to be awarded, employing the following methodology: (1) determining the lodestar figure by multiplying the number of reasonable hours expended times a reasonable rate; (2) subtracting fees for hours spent on unsuccessful claims unrelated to successful claims; and (3) awarding a percentage of the remaining amount, depending on the degree of success achieved by the prevailing party.¹⁹⁷

As for the reasonable hourly rate, Judge O’Grady found that the rates BMG proposed for its attorneys and paralegals were reasonable for “the community in which the court where the action is prosecuted sits.”¹⁹⁸ In so finding, Judge O’Grady relied on three sources: (1) affidavits that BMG submitted from three separate attorneys explaining the detailed and complex nature of BMG’s attorneys’ work on the case, and showing that the proposed rates were customary for this kind of litigation (where BMG’s attorneys’ rates exceeded the customary amount, they had been reduced to comport with customary rates in Alexandria); (2) affidavits from Cox’s counsel in other cases supporting the reasonableness of similar rates in similar litigation; and (3) the “Vienna Metro Matrix” that Cox’s attorney created for a similar copyright case by “survey[ing] the rates offered by Northern Virginia firms capable of handling [that] type of complex litigation.”¹⁹⁹

As for the number of reasonable hours, Judge O’Grady found the hours that BMG’s attorneys expended in the case largely reasonable given the complexity and magnitude of the case.

The reasonableness of those hours was bolstered by the fact that one of the attorneys submitting a declaration in support of BMG’s fee application had used his billing judgment to eliminate almost \$1 million in fees from the total requested by BMG. But Judge O’Grady imposed an additional 10 percent reduction in BMG’s claimed fee for instances of block billing, vague billing entries, and duplicative work.²⁰⁰

With respect to unsuccessful claims, the court must “subtract fees for hours spent on unsuccessful claims [in the case] unrelated to successful ones.”²⁰¹ Cox provided examples of portions of the case that were unsuccessful for BMG, e.g., an unsuccessful motion to quash a subpoena, research on a Cox affiliate that was later dismissed as a defendant, and work related to expert witnesses on the unsuccessful issue of vicarious liability. But Judge O’Grady found that these discrete legal issues related to BMG’s broader successful claims of contributory infringement, and that BMG’s work on them “was not meaningfully distinct,” so that “the fact that BMG lost on these issues does not alter its fee award.”²⁰²

Finally, as for the degree of success, a court “award[s] some percentage of the remaining amount, depending on the degree of success enjoyed by the plaintiff.”²⁰³ “[I]n cases that involve a ‘common core of facts’ and ‘related legal theories,’ it will be difficult to ‘divide the hours on a claim by claim basis,’ [so] ‘the focus should be more generally on the attorney’s work and overall success rather than a critical assessment of each argument.’”²⁰⁴ Here, Judge O’Grady found that “[i]n most respects, this can be viewed as a highly successful result” for BMG, since it established liability for willful contributory infringement, proved infringement of 1,397 copyrights, and obtained \$25 million in damages. “On the other hand, BMG failed in its vicarious liability claims

¹⁹⁶ *Id.* at 767-769.

¹⁹⁷ *Id.* at 766 (citing *McAfee v. Boczar*, 738 F.3d 81, 88 (4th Cir. 2013)).

¹⁹⁸ *Id.* at 770 (quoting *Rum Creek Coal Sales, Inc. v. Caperton*, 31 F.3d 169, 175 (4th Cir. 1994)).

¹⁹⁹ *Id.* (quoting *Vienna Metro LLC v. Pulte Home Corp.*, No. 1:10-cv-502, Dkt. 263 (E.D. Va. Aug. 24, 2011)).

²⁰⁰ *Id.* at 773.

²⁰¹ *Id.* at 775 (quoting *McAfee*, 738 F.3d at 88).

²⁰² *Id.* at 776.

²⁰³ *Id.* at 776 (quoting *McAfee*, 738 F.3d at 88).

