



EASTERN DISTRICT OF VIRGINIA
IP YEAR IN REVIEW

2018

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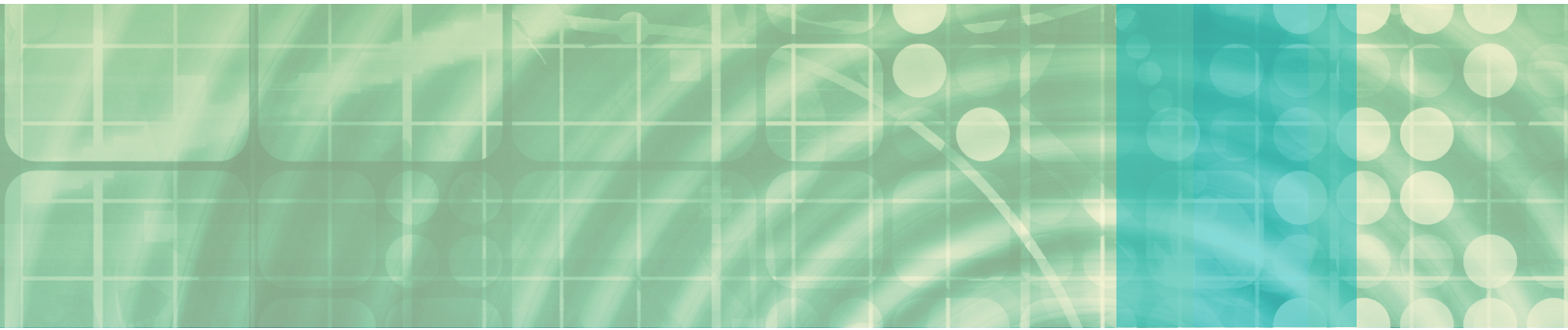


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INTRODUCTION

The Eastern District of Virginia (the District) continues to receive a steady diet of intellectual property cases. Although patent filings in the District have decreased over the years, the District remains a popular venue for plaintiffs seeking a swift resolution and solid judging.

2018 was another active and interesting year in the District, as the litigants and judges tackled a number of issues in the areas of patent, trademark, copyright and trade secret litigation.

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



TRADE SECRET

The federal Defend Trade Secrets Act (DTSA) became law in 2016. With a federal cause of action and federal question jurisdiction now in place, we can expect to see more and more trade secret claims filed in federal court. Thus, we start our review with a brief discussion of a trade secret case that was tried to verdict this past year in the Richmond Division of the court.

Steves and Sons, Inc. v. Jeld-Wen, Inc. commenced when Steves filed an antitrust lawsuit against Jeld-Wen.¹ Jeld-Wen asserted counterclaims against Steves, including a claim for misappropriation of trade secrets under the DTSA and under the Texas Uniform Trade Secret Act. The court bifurcated the trial of the antitrust claims from the trade secret counterclaims.²

As the case progressed, the court ordered Jeld-Wen “to list the misappropriated trade secrets to be presented at trial and to identify the witnesses who would prove that they were trade secrets.”³ After several attempts to satisfy this requirement, the court directed Jeld-Wen to “err on the side of making [the statement] so crystal clear and so precise that there can be no room for contention that you are being vague and leaving the door open.”⁴ Jeld-Wen’s list of trade secrets continued to be a moving target, and ultimately the court instructed Jeld-Wen “to submit an

updated statement of trade secrets to be asserted at trial that delineated each trade secret and explained the source of the trade secret in more detail” than previously provided.⁵

The court conducted a jury trial on the trade secret claims in May 2018. At trial, Jeld-Wen asserted that Steves had misappropriated 67 trade secrets, and sought \$9.9 million in reasonable royalty damages. The jury rejected nearly all of Jeld-Wen’s allegations, finding that 59 of the 67 alleged trade secrets were not “trade secrets” at all. While the jury found that the remaining eight were trade secrets and had been misappropriated, the jury awarded Jeld-Wen only \$1.2 million in damages.⁶ Significantly, the jury rejected Jeld-Wen’s allegation that Steves had acted willfully and maliciously, which spared Steves any exposure to treble damages and having to pay Jeld-Wen’s attorneys’ fees.⁷

Following the trial, Jeld-Wen sought a permanent injunction against Steves’ use of the eight misappropriated trade secrets as a supplement to the damage award.⁸ The court denied the request for injunctive relief because it would violate the rule against a double recovery.⁹ The reasonable royalty award, in the amount of \$1.2 million, specifically included a royalty for future use. Indeed, Jeld-Wen’s expert testified that the reasonable royalty he had calculated was a lump sum that would enable Steves “to use this information ‘for as long as they want in any way that they want.’”¹⁰

¹ Civil Action No. 3:16-cv-545, 2018 WL 1796293, *3 (Apr. 16, 2018 E.D. Va.).

² *Id.* In the antitrust case, after nearly three weeks of trial the jury returned a verdict in Steves’ favor, finding that Jeld-Wen’s 2012 merger with a competitor violated the Clayton Act. The jury awarded Steves \$12 million in past antitrust damages and \$46.5 million in lost future profits. These damages are automatically trebled under the antitrust laws, and Steves will be entitled to recover its reasonable attorneys’ fees. The court then ordered Jeld-Wen to sell the principal asset it acquired in the merger. Post-trial motions have not yet been resolved, and Jeld-Wen has stated an intention to appeal.

³ *Id.* at *4.

⁴ *Id.*

⁵ *Id.* at *5.

⁶ *Steves and Sons, Inc. v. Jeld-Wen, Inc.*, 2018 WL 4844173, *3 (Oct. 4, 2018 E.D. Va.).

⁷ *Id.*

⁸ *Steves and Sons, Inc. v. Jeld-Wen, Inc.*, 2018 WL 6272893 (Nov. 30, 2018 E.D. Va.).

⁹ *Id.* at *5.

¹⁰ *Id.*

Because post-trial activity continues, we have limited our discussion of this case. However, it highlights the need to prove the existence of a trade secret with concreteness and specificity in order to prevail on a DTSA or state trade secret claim at trial. Bare allegations and assertions are not enough. This is true at the pleadings stage as well, as demonstrated by two trade secret cases from the Norfolk Division of the court.

JTH Tax, Inc. d/b/a Liberty Tax Service v. Williams involved multiple claims, including a claim for misappropriation of trade secrets under Virginia law.¹¹ The case was filed by Liberty Tax against a former franchisee, who operated a competing business after termination of the franchise agreement. Liberty Tax alleged that the franchisee had misappropriated Liberty Tax's trade secrets, including "confidential manuals, marketing strategies, and marketing programs."¹² The franchisee moved to dismiss the trade secret claim, and Chief Judge Rebecca Beach Smith granted the motion. The court recognized that such materials *could* constitute trade secrets, but dismissed the claim because the complaint contained no facts to demonstrate that the subject materials had "'independent economic value, actual or potential, from not being generally known' and 'not being readily ascertainable by proper means.'"¹³

The second case is *Space Systems/Loral, LLC v. Orbital ATK, Inc.*¹⁴ In that case, Judge Raymond A. Jackson held that the plaintiff had adequately pled a claim for misappropriation under both the Virginia Uniform Trade Secrets Act (Va. Code Ann. §59.1-336, et seq.), and the DTSA. The plaintiff, Space Systems/Loral (SSL), and

the defendant, Orbital ATK, Inc. (Orbital), were both NASA contractors.¹⁵ NASA set up a computer server to facilitate the sharing of information. NASA discovered a data breach involving SSL's proprietary information, and identified an Orbital employee as responsible for the breach.¹⁶ SSL asserted various claims against Orbital, including a claim for misappropriation of trade secrets under both state and federal law. The court held that the complaint contained sufficient facts to support the trade secret claims. The court noted that the complaint "provides factual descriptions of the breached documents including their relation to its technological development for robotic satellite assembly, system engineering, and research and development" and that these descriptions were sufficient to meet the statutory definition of trade secrets.¹⁷ Moreover, SSL "sufficiently pleads that it derived independent economic value from the documents being kept secret because they contained financial data, business plans, and procurement strategies, and were created after considerable economic investment — the disclosure of which could create an unfair competitive advantage."¹⁸ The court therefore denied the motion to dismiss.