²⁰⁴ *Id.* (quoting *Henlsey v. Eckerhart*, 461 U.S. 424, 435 (1983)).

and its motion for injunctive relief.” Given the similarities between BMG’s unsuccessful vicarious infringement claim and its successful contributory infringement claim, the vicarious infringement claim did not significantly raise the legal costs of BMG’s case. All in all, Judge O’Grady found the outcome of the case for BMG to be “something less than ‘excellent results,’” with the “two minor setbacks” in its case (vicarious liability and injunctive relief) warranting a 10 percent reduction in its lodestar figure.²⁰⁵

In its motion for fees, BMG also sought reimbursement for \$2,920,643.76 in expenses—such as travel costs, expert witness fees, and legal research costs—that are nontaxable under 28 U.S.C. §§ 1821 and 1920. Judge O’Grady noted that there is a circuit split as to whether nontaxable fees are recoverable under § 505 of the Copyright Act, with the Ninth Circuit holding that they are recoverable while the Eighth and Eleventh Circuits hold that they are not.²⁰⁶ Judge O’Grady sided with the Eighth and Eleventh Circuits, declining to award any fees beyond those allowed for in 28 U.S.C. § 1821 and 1920. In so ruling, he noted that § 505 of the Copyright Act does not mention witness fees, travel expenses, or any other nontaxable fees, and that the Eighth and Eleventh Circuit decisions soundly relied on the Supreme Court’s instruction that “[a]ny argument that a federal court is empowered to exceed the limitations explicitly set out in §§ 1920 and 1821 without plain evidence of congressional intent to supersede those sections ignores our longstanding practice of construing statutes *in pari materia*.”²⁰⁷

Turning to the issue of costs, BMG submitted a bill of costs totaling \$180,138.59 for: (1) clerk fees, including *pro hac vice* applications; (2) trial and deposition transcripts and related fees; and (3) fees for exemplification and copies of transcripts and trial exhibits. Judge O’Grady found most of Cox’s arguments against these costs unconvincing, but he did deduct transcription fees that BMG and Cox agreed to split, and also reduced the rest of the cost award by 10 percent, consistent with BMG’s “degree of success.” As a result, he awarded BMG \$146,790.76 in costs.²⁰⁸

Cox filed a motion for attorneys’ fees and costs as well, asserting that, regardless of BMG’s success in the case, Cox was also a prevailing party because it had obtained dismissal of plaintiff Round Hill for lack of standing. Judge O’Grady denied Cox’s motion. In so doing, he relied on a plain reading

of § 505, which contemplates a single prevailing party in a copyright action (“*the* prevailing party”), and on the Eastern District of Virginia’s and the Federal Circuit’s interpretations of other fee statutes to the effect that “[f]or the purposes of costs and fees, there can be only one winner.”²⁰⁹ Judge O’Grady acknowledged that “there are many well-cited cases in which multiple plaintiffs or multiple defendants have received fee awards,” but he noted that “[w]hen courts award fees to multiple ‘prevailing parties,’ ... those parties appear on the same side of a single cause of action.”²¹⁰ Thus, Judge O’Grady read § 505 of the Copyright Act to mean that only one *side* of a cause of action may be the winner and that “[i]n this case, BMG is that winner.”²¹¹

TRADEMARK CASES

The first case in our trademark review concerns an issue of first impression in the District. In *Booking.com B.V. v. Matal*, the court considered whether the mark “BOOKING.COM” was generic or descriptive.²¹² Judge Brinkema held that a top-level domain (TLD) such as .com “generally has source identifying significance.” The court further held that the combination of a generic term, such as booking, with a TLD, “is usually a descriptive mark eligible for protection upon a showing of secondary meaning.”²¹³

In *Booking.com*, the plaintiff sought to register four versions of the booking.com mark in Class 39 and Class 43. The TTAB found plaintiff’s marks ineligible for registration. Specifically, the TTAB “concluded that BOOKING.COM is generic for the services identified in the applications or, alternatively, that it is merely descriptive and lacks acquired distinctiveness.”²¹⁴

The plaintiff challenged the TTAB’s decision in district court, and the parties filed cross-motions for summary judgment. The parties agreed that if the court determined there were issues of fact, the court could act as factfinder and resolve those factual issues in ruling on summary judgment.²¹⁵ In ruling on the motions, the court relied on the record from the TTAB as well as additional survey and expert evidence submitted by the parties.²¹⁶

The court considered whether the proposed mark, booking.com, was generic. The court identified three steps involved in

²⁰⁵ *Id.* at 776-77.

²⁰⁶ *Id.* at 778-79 (citing *Twentieth Century Fox Film Corp. v. Entertainment Distributing*, 429 F.3d 869 (9th Cir. 2005); *Artisan Contractors Ass’n of Am., Inc. v. Frontier Ins. Co.*, 275 F.3d 1038 (11th Cir. 2001); *Pinkham v. Camex, Inc.*, 84 F.3d 292 (8th Cir. 1996)).

²⁰⁷ *Id.* at 779 (quoting *Crawford Fitting Co. v. J.T. Gibbons, Inc.*, 482 U.S. 437, 445 (1987)).

²⁰⁸ *Id.* at 780-83.

²⁰⁹ *Id.* at 783-84 (quoting *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, No. 1:13CV0740, 2015 WL 7283108, at *2 (E.D. Va. Nov. 17, 2015) (citing *Shum v. Intel Corp.*, 629 F.3d 1360, 1367 (Fed. Cir. 2010)).

²¹⁰ *Id.* at 784 (citing *Rosciszweski*, 1 F.3d at 227).

²¹¹ *Id.*

²¹² ___ F. Supp.3d ___, 2017 WL 3425167, No. 1:16-cv-425 (E.D.Va. Aug. 9, 2017)

²¹³ *Id.* at *23.

²¹⁴ *Id.* at *1.

²¹⁵ *Id.* at *5.

²¹⁶ *Id.* at *4.



the analysis: “(1) identify[ing] the class of product or service to which use of the mark is relevant; (2) identify[ing] the relevant purchasing public of the class of product or service; and (3) [determining whether] the primary significance of the mark to the relevant public is to identify the class of product or service to which the mark relates.”²¹⁷

The court characterized the third step as a determination of whether “the primary significance of the term in the minds of the consuming public is not the product but the producer.”²¹⁸ Here, the court analyzed the elements of the mark and also considered consumer survey evidence.

In examining the elements of the mark, the court held that the term “booking” is generic for the reservation services identified in plaintiff’s application.²¹⁹ The court noted, however, that this does not end the inquiry. Rather, “the Court must consider whether the term resulting from combining ‘booking’ with ‘.com’ remains generic.”²²⁰

Plaintiff argued that “.com” is a top-level domain name similar to .net, .org, and .edu, and that when combined with the term “booking” it “signals a domain name, which is a unique identifier capable of indicating the source of a product or service.”²²¹ In this instance, “booking” is a second-level domain name (SLD) “which is the next level of organization in the domain name hierarchy.”²²² Defendant argued that .com “is merely a term that denotes services offered via the Internet” and that “a TLD has no source identifying significance.”²²³

The court noted the lack of “Fourth Circuit precedent regarding the source identifying significance of a TLD.”²²⁴ The court looked to Federal Circuit cases as persuasive authority.

However, the court noted that the Federal Circuit cases arose in §1071(a) proceedings, in which the Federal Circuit reviewed the underlying TTAB decision for “substantial evidence”—a more deferential standard than the *de novo* review standard applicable in the district court.²²⁵

After a careful review of the Federal Circuit law and the arguments presented by the parties, the court held that “TLDs are generally source identifying and that a mark composed of a generic SLD and a TLD is a descriptive mark eligible for protection upon a showing of acquired distinctiveness.”²²⁶

The court bolstered its determination that “booking.com” was descriptive with the survey evidence offered by plaintiff. That evidence demonstrated that “the consuming public understands BOOKING.COM to be a specific brand, not a generic name for online booking services.”²²⁷

Having determined that BOOKING.COM is descriptive, the court turned to whether the mark had acquired secondary meaning or distinctiveness. The court recited the substantial evidence presented by plaintiff to support a finding of secondary meaning, including substantial advertising and 1.3 billion visual impressions of the brand to consumers through television commercials, consumer survey evidence showing that consumers associated the mark with the source of the service, sales success, unsolicited media coverage, plaintiff’s length and exclusivity of use, and a substantial social media following.²²⁸

The court then returned to plaintiff’s trademark applications, which sought to register the mark in Class 39 (travel agency services) and Class 43 (hotel reservation services).²²⁹ The court noted that when an application seeks to register the

²¹⁷ *Id.* at *7.

²¹⁸ *Id.* at *8.

²¹⁹ *Id.* at *9.

²²⁰ *Id.*

²²¹ *Id.*

²²² *Id.*

²²³ *Id.*

²²⁴ *Id.* at *10.

²²⁵ *Id.*

²²⁶ *Id.* at *15.

²²⁷ *Id.* at *17.

²²⁸ *Id.* at *20-22.