These cases, as well as *Steves and Sons*, demonstrate the need to properly plead, articulate in discovery and ultimately prove at trial, the existence of a trade secret in specific, concrete terms, in order to prevail on either a federal or state claim for misappropriation. Conclusory allegations are not enough to get past the pleadings stage, much less make it to trial, and the judges in this District will expect the plaintiff to meet its burden or face dismissal or summary judgment.

¹¹ 310 F. Supp.3d 648 (E.D. Va. 2018).

¹² *Id.* at 656.

¹³ *Id.* citing Va. Code Ann. §59.1-336.

¹⁴ 306 F. Supp. 3d 845 (E.D. Va. 2018).

¹⁵ *Id.* at 849.

¹⁶ *Id.*

¹⁷ *Id.* at 853.

¹⁸ *Id.* at 853-854.



TRADEMARK

The court also decided several trademark cases in 2018 on a variety of issues, including what constitutes “use in commerce” and what type of conduct warrants an exceptional case finding.

USE IN COMMERCE

The decision in *Combe Inc. v. Dr. August Wolff GmbH & Co. KG Arzneimittel* focused on the “use in commerce” prong of an infringement claim.¹⁹ Specifically, Judge T.S. Ellis, III, considered “whether plaintiff can sue defendant for trademark infringement, dilution, or unfair competition” where the “defendant has not sold or transported a good with the allegedly infringing mark ... anywhere in the United States.”²⁰

The plaintiff in *Combe Inc.* was the owner of the trademark VAGISIL, and sold feminine care products under that name. The defendant, a German company, sold similar products under the name VAGISAN. At the time of the suit, the defendant had not sold any of its competing products in the United States, but had taken steps to do so.

The defendant filed an application with the Trademark Trial and Appeal Board (TTAB) to register the VAGISAN mark. The plaintiff, as owner of the VAGISIL mark, filed an opposition. The TTAB ruled that there was no likelihood of

confusion, and the plaintiff appealed to the district court. Plaintiff added claims for state and federal trademark infringement, dilution and unfair competition. The defendant moved to dismiss these claims on the grounds that plaintiff had not (and could not) plead sufficient facts to show any use in commerce in Virginia or anywhere in the United States.²¹

The court looked to the definition of “use in commerce” under the Lanham Act to resolve the motion. The court noted that to constitute “use in commerce” under the Act, “(i) the defendant must affix the mark to the good or its container and (ii) the defendant must sell or transport a good in commerce such that it can be regulated by Congress.”²² The court held that the “use in commerce” requirement was not satisfied because the defendant never “sold or transported VAGISAN marked products in United States commerce.”²³

The plaintiff sought to avoid this result by arguing that the “use in commerce” definition only applied to establish use for purposes of seeking trademark protection, and that the definition does not apply for purposes of infringement. The court rejected this argument.²⁴

The plaintiff also argued that the defendant’s preparatory steps were sufficient to permit the claims to go forward.

¹⁹ 309 F.Supp.3d 414 (E.D.Va. 2018).

²⁰ *Id.* at 416.

²¹ *Id.* At 418

²² *Id.* at 420.

²³ *Id.*

²⁴ *Id.* at 421-422.



The court held that such preparatory steps may support a claim only where “introduction of the product into the United States’ market is ‘imminent and impending.’”²⁵ The court held that the defendant’s preparatory steps in this case were insufficient, particularly given defendant’s stated position that it had no intention to introduce the product in the United States until plaintiff’s opposition to its trademark application was resolved.²⁶

Finally, the plaintiff pointed to a website maintained by the defendant “with links to third party pharmacies where consumers can purchase products bearing the VAGISAN mark” to demonstrate “use in commerce.”²⁷ The court noted that there may be instances where a website could constitute “use in commerce.” However, the court determined it did not need to resolve the question for purposes of this case. The court noted that an injunction related to defendant’s website “would necessarily have to have an extraterritorial effect because it would restrain defendant’s activities in Germany.”²⁸ The court stated that such an injunction may only be issued “‘where the extraterritorial conduct would, if not enjoined, have a significant effect on United States commerce.’”²⁹ The court held there were no facts alleged to support such a finding, where the defendant was not selling its product in the United States and “there are no allegations and no record evidence establishing that these third-party

pharmacies have sold a single product bearing the VAGISAN mark in the United States.”³⁰

In light of the above, the court dismissed the trademark infringement, dilution and unfair competition claims without prejudice. The court held, however, that its decision would “not preclude plaintiff from filing a subsequent action should changed circumstances warrant.”³¹

Klumba.ua, LLC v. Klumba.com involved a claim of alleged infringement of common law trademark rights and a violation of the Anticybersquatting Consumer Protection Act (ACPA).³² The issue in the case also focused on “use in commerce” but from a different perspective.

In *Klumba.ua*, the plaintiff was a Ukrainian limited liability company that operated a Ukrainian website for the sale and exchange of children’s clothing and goods. Plaintiff registered the trademark KLUMBA in the Ukraine and registered the Ukrainian domain name “klumba.ua.”³³ There was no English language content on the klumba.ua website, and all goods were priced in Ukrainian currency. No goods hosted on the website were sold to US customers. Although there were “1.5 million page views of the klumba.ua website in the United States” there was “no evidence that any of those page views came from U.S. citizens.”³⁴

²⁵ *Id.* at 423 (citations omitted).

²⁶ *Id.* at 423.

²⁷ *Id.* at 417, 424.

²⁸ *Id.* at 424.

²⁹ *Id.* (citations omitted).

³⁰ *Id.* at 425.

³¹ *Id.*

³² 320 F. Supp. 3d 772 (E.D. Va. 2018) (**Appeal Noted**).

³³ *Id.* at 775.

³⁴ *Id.* at 776.

The plaintiff also sold advertising space to Google on its website via the Google AdSense program. When a user clicked on one of the Google-sponsored advertisements on the klumba.ua website, the plaintiff would receive advertising revenue from Google.