²²⁹ *Id.* at *22.



same mark in two different classifications, it is treated as two separate applications.²³⁰ The court held that plaintiff's evidence of secondary meaning did not "clearly differentiate" between these two classes, but where it does, "it refers only to plaintiff's hotel reservation services."²³¹ Thus, the court held that plaintiff had proved secondary meaning only with respect to Class 43. The court ordered the USPTO to register the BOOKING.COM mark as to Class 43 on two of the applications. The other two applications, which included additional design elements, were remanded to the USPTO for further consideration consistent with the court's opinion.²³²

The defendant subsequently filed a motion to amend the judgment and to recover expenses, including attorneys' fees, pursuant to 15 U.S.C. §1071(b)(3).²³³ The defendant sought to amend the judgment because it improperly ordered the defendant to register the marks. The court granted the motion, and amended the judgment to order the defendant to publish the applications for opposition.²³⁴ The court also granted the motion for expenses, and rejected plaintiff's argument that an award of attorneys' fees violated the American Rule, that §1071(b)(3) was unconstitutional, and that the expenses claimed were unreasonable.²³⁵

Next we report on two decisions in the same case issued on the same day—one excluding plaintiff's expert and the other granting summary judgment for the defendants.²³⁶

The plaintiff in *Valador, Inc. v. HTC Corp.* was a software seller that used a VIVE trademark, mostly in the text of service contracts that it entered into with its primary customers, government agencies. Valador brought Lanham Act claims against three defendants involved in the

manufacture, marketing, and sale of virtual reality headsets, asserting that their use of an HTC VIVE mark for the headsets constituted trademark infringement and unfair competition and that their registration and use of the domain names «htcvive.com», «vive.com», and «viveport.com» constituted cybersquatting. In two decisions issued on March 15, 2017, Judge Ellis (1) excluded Valador's proffered survey expert, Christopher Bonney, and (2) granted the defendants' motion for summary judgment on Valador's trademark infringement, unfair competition, and cybersquatting claims.²³⁷

Addressing the defendants' motion to exclude Valador's survey expert pursuant to Rule 702 of the Federal Rules of Evidence, Judge Ellis acknowledged that consumer surveys are generally admissible in trademark infringement cases, and that "[u]sually, objections based on flaws in the survey's methodology are properly addressed by the trier of fact."²³⁸ An expert's survey and conclusions may be excluded, however, if the survey "suffers from 'fatal flaws,' as opposed to 'mere technical flaws.'"²³⁹ And a likelihood of confusion survey is properly excluded if (1) the witness does not qualify as an expert or (2) the survey was not "conducted according to accepted principles" and in "a statistically correct manner."²⁴⁰ Judge Ellis granted the defendants' motion to exclude on each of these two independent grounds.

First, Judge Ellis found that Bonney was not qualified to present his proffered opinions. Although Bonney had four decades of experience as a market research consultant, (1) he had no prior experience conducting likelihood of confusion surveys in trademark cases; (2) he did "not have any specific knowledge or specialty in trademark cases"; (3) he did not review any likelihood of confusion surveys from prior trademark cases before conducting his own; (4)

²³⁰ *Id.* at *5.

²³¹ *Id.* at *22.

²³² *Id.* at *23.

²³³ *Booking.com v. Matal*, No. 1:16-cv-425, 2017 WL 4853755 (E.D.Va. Oct. 26, 2017) (appeal filed).

²³⁴ *Id.* at *4.

²³⁵ *Id.* at *11.

²³⁶ *Valador, Inc. v. HTC Corp.*, 2017 WL 1037589 (E.D. Va. Mar. 15, 2017); *Valador, Inc. v. HTC Corp.*, 241 F. Supp. 3d 650 (E.D. Va. 2017).

²³⁷ *Valador, Inc. v. HTC Corp.*, 2017 WL 1037589 (E.D. Va. Mar. 15, 2017); *Valador, Inc. v. HTC Corp.*, 241 F. Supp. 3d 650 (E.D. Va. 2017); 15 U.S.C. §§ 1114(1)(a), 1125(a), 1125(d).

²³⁸ *Valador*, 2017 WL 1037589, at *4 (quoting *PBM Prods., LLC v. Mead Johnson & Co.*, 639 F.3d 111, 123 (4th Cir. 2011)).

²³⁹ *Id.* (quoting *Citizens Fin. Grp., Inc. v. Citizens Nat'l Bank of Evans City*, 383 F.3d 110, 121 (3rd Cir. 2004)).

²⁴⁰ *Id.* (quoting *M2 Software, Inc. v. Madacy Entm't*, 421 F.3d 1073, 1087 (9th Cir. 2005)).

he had never testified as an expert, or performed work for anyone testifying as an expert, in a trademark case; (5) he had published nothing on the topics of trademark surveys or likelihood of confusion; and (6) he was unaware how courts analyze trademark infringement claims. Bonney therefore lacked the necessary experience with trademark claims to pass muster under Rule 702.²⁴¹

As a separate basis for exclusion, Bonney’s proffered survey suffered from fundamental flaws rendering it so unreliable as to be inadmissible. **First**, the survey did not cover the proper universe. Valador appeared to be relying on a “reverse confusion” theory of trademark infringement: the defendants had so saturated the market with their junior HTC VIVE that it overwhelmed Valador’s senior VIVE mark and confused Valador’s potential customers into believing that Valador’s VIVE products were associated with defendants’ HTC VIVE products. For a reverse confusion theory, the proper universe would have been Valador’s potential customers, which were government agencies. But Bonney attempted to focus his survey on *the defendants’* potential customers rather than Valador’s potential customers. Moreover, even if Valador were pursuing a “forward confusion” theory, for which the defendants’ potential customers would have been the proper universe, Bonney erred in multiple ways in trying to reach this universe: (1) he targeted consumers who were likely to view *the defendants’ advertisements* for its virtual reality headsets when he should have instead targeted consumers who were likely to *purchase the defendants’ headsets*; (2) his survey was *over-inclusive* because it targeted 18- to 34-year-old men who enjoy “virtual reality entertainment” generally rather than targeting consumers who were likely to purchase the defendants’ virtual reality headsets at issue; (3) at the same time, Bonney’s survey was *under-inclusive* because it excluded all women and it also failed

to cover the “average” purchaser of defendants’ headsets: men aged 29 to 45 years rather than men aged 18 to 34 years; and (4) finally, it was unclear what Bonney meant by the term “virtual reality entertainment” or how the survey respondents understood that term.²⁴²

Second, Bonney’s survey “failed to replicate [or sufficiently simulate] actual market conditions in which consumers might encounter the parties’ marks.”²⁴³ Rather than showing Valador’s and the defendants’ marks as they appeared in commerce, Bonney “showed participants two seemingly identical, black-and-white images of the word ‘VIVE,’ without any other styling, words, symbols or images that typically accompany the word, ‘Vive’ as either Valador or defendants use that term in the marketplace. Notwithstanding the fact that the [defendants’] HTC Vive mark typically appears in commerce accompanied by a triangular symbol, blue coloring, and a stylized ‘HTC’ logo, Bonney excluded those images and font.” In fact, Judge Ellis found that “Bonney deliberately altered defendants’ mark to make it appear more similar to [Valador’s mark] before asking questions about the marks’ likelihood of confusion.”²⁴⁴

Third, Bonney did not include a control in his survey “to account for potential error, false positives, or background noise.”²⁴⁵ Instead, he relied “solely on the raw confusion rate among all survey respondents,” making it “impossible to gauge and correct for the significant potential error rate.”²⁴⁶

Fourth, Bonney’s survey did not employ a recognized methodology. Judge Ellis noted that there are two common methods for surveying likelihood of confusion in trademark cases—the *Eveready* test and the *Squirt* test—and that Bonney used neither.²⁴⁷ The survey methodology that Bonney

²⁴¹ *Id.* at *5-6.

²⁴² *Id.* at *6-8.

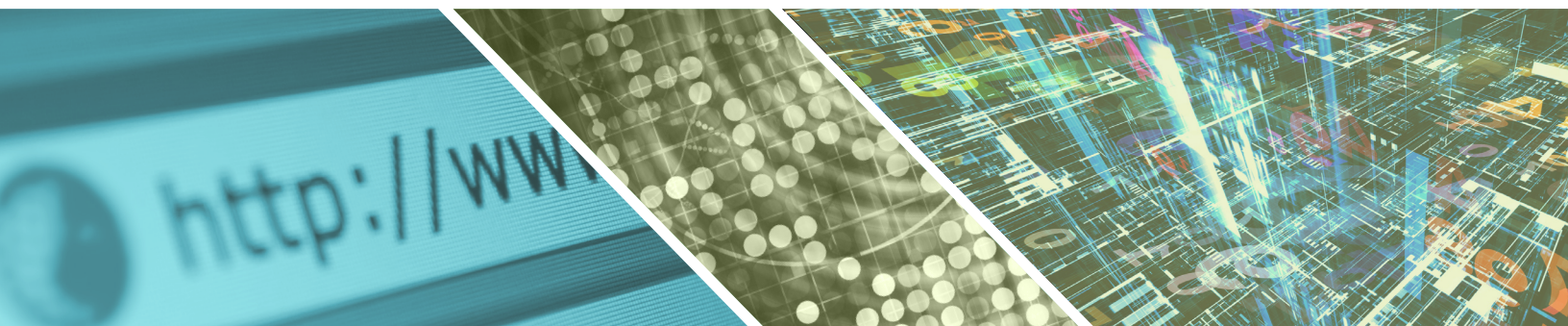
²⁴³ *Id.* at *8.