Dmitry Dubyna, one of the members of the plaintiff limited liability company, purchased the United States domain name “klumba.com.” Subsequently, the members of the plaintiff had a falling out, and plaintiff filed suit claiming that the “klumba.com” website violated its common law trademark rights. The issue before the court was whether the plaintiff had used the KLUMBA mark in commerce in the United States such that it could assert common law trademark rights in the mark.³⁵

Judge Ellis began his analysis of the issue by noting that “unregistered or common law marks are entitled to protection under the ACPA.”³⁶ However, “common law trademark rights are acquired only through actual use of the mark in a given market in the United States.”³⁷ A plaintiff seeking to establish a common law trademark “must show that the mark is (i) used in commerce, and (ii) is distinctive among United States consumers.”³⁸

In this case, plaintiff did not sell any goods. Rather, it provided a service, namely, a platform for others to sell and purchase children’s clothing and goods. To establish use of a service mark in commerce, the plaintiff must “show that it (i) renders a service in commerce, and (ii) that a mark for the service so rendered is used or displayed in the sale or advertising of that service.”³⁹

A service is rendered in commerce if it is “performed in the United States” or involves “transactions between United States citizens and the subject of a foreign nation.”⁴⁰ Importantly, “the mere provision of a service to a U.S. citizen is insufficient to establish rights in an unregistered service mark; the mark itself must be used or displayed in the sale or advertising of the service to the U.S. citizen.”⁴¹

³⁵ *Id.* at 777.

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.* at 778 (citations omitted).

⁴¹ *Id.* (citations omitted).

The court determined that the plaintiff failed to establish any common law trademark rights in the United States. The plaintiff did not identify any US citizen who purchased anything using plaintiff’s website or who posted any advertisement for the sale or exchange of any goods on the website.⁴²

The plaintiff countered by arguing that it had plans to expand to the United States. The court held that such plans are insufficient to establish common law trademark rights.⁴³

The plaintiff also argued that its relationship with Google constituted a use of its mark in commerce in the United States. Plaintiff essentially rented space on its website to Google, like the cyber equivalent of a billboard.⁴⁴ However, there was no evidence that “the Klumba mark was used in connection with the sale or even the advertising of plaintiff’s ‘service’ to Google” or that “Google knew of the Klumba mark, or that the mark was associated with the advertising space service Klumba provided.”⁴⁵ The court concluded: “There is simply no evidence in this record that the Klumba mark has any meaning for Google or that the Klumba mark was used as a means of attracting Google to purchase advertising space.”⁴⁶ Thus, the transaction with Google did not constitute use of the service mark in commerce.

The court also noted that even if the transaction with Google constituted use in commerce of the service mark, “a single transaction with a single U.S. company is not the kind of ‘deliberate and continuous’ use of a mark necessary to establish common law trademark rights.”⁴⁷

Based on this analysis, the court granted summary judgment in favor of the defendant. The court, however, rejected the defendant’s request for an exceptional case finding and an award of attorney’s fees.⁴⁸ The court held that “it was not frivolous for plaintiff to believe it may hold common law trademark rights in the United States” particularly “given the open questions about the availability of common law trademark rights in the

⁴² *Id.*

⁴³ *Id.*

⁴⁴ *Id.* at 779.

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *Id.* (citations omitted).

⁴⁸ *Id.* at 780.



United States based on Internet commerce.”⁴⁹ The court also noted that the parties had engaged in settlement negotiations, and there was no indication that plaintiff had filed the suit to “coerce a settlement.”⁵⁰

EXCEPTIONAL CASE FINDING

In *Express Homebuyers USA, LLC v. WBH Marketing Inc.* the court granted a motion for summary judgment seeking to cancel the marks “We Buy Houses” and “Webuyhouses.com” as generic.⁵¹ Judge Ellis had no trouble determining that the marks were used to denote the services offered, and not the source of those services. The record included extensive evidence of use of the phrase “we buy houses” by third parties as a descriptor of their services, rather than a specific source of those services. A search of newspapers.com yielded more than 55 million advertisements using the phrase and a Google search produced hundreds of thousands of websites using the phrase.⁵² Moreover, the prior owners of the marks had themselves used the marks as a descriptor of the services offered and not to identify their particular businesses.⁵³

The defendant argued that even if the phrase “we buy houses” is generic, their use of the phrase was not, because they did not actually buy houses. Rather, the defendants’ business was to connect real estate investors with homeowners wishing to sell their homes.⁵⁴ The court rejected this “razor-thin” distinction and noted: “[A]lthough defendant may not be directly buying houses, defendant’s business nonetheless ‘revolves around’ the use of the ‘we

buy houses’ phrase in a generic sense, namely connecting home sellers to home buyers.”⁵⁵ As such, the court granted summary judgment cancelling the marks. The court also granted summary judgment in favor of plaintiff on the defendant’s counterclaims for infringement and false designation of origin.⁵⁶

Following this decision, the plaintiff, as the prevailing party, moved for an exceptional case finding and an award of attorney’s fees.⁵⁷ Judge Ellis denied the motion.

The court began its analysis by noting that an exceptional case is one that is “rare, extraordinary, atypical or aberrant.”⁵⁸ Under Fourth Circuit precedent, a court may find a case exceptional, “if, in light of the totality of the circumstances, the court finds one of the following grounds: (1) there is an unusual discrepancy in the merits of the positions taken by the parties, based on the non-prevailing party’s position as either frivolous or objectively unreasonable; (2) the non-prevailing party has litigated the case in an unreasonable manner; or (3) there is otherwise the need in particular circumstances to advance considerations of compensation and deterrence.”⁵⁹ The court cited recent Fourth Circuit precedent holding that the moving party bears the burden of proving the case is “exceptional” by a preponderance of the evidence.⁶⁰ Moreover, the ultimate decision as to whether a case is “exceptional” rests within the discretion of the district court.⁶¹

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ 323 F. Supp. 3d 784 (E.D. Va. 2018) (**Appeal Noted**).

⁵² *Id.* at 791.

⁵³ *Id.* at 791-793.

⁵⁴ *Id.* at 794.

⁵⁵ *Id.* (citations omitted).

⁵⁶ *Id.* at 795.

⁵⁷ *Express Homebuyers USA, LLC v. WBH Marketing, Inc.* 343 F. Supp. 3d __562 (Oct. 25, 2018 E.D. Va.) (**Appeal Noted**).

⁵⁸ *Id.* at 565.

⁵⁹ *Id.* at 566 (citations omitted).

⁶⁰ *Id.* at 565 (citing *Verisign, Inc. v. XYZCOM LLC*, 891 F.3d 481, 484 (4th Cir. 2018) (rejecting the clear and convincing evidence standard for an exceptional case finding).

⁶¹ *Id.*

Plaintiff's primary argument was that the defendant's position that the marks were not generic was objectively unreasonable. The court rejected this argument noting that "the fact that a mark is registered is strong evidence that the mark satisfies the statutory requirements for distinctiveness necessary for trademark protection."⁶²

Plaintiff also pointed to specific arguments made by defendant over the course of the litigation, such as an argument that plaintiff had to prove the marks were generic by clear and convincing evidence, an argument that plaintiff's evidence was hearsay and an effort to seek reconsideration of the summary judgment ruling. The court held that these isolated arguments were not sufficient to render the case, as a whole, exceptional.⁶³

Lastly, plaintiff argued that an exceptional case finding was warranted for purposes of compensation and deterrence. The plaintiff argued that prior to the lawsuit, "defendant acted as a trademark troll that bullied competitors to stop using an important marketing phrase." The court rejected this argument, noting that "courts have sensibly concluded that it is not appropriate for a district court to police the marketplace and punish so-called trolls who take steps to protect their presumptively valid rights in intellectual property."⁶⁴ The court further stated that the "plaintiff's argument conflicts with the Fourth Circuit's clear policy that trademark owners should be encouraged, rather than deterred, to enforce their presumptively valid trademark rights."⁶⁵

The court also considered a motion for an exceptional case finding and attorney's fees in *Verisign, Inc. v. XYZ.Com, LLC*.⁶⁶ In that case, the court granted summary judgment for the defendants. The summary judgment decision was appealed to the Fourth Circuit and affirmed on narrow grounds. The Fourth Circuit declined to rule on whether "XYZ's registration numbers are false or misleading because they include not only registrations bought and paid for by customers—indicating actual consumer demand—but also 375,000 .xyz registrations given away for free just after XYZ's 2014 launch...."⁶⁷ On remand, defendants moved for an exceptional case finding and attorney's fees. The court applied a clear and convincing standard and denied the motion, holding that "a good faith claim that proves unsuccessful is not a basis for awarding attorney fees."⁶⁸ The defendants appealed to the Fourth Circuit, and the Fourth Circuit remanded, with instructions for the court to apply a preponderance of the evidence standard. On remand, Judge Claude M. Hilton again denied the motion for fees.

Even on a preponderance standard, the court noted that "[a] claim that merely proves unsuccessful is not a basis for awarding attorney fees."⁶⁹ The court held that "Plaintiff's case was not objectively unreasonable or frivolous."⁷⁰ The court emphasized that plaintiff successfully defeated a motion for judgment on the pleadings and was able to produce some evidence at the summary judgment stage. "The fact that the evidence was not enough to carry the day is not evidence that Plaintiff's

⁶² *Id.* at 566.

⁶³ *Id.* at 567.

⁶⁴ *Id.* at 569.

⁶⁵ *Id.*

⁶⁶ Civil Action No. 1:14cv01749, 2018 WL 6257101 (Nov. 28, 2018 E.D. Va.).

⁶⁷ *Verisign, Inc. v. XYZ.COM, LLC*, 848 F.3d 292, 296 (2017).

⁶⁸ Order denying Motion for Attorney's Fees, Civil Action No. 1:14cv01749, ECF No. 461, 2018 WL 6257101 (Nov. 28, 2018 E.D. Va.).

⁶⁹ *Id.* at *1.

⁷⁰ *Id.* at *3.



claims became unreasonable, only that they were not successful.”⁷¹ The court distinguished cases cited by the defendants that involved “manufactured evidence or entirely unsupported” claims—precedents that the court found inapplicable to the plaintiff’s case.⁷²

The court also declined to find plaintiff’s litigation conduct unreasonable under the totality of the circumstances. In this regard, the court noted that “[t]here were numerous actions by Plaintiff that showed its litigation conduct was not unreasonable.”⁷³ Plaintiff tried to resolve the case before even filing it, and defendants ignored this effort.⁷⁴ The court rejected defendants’ argument that plaintiff’s conduct should be considered in a vacuum, holding that, for example, plaintiff’s alleged delay in sealing a document “was due to Defendants’ sluggishness in providing the redactions sought and cannot be said to be unreasonable action by Plaintiff.”⁷⁵ Although defendants focused on plaintiff’s many discovery motions, the court rejected that argument too because “the majority of Plaintiff’s discovery motions ... were granted either in whole or in part....”⁷⁶

As a last-ditch effort, defendants argued that fees should be awarded as compensation and deterrence because the plaintiff filed the case “in order to bury a competitor in legal fees.” The court rejected this argument, and noted there were “sensible alternative interpretations for Plaintiff’s decision to bring this suit,” including

Plaintiff’s “belief that Defendants had engaged in false advertising.”⁷⁷ Defendants did not appeal this ruling.

Unlike the two prior cases discussed, the court in *Valador, Inc. v. HTC Corp.* granted an exceptional case finding and an award of over \$1.5 million in attorney’s fees.⁷⁸ Magistrate Judge John F. Anderson issued his report and recommendation granting the motion, and Judge Ellis adopted his findings and conclusions in their entirety.

In *Valador*, the plaintiff’s claims were questionable from the outset, and continued to deteriorate as the litigation moved forward. Early in the case, the court warned the plaintiff that “just because you have identical marks doesn’t mean there is infringement,” and “the keystone of infringement is the likelihood of confusion.”⁷⁹ The court further cautioned that “if they’re [the defendants] not doing the same business, then there may not be a basis for concluding that there is irreparable harm,” and “controlling law puts great emphasis on likelihood of confusion and whether the markets are related.”⁸⁰ As the case progressed, the plaintiff’s case became weaker and weaker.⁸¹ However, rather than “accepting the unmistakable fact that there was no viable argument that a consumer could be confused given the products at issue and the relevant marketplace for those products in existence at the time the action was filed, the plaintiff attempted to reinvent itself during the discovery phase in order to provide some basis for its ill-advised claims.”⁸² The court noted that not a single

⁷¹ *Id.*
⁷² *Id.* at *2.
⁷³ *Id.* at *2.
⁷⁴ *Id.*
⁷⁵ *Id.* at *2.
⁷⁶ *Id.* at **2-3.

⁷⁷ *Id.* at *2.
⁷⁸ Civil Action No. 1:16cv1162, 2018 WL 4940721 (May 30, 2018 E.D. Va.) (Report and Recommendation) and 2018 WL 4937057 (Oct. 10, 2018 E.D. Va.) (adopting R&R) (**Appeal Noted**).
⁷⁹ 2018 WL 4940721 at *3.
⁸⁰ *Id.*
⁸¹ *Id.* at *4.
⁸² *Id.* at *6.





element of the infringement analysis favored plaintiff's position, and that "nearly all of them **strongly** favored defendants."⁸³ The court stated that "nearly all of the record evidence weighed in favor of the defendants, aside from the excluded or discredited evidence plaintiff manufactured and attempted to introduce at the tail end of the litigation."⁸⁴ The court concluded that the case was exceptional because "the positions taken by the plaintiff in litigating this case were objectively unreasonable."⁸⁵

The court also found that the case was exceptional because of plaintiff's litigation misconduct. In this regard, the court detailed a list of discovery violations that "demonstrated a disregard for the discovery process in this court."⁸⁶ The court also noted plaintiff's "ever-changing legal theory" and "lack of candor during the litigation."⁸⁷ The court concluded that plaintiff's "unreasonable litigation conduct" was demonstrated "not just in asserting claims long after they should have [been] abandoned, but" also in "failing to comply with the court's rules and orders and the litigation-driven attempt to support its claims through changes allegedly made to plaintiff's business model after the litigation was initiated."⁸⁸

⁸³ *Id.* at *5 (emphasis in original).

⁸⁴ *Id.*

⁸⁵ *Id.* at *6.

⁸⁶ *Id.*

⁸⁷ *Id.* at *7.

⁸⁸ *Id.* at *8.