²⁴⁴ *Id.* at 8-9.

²⁴⁵ *Id.* at *10.

²⁴⁶ *Id.* (citing *United States v. Crisp*, 324 F.3d 261, 266 (4th Cir. 2003)).

²⁴⁷ *Id.* (citing *Union Carbide Corp. v. Ever-Ready, Inc.*, 531 F.2d 366 (7th Cir. 1975); *SquirtCo v. Seven-Up Co.*, 628 F.2d 1086 (8th Cir. 1980)).



did use failed to show respondents the relevant marks as they actually appeared in the marketplace. Bonney also revealed that he did not have a clear idea as to which products he was attempting to compare in his survey. And Bonney created his survey methodology specifically for this litigation, meaning that it had never enjoyed general acceptance, had never been tested, and had never faced peer review.²⁴⁸

Finally, the questions in Bonney’s survey were improperly suggestive. For example, some of the questions improperly suggested to survey participants that there was a link between Valador and the defendants by asking: “‘How likely do you think it is that there will be confusion between’ the two products, the two product names, and the two ‘VIVE’ names ‘if they are used by different companies selling similar products.’”²⁴⁹

Having excluded Valador’s proffered survey expert, Judge Ellis issued a separate decision on the same day granting the defendants’ motion for summary judgment on Valador’s trademark infringement, unfair competition, and cybersquatting claims.²⁵⁰ The defendants were entitled to summary judgment on the trademark infringement and unfair competition claims because “no reasonable juror could find a likelihood of confusion as to the source of the parties’ marks, goods, or services” given that “[Valador] and defendants sell dissimilar things through different channels in disparate markets.”²⁵¹ And the defendants were entitled to summary judgment on the cybersquatting claims “because no reasonable jury could conclude that [defendant] HTC Corporation acted with a bad faith intent to profit from [Valador’s] mark.”²⁵²

Addressing the trademark infringement and unfair competition claims, Judge Ellis noted that Valador had posited both a “forward” confusion and a “reverse” confusion theory of trademark infringement, and he explained that “a forward confusion theory would mean that consumers mistakenly believe that the [defendants’] HTC Vive headset is associated with [Valador] while “reverse confusion would occur if someone purchasing [Valador’s] goods or services was under the mistaken impression that they were buying [the defendants’] HTC Vive headset.”²⁵³

Judge Ellis considered the nine factors that the Fourth Circuit recognizes in guiding the likelihood of confusion inquiry, and he found that—with respect to either forward confusion or reverse confusion—“none of the relevant factors militates in favor of finding a likelihood of confusion”; “seven of the eight applicable likelihood-of-confusion factors weigh strongly in defendants’ favor, and one factor—the strength of the parties’ marks—slightly favors defendants.”²⁵⁴

Judge Ellis also granted summary judgment to the defendants on Valador’s cybersquatting claims under § 1125(d)(1)(A) of the Anticybersquatting Consumer Protection Act.²⁵⁵ The key dispute on summary judgment was whether the defendants acted with a bad faith intent to profit from Valador’s VIVE mark when they registered and used the domain names «htcvive.com», «vive.com», and «viveport.com». Considering the non-exclusive list of nine factors that the ACPA provides to consider in evaluating bad faith intent to profit, Judge Ellis held that “no reasonable juror, given the totality of the circumstances as reflected in the undisputed factual record, could find that [the defendants] had a bad faith intent to profit from [Valador’s] mark.”²⁵⁶

²⁴⁸ *Id.*

²⁴⁹ *Id.* at *11.

²⁵⁰ *Valador*, 241 F. Supp. 3d 650 (E.D.Va. 2017)..

²⁵¹ *Id.* at 659.

²⁵² *Id.*

²⁵³ *Id.* at 660-61.

²⁵⁴ *Id.* at 670.

²⁵⁵ *Id.* at 671 (citing to 15 U.S.C. § 1125(d)(1)(A)).

²⁵⁶ *Id.* at 672.