OTHER TRADEMARK CASES

The court also considered other trademark-related issues. For example, the court granted summary judgment based on the statute of limitations in *Belmora, LLC v. Bayer Consumer Care AG*.⁸⁹

Bayer asserted claims against Belmora for false advertising and unfair competition, and Belmora moved for summary judgment based on the statute of limitations. The case involved Bayer's FLANAX product, which was sold in Mexico, and Belmora's product under the same name, which was sold in the United States. In considering whether Bayer's claims under the Lanham Act were time-barred, Judge Hilton observed that the Lanham Act does not contain any statute of limitations. Thus, "the Court follows the traditional practice of borrowing the most analogous statute of limitations from state law."⁹⁰

The claims had been transferred from federal court in California, thus the court looked to California law to supply the statute of limitation. The court noted the split of authority as to whether the three-year limitation for fraud applied, or whether the four-year limitation for trademark infringement applied. Ultimately, the court determined that it did not matter, because Bayer had missed the limitations period by almost a

⁸⁹ 338 F. Supp. 3d 477 (E.D. Va. 2018) (**Appeal Noted**).

⁹⁰ *Id.* at 484.



decade.⁹¹ The court also granted summary judgment to Bayer on Belmora’s affirmative claims for trademark infringement, false advertising and unfair competition, because Belmora presented no evidence that Bayer ever sold or caused anyone to sell its FLANAX product in the United States.⁹²

In United Supreme Council 33 Degree of the Ancient and Accepted Scottish Rite of Freemasonry, Prince Hall Affiliation, Southern Jurisdiction of the United States of America v. United Supreme Council of the Ancient Accepted Scottish Rite for the 33 Degree of Freemasonry, Southern Jurisdiction, Prince Hall Affiliated, the court granted summary judgment for the defendant.⁹³ In that case, the plaintiff fraternal organization sued another organization for trademark infringement and unfair competition. The defendant moved for summary judgment on various grounds, and Judge Liam O’Grady granted the motion.

Plaintiff asserted a claim for trademark infringement against the defendant under § 32 of the Lanham Act. The court held that the plaintiff lacked standing to assert this claim because the subject mark was not registered at the time the complaint was filed. The court held “[i]n the absence of a registered trademark, Plaintiffs cannot

claim trademark infringement under Section 32, which entitles ‘the registrant’ to sue for trademark infringement.”⁹⁴ The court further noted: “Plaintiff has not provided, nor has the Court identified, any authority to suggest that an *applicant* for a trademark registration is entitled to the standing due to a registrant. Nor is the Court aware of any support for the proposition that a standing deficiency can be cured by the subsequent registration of a trademark during a lawsuit. The general rule is that standing is determined from the circumstances at the time the suit is filed.”⁹⁵

Plaintiff also asserted a claim for unfair competition under Virginia law. In evaluating the merits of this claim, the court considered whether the plaintiff had proffered any evidence of actual confusion. The court noted that while plaintiff had offered some evidence of confusion, from bankers and other non-consumers, that evidence was not sufficient. The court explained that “in evaluating actual confusion, ‘[r]elevant confusion is that which affects the purchasing and selling of the goods or services in question Trademark infringement protects only against mistaken purchasing decisions and not against confusion generally.’”⁹⁶ The court granted summary judgment in favor of the defendant on this claim as well.⁹⁷

⁹¹ *Id.* at 484-85.

⁹² *Id.* at 486.

⁹³ 329 F. Supp. 3d 283 (E.D. Va. 2018).

⁹⁴ *Id.* at 292.

⁹⁵ *Id.* at 293.

⁹⁶ *Id.* at 295 (citation omitted).

⁹⁷ *Id.* at 296.



PATENT CASES

There was no shortage of patent infringement decisions in the District this year.

SECTION 101 INVALIDITY

As in years past, there were several decisions in which the court invalidated a patent under § 101, following the Supreme Court’s teaching in *Alice Corp. v. CLS Bank Int’l.*⁹⁸

In *SmarTen LLC v. Samsung Electronics America, Inc.*, the court held several patents invalid under § 101.⁹⁹ That case involved four related patents that disclosed “a mobile computing device executing weight, nutrition, health, behavior and exercise application software” that “serves as a simulated combination personal trainer and dietician/nutritionist for the user using comprehensive databases storing personalized health, nutrition and exercise information.”¹⁰⁰ Judge Leonie M. Brinkema, applying the two-step *Alice* framework, granted the defendant’s motion to dismiss.

The court first considered whether the claims were directed to patent-eligible subject matter.¹⁰¹ In this regard, the court found that the patents were “directed at collecting, analyzing, and displaying data, which is a patent-ineligible abstract idea.”¹⁰²

The court then moved to the second-step of the *Alice* inquiry. The court explained that under this step, it must “consider the elements of the claim, both individually and as an ordered combination, to assess whether the additional elements transform the nature of the claim into a patent-eligible application of the abstract idea.”¹⁰³ The court described this step as a “search for an ‘inventive concept,’ or something that ensures ‘that the patent in practice amounts to significantly more than a patent’ upon the abstract idea itself.”¹⁰⁴ The court further observed that “merely ‘reciting the use of a generic computer ... cannot convert a patent-ineligible abstract idea into a patent-eligible invention.’”¹⁰⁵

In applying these principles to the patents at issue, the court noted that the fact “that the claimed device might have some advantages over prior health management applications is not sufficient to show an inventive concept.” Rather, “SmarTen must identify something more that transforms the nature of the claim—for example, use of a new source of data or new techniques for analyzing that data, or use of nonconventional components or nonconventional arrangements of conventional components.”¹⁰⁶ SmarTen failed to make this showing, and the court accordingly held that the patents were invalid.¹⁰⁷

⁹⁸ 573 U.S. 208 (2014).

⁹⁹ 316 F. Supp. 3d 913 (E.D. Va. 2018) (**Appeal Noted**).

¹⁰⁰ *Id.* at 915.

¹⁰¹ *Id.* at 917 (citations omitted).

¹⁰² *Id.* at 922.

¹⁰³ *Id.* at 923 (citations omitted).

¹⁰⁴ *Id.* (citations omitted).

¹⁰⁵ *Id.* (citations omitted).

¹⁰⁶ *Id.* at 924.

¹⁰⁷ *Id.* at 924.

Bridge and Post, Inc. v. Verizon Communications, Inc. involved three “targeted marketing” patents that allowed for the tracking of an internet user’s browsing history “to tailor advertisements to a person’s interests based on their browsing habits.”¹⁰⁸ The defendant moved to dismiss under § 101, and Judge John A. Gibney, Jr., granted the motion. The court held: “The patents focus on the abstract ideas of targeted marketing, the transfer of encrypted information, and tracking. The patents do not offer a sufficiently inventive step over prior art, and instead use conventional technology and methods that fall short of patentability.”¹⁰⁹

The plaintiff argued that the defendant should be “estopped from claiming that the patents here are invalid because the defendant” sought a similar patent and argued to the PTO that its patent was not “invalidly abstract.”¹¹⁰ The court rejected this argument and stated: “‘contrary positions ... with respect to patents not at issue in this case ... before another tribunal do not permit this Court to confer patent eligibility on otherwise ineligible subject matter.’”¹¹¹

Consumer 2.0, Inc. v. Tenant Turner, Inc. is another example of the court’s granting a motion to dismiss a patent infringement claim under § 101.¹¹² The patent at issue was for a “‘system [that] provides automated entry [into a home or apartment] to a prospective buyer or renter of properties’ and ‘automates the tour registration process,’ which ‘eliminates the need to arrange a tour with an agent or landlord’ and ‘eliminates the need for an on-site representative of the property.’”¹¹³

The court first considered whether the patent was directed at an abstract idea. In answering this question in the affirmative, the court explained: “Distilled to its essence, the claims use generic computing devices and techniques to provide automated entry to a property without human interaction.” However, “[r]eal estate agents have used lockboxes to provide licensed real

estate professionals access to properties for decades.” Thus, “[t]he ‘590 patent simply automates that process using generic computer components such as a server, technology-enabled lock box/automated door lock, application interface, and mobile device.” Such “automation of a human, manual process is an abstract idea.”¹¹⁴ The court further held that the result was no different whether it considered the elements individually or in combination.¹¹⁵

The court then considered whether the patent exhibited any inventive concept, and held that it did not. The court explained that the functions performed by the patent were “conventional” and do “‘no more than require [] generic computer’ components to perform ‘generic computer functions.’” The court further stated that “[a]lthough it may be true that previous systems had not incorporated this particular combination of generic components, before the filing of the patent-at-issue, computer systems had certainly been configured in such a way to allow a server to coordinate with automated access/entry programs as well as application interfaces on mobile devices.” The court continued, “[d]istilled to their essence, these generic components are arranged in a conventional manner to execute the undoubtedly conventional functions of identity verification, time-sensitive code-generation, remote automated access, information collection and display, and the use of database tables.”¹¹⁶

Moreover, “[v]iewed as a whole, these method claims simply recite the concept of ‘automated entry to a property ‘as performed by a generic computer’ or computers.” Further, “there is nothing in the language of these elements indicating that the claim at issue here is directed to any specific improvement in computer functionality or capabilities. Therefore, the elements simply ‘do not add anything inventive to the abstract concept underlying them.’”¹¹⁷

¹⁰⁸ 319 F. Supp. 3d 818, 820 (E.D. Va. 2018) (**Appeal Noted**).

¹⁰⁹ *Id.* at 821.

¹¹⁰ *Id.* at 827.

¹¹¹ *Id.* (internal citations omitted).

¹¹² 343 F. Supp. 3d 581 (E.D. Va. 2018) (**Appeal Noted**).

¹¹³ *Id.* at 583.

¹¹⁴ *Id.* at 588.

¹¹⁵ *Id.* at 589.

¹¹⁶ *Id.* at 592.

¹¹⁷ *Id.* at 589, 592 (citations omitted).



The plaintiff argued that there were factual issues that precluded a finding of patent ineligibility at the motion to dismiss stage. The court rejected this argument.¹¹⁸

Genetic Veterinary Sciences v. Laboklin GMBH & Co. also resulted in the court's finding that the patent was invalid under § 101--this time on a motion for judgment as a matter of law after the parties participated in a jury trial.¹¹⁹ In that case, the plaintiff filed a declaratory judgment complaint seeking to invalidate the defendant's patent on § 101 grounds. The defendant moved to dismiss, which Judge Henry Coke Morgan denied. Thereafter, the defendant filed an answer and counterclaim of infringement. After the case progressed, the plaintiff moved for summary judgment on the validity of the patent, and the court denied the motion. The parties participated in a jury trial, and at the close of defendant's evidence, the plaintiff moved for judgment as a matter of law on the validity of the patent.¹²⁰ The court granted the plaintiff's motion.

The court first determined that the patent was "directed to patent ineligible subject matter, namely the discovery of the genetic mutation that is linked to HNPk."¹²¹ Specifically, the court held that "the methods claimed in the '114 patent begin and end with the discovery of a natural phenomenon."¹²² In other words, "the patent simply states that the search for the mutation involves the laboratory examination of Labrador Retriever DNA,

which resulted in the discovery of the mutation, which in combination with similar mutations of Labrador Retrievers who mate with a carrier results in offspring having a higher probability of inheriting the mutation." Notably, "[t]he mutation itself and the fact that it is inherited through male and female dog carriers mating are both natural phenomena."¹²³

The court also held there was nothing inventive in the methods described to discover and locate the mutation. Thus, "after translating the complex scientific jargon used in the patent, the result is that it contains a valuable scientific discovery of a natural phenomenon without any inventive concept which transforms it from patent ineligible subject matter to patent eligible subject matter."¹²⁴

DAMAGES

The court tackled difficult issues concerning damages in *Limelight Networks, Inc. v. XO Communications, LLC*.¹²⁵ The parties in that case each operated "a content delivery network designed to accelerate the delivery of information and electronic content over the internet."¹²⁶ Each used "different methods to achieve increased speed and reliability over their respective networks," and both alleged patent infringement against the other.¹²⁷

Both parties sought to exclude the damages expert of the other, and the motions were presented to Judge John A. Gibney, Jr., for decision. The first motion

¹¹⁸ *Id.*

¹¹⁹ 314 F. Supp. 3d 727 (E.D. Va. 2018) (**Appeal Noted**).

¹²⁰ *Id.* at 729.

¹²¹ *Id.* at 730.

¹²² *Id.* at 731.

¹²³ *Id.* at 732.

¹²⁴ *Id.* at 733.

¹²⁵ Civil Action No. 3:15cv720, 2018 WL 678245 (Feb. 2, 2018 E.D.Va.).

¹²⁶ *Id.* at *1.

¹²⁷ *Id.*



sought to exclude the reasonable royalty analysis of Limelight’s expert, Dr. Stephen Prowse, with respect to three of the patents at issue. Dr. Prowse’s analysis rested on a hypothetical negotiation. At the outset, the court noted: “The Court must examine this kind of testimony particularly closely, since it relies on an expert’s willingness to offer an opinion on what would have occurred in a negotiation that did not occur and never would have occurred, since the parties show no willingness to negotiate.”¹²⁸

Dr. Prowse first determined the portion of Akamai’s revenue that could be attributed to the infringement, and then set out to determine how the patent owner and putative licensee would have split these revenues. For this piece of the analysis, Dr. Prowse “relied on Rubinstein’s model, which essentially stands for the idea that the more patient party in a negotiation will fare better than the less patient party.”¹²⁹ Dr. Prowse used each party’s “weighted average cost of capital” as reported by Bloomberg as a proxy for each party’s patience. The court rejected this approach as unreliable. The court held: “Using WACC as a proxy for patience in the Rubenstein model does *not* consider the actual stakes in the hypothetical negotiation or even the specific patents negotiated.”¹³⁰ Under Dr. Prowse’s analysis, the parties would “split the gains in the same way for a fundamental patent at the core of a company’s technology and for a piece of technology that the company might consider not at all valuable.”¹³¹

¹²⁸ *Id.* at *2.

¹²⁹ *Id.* at *3.

¹³⁰ *Id.*


¹³¹ *Id.*

Although Dr. Prowse later adjusted the split under the other *Georgia-Pacific* factors, the court held that “he adjusts an unsubstantiated, wholly unreliable number.” Thus, the court excluded Dr. Prowse’s reasonable royalty analysis with respect to three of the patents.