TRADE SECRET CASES

We report on four trade secret cases from 2017. These cases consider a variety of issues, including attorneys' fees, statute of limitations, and injunctive relief. In two of the cases, the court limited the causes of action available to the plaintiff—holding that there is no Virginia common law claim for misappropriation and holding that the federal Defend Trade Secrets Act does not create a private right of action for conspiracy to misappropriate trade secrets.

The first case is a continuation from last year, *Hair Club for Men, LLC v. Ehson*, in which the plaintiff obtained a jury verdict on its trade secret and other claims. The plaintiff then moved for an award of attorneys' fees and costs, including under the Virginia Uniform Trade Secrets Act.²⁵⁷ Judge O'Grady noted that a plaintiff may recover fees under the VUTSA only if the misappropriation was "willful and malicious."²⁵⁸ This means that the defendant has "act[ed] consciously in disregard of another person's rights or act[ed] with reckless indifference to the consequences, with the defendant aware, from his knowledge of existing circumstances and conditions, that his conduct probably would cause injury to another."²⁵⁹ The court held that the evidence supported a finding of "willful and malicious" conduct. The defendant argued that fees were not appropriate because the jury was not asked to make a finding as to whether the defendant's misappropriation was "willful or malicious." The court rejected this argument, and held that no such finding by the jury was required for fees to be awarded.²⁶⁰

In *Thousand Oaks Barrel Co., LLC v. Deep South Barrels LLC*, the plaintiff filed several claims against the defendant, including a claim under the VUTSA.²⁶¹ The defendant moved to dismiss the trade secret claim as time barred. Judge Ellis noted that under the statute a plaintiff must file a

claim for misappropriation within three years "after the misappropriation is discovered or by exercise of reasonable diligence should have been discovered."²⁶² The court held that plaintiff had sufficient facts in 2010 that "it could have taken reasonable steps" to discover the misappropriation. Thus, its claim filed in 2016 was time-barred.²⁶³

The plaintiff in *Thousand Oaks Barrel* also attempted to assert a claim for common law misappropriation. In this regard, plaintiff alleged that it developed "the idea of designing miniature barrels for use as beverage containers, cigar humidors, and wedding card depositories," that it "invested substantial time and resources into commercializing this idea" and that the defendant "appropriated plaintiff's idea at little or no cost."²⁶⁴ Judge Ellis held that the claim for common law misappropriation could not proceed, because "Virginia does not recognize this claim."²⁶⁵

In *Integrated Global Services, Inc. v. Mayo*, Judge Lauck granted a motion for preliminary injunction based on the plaintiff's likelihood of success on its claim for misappropriation under the VUTSA.²⁶⁶ The case provides a good overview of the basic provisions of the VUTSA and the requirements for proving a misappropriation claim. The court noted that "just about anything can constitute a trade secret under the right set of facts" and this includes "a customer list[] or a method of selling or marketing."²⁶⁷ The court also emphasized that "[t]he requirement that a trade secret 'not be generally known refers to the knowledge of other members of the relevant industry—the persons who can gain economic benefit from the secret.'"²⁶⁸

The plaintiff in *Mayo* used expert testimony to establish that the defendant had copied files from his computer *after*

²⁵⁷ *Id.* at 723 (citing Va. Code §59.1-340).

²⁵⁸ *Id.* at 723.

²⁵⁹ *Id.* at 724.

²⁶⁰ *Id.* at 725.

²⁶¹ No. 3:17-cv-563, 2017 WL 4052809 (E.D.Va. Sept. 13, 2017).

²⁶² *Id.* at *6 (citations omitted).

²⁶³ *Id.* (citations omitted).

²⁵⁷ No. 1:16-cv-236, 2017 WL 1250998 (E.D.Va. April 3, 2017).

²⁵⁸ *Id.* at *3.

²⁵⁹ *Id.* (citations omitted).