Dr. Prowse offered a different reasonable royalty analysis for the ‘002 patent asserted by Limelight. For this analysis, Dr. Prowse looked to Akamai’s purchase of an entity known as Cotendo. In that purchase, Akamai paid Cotendo a 15 percent royalty on all of the acquired technology, including the ‘571 patent. Dr. Prowse opined that the ‘571 patent was comparable to the ‘002 patent. He further determined that the ‘571 patent represented 59 percent of the total value of Cotendo’s technology. Based on this, he multiplied 59 percent by the 15 percent royalty paid for all of the technology and determined that Akamai paid an 8.9 percent royalty for the ‘571 patent. Thus, he used this 8.9 percent royalty as the royalty that Akamai would pay for comparable technology, i.e., the ‘002 patent, and adjusted down to 8 percent based on the other *Georgia-Pacific* factors. He applied this royalty to Akamai’s revenues on the accused product to determine the amount of damages.

In considering Dr. Prowse’s analysis, the court stated: “The Federal Circuit instructs courts and experts to apportion damages by first determining the portion of the company’s revenues attributable to the alleged patent (known as the ‘damages base’) and then applying a reasonable royalty to that base.”¹³² The court rejected

¹³² *Id.* at 4.



Dr. Prowse’s analysis because Dr. Prowse made no effort to determine what portion of Akamai’s revenues were attributed to the ‘002 patent. “He simply looks to Akamai’s prior acquisition of a different corporation and assumes that because a comparable patent accounted for 59% of that corporation’s projected revenues that the same should apply for Akamai’s revenues. This methodological flaw lacks any foundation and fails to determine the appropriate base of Akamai’s revenues attributable to the ‘002 patent.”¹³³

The court also considered challenges to Dr. Prowse’s lost profits analysis and a reasonable royalty analysis based on a non-infringing alternative. The court expressed skepticism about these damage analyses, but did not exclude them.

Next the court considered challenges to Akamai’s damage expert, Dr. Paul Meyer. Dr. Meyer based his analysis on “prior license agreements and acquisitions to estimate reasonable royalties for all of the patents at issue in this case.” The court excluded Dr. Meyer’s testimony because he did not “properly value the prior technology used as his point of comparison” and he failed “to show technological comparability between the prior technology and the patents here.”¹³⁴

¹³³ *Id.*

¹³⁴ *Id.* at *6.

The court nonetheless granted Limelight leave to proffer additional evidence to support a reasonable royalty on the ‘002 patent. In response, Limelight offered evidence intended to apportion the previously identified 8 percent royalty rate to a more specific damages base.¹³⁵ Limelight argued that the damages base was 45 percent of Akamai’s revenue on the accused system. In support of this damages base, Akamai sought to demonstrate that the accused system used the patented feature for 45 percent of its traffic. The court rejected this approach: “Reducing the royalty base to 45% of Akamai’s revenues based on the fact that 45% of network traffic uses the patented feature ignores the fact that the system depends on many other patents. Further apportionment would therefore be necessary to determine the incremental value of the ‘002 Patent to Akamai’s revenues.”¹³⁶

As an alternative, Limelight proposed allowing the jury to determine “(1) which portion of the 15% Cotendo royalty should apply to (2) which portion of Akamai’s total revenues.”¹³⁷ The court rejected this suggestion because it “would give the jury no direction whatsoever and could result in a damages four times greater than what Limelight has proposed is reasonable in its current proffer.”¹³⁸

¹³⁵ *Limelight Networks, Inc. v. XO Communications, LLC*, 2018 W 1460703 (March 23, 2018 E.D. Va).

¹³⁶ *Id.* at *3.

¹³⁷ *Id.* at *4.

¹³⁸ *Id.*

In light of the above, the court granted Akamai’s motion to strike Limelight’s proffer and revised reasonable royalty analysis.

The court considered whether to grant an award of attorney’s fees in the patent context in *CertusView Technologies, LLC v. S & N Locating Services, LLC*.¹³⁹ In that case, the court had previously invalidated the patents-in-suit on § 101 grounds. The defendant argued that fees were appropriate because the plaintiff “asserted objectively unreasonable patent claims” and “conducted the litigation in an unreasonable manner.”¹⁴⁰ Judge Mark S. Davis denied the motion for fees.

The plaintiff filed suit against the defendant for patent infringement on May 29, 2013. The Supreme Court decided *Alice* in June 2014. In October 2014, the defendant filed a motion for judgment on the pleadings seeking to invalidate the patent on § 101 grounds. The court ultimately granted the defendant’s motion. In seeking an exceptional case determination, the defendant argued that the plaintiff should have known that the patents-in-suit were invalid, if not before the *Alice* decision, certainly afterwards. The court rejected this argument. The court held that there was uncertainty in the application of the *Alice* framework in the months following the decision, and that the plaintiff’s arguments in support of patent eligibility were not unreasonable at the time they were made. The court stated: “While it is tempting in hindsight, and with the benefit of three and a half years of further case law from the Federal Circuit, to say that CertusView acted unreasonably in continuing to litigate this suit after *Alice*, an examination of post-*Alice* opinions from

the Federal Circuit reflect continued development in this nuanced area of patent law, and this Court, like other district courts, recognizes such evolution.”¹⁴¹

Finally, in *TecSec, Inc. v. Adobe Systems, Inc.*,¹⁴² Judge Liam O’Grady granted summary judgment on several affirmative defenses asserted by Adobe in a patent infringement case filed by TecSec.

The court’s opinion discusses the defenses of obviousness-type double patenting, laches, government sales and standards-setting misconduct. In each instance, the court granted TecSec’s motion for summary judgment because Adobe failed to present evidence to support the defenses.

In seeking to avoid summary judgment on its laches defense, Adobe attempted to distinguish the Supreme Court’s decision in *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods.*¹⁴³ In that case, the Supreme Court held that laches could not apply to a damages claim where the infringement occurred within the six-year statute of limitations. Adobe appeared to concede that laches could not apply to TecSec’s claim for damages. However, Adobe argued that laches could still apply to issues of willfulness, attorney’s fees, interest and costs, and loss profits, which Adobe characterized as “equitable issues.” The court granted TecSec’s motion for summary judgment and held: “Even assuming that all the issues Adobe identifies are indeed equitable issues for the Court to decide, Adobe fails to demonstrate that any delay by TecSec in bringing forth this lawsuit is relevant to resolving those issues.”¹⁴⁴

¹³⁹ 287 F. Supp. 3d 580 (E.D. Va. 2018).

¹⁴⁰ *Id.* at 584.

¹⁴¹ *Id.* at 592.

¹⁴² 326 F. Supp. 3d 105 (E.D. Va. 2018).

¹⁴³ ___ U.S. ___, 137 S. Ct. 954 (2017).

¹⁴⁴ 326 F. Supp. 3d at 111.



OTHER PATENT CASES

The court also issued several claim construction decisions, including the following: *Amdocs (Israel Limited) v. Openet Telecom, Inc.* (Judge Brinkema),¹⁴⁵ *Centripetal Networks, Inc. v. Keysight Technologies, Inc.* (Judge Morgan)¹⁴⁶ and *Limelight Networks, Inc. v. Xo Communications, LLC* (Judge Gibney, Jr.).¹⁴⁷

This year also included a pair of cases in which the court granted a motion to dismiss because the plaintiff failed to sufficiently plead infringement. In these instances, the plaintiff was granted leave to amend.