²⁶⁰ *Id.*

²⁶¹ 241 F.Supp.3d 708 (E.D.Va. 2017).



his employment was terminated. The court held that this “clearly shows that IGS likely can prove that Mayo improperly acquired the trade secrets.”²⁶⁹ The court also relied on a confidentiality agreement that the defendant signed as evidence that he knew or “*should have known* that there were restrictions on his use of the trade secret information.”²⁷⁰

The court was also convinced that the plaintiff was likely to suffer irreparable harm based on expert evidence that defendant “accessed, copied and deleted” the plaintiff’s confidential and proprietary information, and that he went to work for a direct competitor.²⁷¹ The court found that the balance of equities and public interest also supported issuance of the injunction. The court held that “Mayo has no legitimate interest in possessing IGS’s trade secret information, and he loses nothing if the injunction is granted.”²⁷² Moreover, the public has an interest in protecting confidential business information and enforcing valid contracts.²⁷³

The last case is our first look at a claim under the federal Defend Trade Secrets Act. In *Steves and Sons, Inc. v. Jeld-Wen, Inc.*, the defendant asserted a counterclaim against the plaintiff for conspiracy to misappropriate its trade secrets in violation of 18 U.S.C. § 1832(a)(5).²⁷⁴ The subject statute

makes it a crime to conspire to misappropriate a trade secret, but it does not specify that there is a private cause of action for such a conspiracy. Jeld-Wen argued that the private cause of action could be inferred from 18 U.S.C. § 1836(b), the Defend Trade Secrets Act.²⁷⁵ In rejecting Jeld-Wen’s argument, Judge Robert E. Payne considered the scope of the private right of action created by § 1836(b). The court held that the private right of action permitted by § 1836(b) is a claim for “civil seizure” which allows the court to issue “an order providing for the seizure of property necessary to prevent the proposition or dissemination of the trade secret that is subject of the action.”²⁷⁶ The court acknowledged that such a civil action may include an award of damages for actual loss caused by the misappropriation.²⁷⁷ However, the court held “[t]hat is the only civil action permitted by Section 1836(b)(2), and that language does not impliedly provide a private right under Section 1832(a)(5).”²⁷⁸ The court noted that “[w]here, as here, a criminal statute establishes what is a crime and specifies the punishment for committing the crime, it is not enforceable in a private civil action unless Congress specifically so provides.”²⁷⁹

²⁶⁹ *Id.* at *8.

²⁷⁰ *Id.* (emphasis in original).

²⁷¹ *Id.* at *9.

²⁷² *Id.*

²⁷³ *Id.*

²⁷⁴ No. 3:16-cv-545, 2017 WL 4052376 (E.D.Va. Sept. 13, 2007).

²⁷⁵ *Id.* at *3.

²⁷⁶ *Id.* at *5 (citing § 1836(b)(2)(A)(i)).

²⁷⁷ *Id.* at *3.

²⁷⁸ *Id.* at *5.

²⁷⁹ *Id.* at *4.

CONCLUSION

In sum, 2017 was yet another year in which the Eastern District of Virginia demonstrated both its expertise in resolving cutting-edge intellectual property disputes and its continued commitment to doing so swiftly. Plaintiffs continue to bring complex intellectual property cases to the District because of its proven expertise and its abiding culture of

expeditious justice. Defendants can expect judges in the District to give careful consideration to evidentiary and dispositive motions well-grounded in substantive law, and to do so fairly and without delay. There is every reason to expect that 2018 will be an active and lively year for intellectual property litigation in the Eastern District of Virginia.

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SUPPLEMENTAL INFORMATION

The chart below summarizes the number of intellectual property cases filed in the EDVA by judge.

JUDGE	DIVISION	PATENT	TRADEMARK	COPYRIGHT	TOTAL
Rebecca Beach Smith (Chief)	Norfolk/Newport News	0	2	0	2
Arenda Wright Allen	Norfolk/Newport News	6	0	1	7
Leonie M. Brinkema	Alexandria	5	11	10	26
James C. Cacheris <i>(retired during 2017)</i>	Alexandria	0	0	0	0
Mark S. Davis	Norfolk/Newport News	1	2	0	3
Robert G. Doumar	Norfolk/Newport News	3	0	0	3
T.S. Ellis, III	Alexandria	3	5	7	15
John A. Gibney, Jr.	Richmond	4	2	4	10
Claude M. Hilton	Alexandria	4	7	8	19
Henry E. Hudson	Richmond	3	1	4	8
Raymond A. Jackson	Norfolk/Newport News	4	3	0	7
M. Hannah Lauck	Richmond	3	2	0	5
Gerald Bruce Lee <i>(retired during 2017)</i>	Alexandria	0	1	0	1
Henry Coke Morgan, Jr.	Norfolk/Newport News	5	1	1	7
Liam O'Grady	Alexandria	4	13	8	25
Robert E. Payne	Richmond	0	0	0	0
James R. Spencer <i>(retired during 2017)</i>	Richmond	0	0	0	0
Anthony J. Trenga	Alexandria	2	6	7	15
TOTALS		47	56	50	153

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