In *Chan Soo Kim v. Green Tea Ideas, Inc.*, Judge Gibney dismissed plaintiffs' claim for patent infringement because the plaintiffs' complaint failed to identify "which

features of the allegedly infringing hair clips correspond to the limitations in the 662 Patent or how those features infringe the patent."¹⁴⁸

In *Mician v. Catanzaro*, Judge Robert G. Doumar dismissed a patent infringement claim on similar grounds. In that case, the complaint alleged that the "offending device" was "virtually identical" to the "patented device" but failed "to identify the features they allegedly have in common."¹⁴⁹ The complaint also alleged that the accused product infringed nine of the eleven claims of the patent, but "fail[ed] to identify which elements of such device correspond with which limitations if any, in the asserted claims."¹⁵⁰

¹⁴⁵ Civil Action No. 1:10-cv-910, 2018 WL 1699429 (Apr. 6, 2018 E.D. Va.) and 2018 WL 2426581 (Apr. 12, 2018 E.D. Va.).

¹⁴⁶ Civil Action No. 2:17-cv-383, 2018 WL 4407256 (Sept. 11, 2018 E.D. Va.).

¹⁴⁷ Civil Action No. 3:15-cv-720, 2018 WL 485880 (Jan. 19, 2018 E.D. Va.) and 2018 WL 1460703 (March 23, 2018 E.D. Va.) (reconsidering construction of "neighboring server").

¹⁴⁸ Civil Action No. 3:17cv00449, 2018 WL 1172998, *1 (March 6, 2018 E.D. Va.).

¹⁴⁹ Civil Action No. 2:17cv548, 2018 WL 2977398, *4 (June 13, 2018 E.D. Va.).

¹⁵⁰ *Id.*



PATENT TERM ADJUSTMENT

We address three cases challenging the Patent and Trademark Office (PTO) patent term adjustment: *Mayo Clinic Foundation v. Iancu*,¹⁵¹ *Ariad Pharmaceuticals, Inc. v. Matal*¹⁵² and *Intra-Cellular Therapies, Inc. v. Matal*.¹⁵³ Two of these cases upheld the PTO decision, and one reversed.

Generally speaking, a patent has a 20-year term that runs from the date the application is filed. The 20-year term is extended under 35 U.S.C. §154(b)(1) for periods of delay in processing the application that are attributable to the PTO. The types of delay are summarized as follows:

“A Delay extends the patent term one day for each day the PTO fails to meet prescribed deadlines for certain events during the processing and prosecution of the patent application, including deadlines for mailing notices of allowance, responding to replies under § 132, and issuing the patent after payment of the required fees.”

“B Delay extends the patent term one day for each day beyond three years that the application remains pending.” However, in calculating the three-year period, certain time periods are excluded, including “ ‘any time consumed by continued examination of the application requested by the applicant under section 132(b)’ ” or time incurred during the pendency of an interference proceeding.

“C Delay extends the patent term one day for each day of the pendency of an interference proceeding, a secrecy order, or successful appellate review by the Board, or a Federal court.”¹⁵⁴

Any adjustment under §154(b)(1)(A)-(C) must be offset by any delay in processing caused by the patent owner. See 35 U.S.C. §154(b)(2).

With this backdrop, the first case we consider is *Mayo Clinic Foundation*.¹⁵⁵ The issue in that case concerned the calculation of B-Delay, and the exclusion of time “consumed by” a request for continued examination (RCE).

In *Mayo Clinic Foundation*, the PTO issued a final office action rejecting the ‘310 application on various grounds, including that the application was anticipated by existing U.S. Patent No. 7,635,757. The applicant filed an RCE and suggested an interference proceeding to resolve any issues of priority with the ‘757 patent. Thereafter, an interference was declared. The applicant prevailed in the interference proceeding, and the ‘310 application was returned to the examiner. The examiner conducted additional prior art review, there was additional back and forth with the applicant regarding possible double patenting, and ultimately a notice of allowance was mailed.¹⁵⁶

In determining the B-Delay, the PTO excluded from the three-year calculation the period of time between the

¹⁵¹ 309 F. Supp. 3d 425 (E.D. Va. 2018) (**Appeal Noted**).

¹⁵² 283 F. Supp. 3d 503 (E.D. Va. 2018).

¹⁵³ Civil Action No. 1:17cv00776, 2018 WL 852368 (Feb. 13, 2018 E.D. Va.) (**Appeal Noted**).

¹⁵⁴ *The Mayo Clinic Foundation*, 309 F. Supp. 3d at 429 (**Appeal Noted**), (citing §154(b)(1)(A)-(C)).

¹⁵⁵ 309 F. Supp. 3d 425.

¹⁵⁶ *Id.* at 430.

filing of the RCE and the notice of allowance, except for the portion of time during which the interference proceeding was pending. The patent owner argued that once the interference proceeding was declared, the RCE ended. Thus, the dispute before the court was “whether the time from the close of the interference proceedings until the notice of allowance was mailed in this matter constitutes ‘time consumed by continued examination of the application requested by the applicant.’”¹⁵⁷

Judge T.S. Ellis, III, upheld this determination by the PTO. The court explained that “the time from the termination of the interference proceedings to the mailing of the notice of allowance is attributable to Mayo, and not to the PTO.”¹⁵⁸ This is because “[h]ad Mayo not requested a continued examination, the PTO would not have conducted the interference proceedings nor would the PTO have updated the prior art search and examined the issue of double patenting following the interference proceedings.”¹⁵⁹ The court further noted that a patent application remains pending until the PTO determines that the application has been abandoned after a final rejection, or the PTO mails a notice of allowance. Thus, the RCE was pending throughout the interference proceeding and did not terminate until the notice of allowance was mailed.¹⁶⁰ The court reiterated that “[a] declaration of interference is not allowance” and that following an interference proceeding “prosecution remains open at this point, further examination is routine, not exceptional, and this time is properly considered ‘time

consumed by continued examination of the application requested by the applicant.’”¹⁶¹

The second case is *Ariad Pharmaceuticals, Inc. v. Matal*, which also involved a B-Delay calculation reviewed by Judge Ellis. In that case, the examiner issued a notice of rejection on August 13, 2009. The patent owner filed a timely RCE which was received in the PTO on February 12, 2010. However, the PTO somehow overlooked the RCE and issued a notice of abandonment on February 19, 2010. Recognizing its mistake, the PTO rescinded the notice of abandonment, entered the RCE and forwarded the application to the examiner. A notice of allowance was issued on October 13, 2011.¹⁶²

In calculating the B-Delay, the PTO excluded from the three-year period the time between the filing of the RCE and the notice of allowance, including the four-month period in which the PTO had erroneously treated the application as abandoned.¹⁶³

The patent owner challenged this calculation and argued that the four-month period should not have been included in the calculation.¹⁶⁴ Judge Ellis agreed with the patent owner. The court looked to the statutory text, which excluded time “consumed by” the RCE. “Consumed by” means “used in the course of.”¹⁶⁵ The court held that “[t]ime cannot possibly be used in the course of continued examination where, as here, the PTO erroneously determines the application is abandoned and does not believe it has even received an RCE.”¹⁶⁶ The court

¹⁵⁷ *Id.* at 432.

¹⁵⁸ *Id.* at 431-432.

¹⁵⁹ *Id.* at 433.

¹⁶⁰ *Id.* at 436.

¹⁶¹ *Id.*

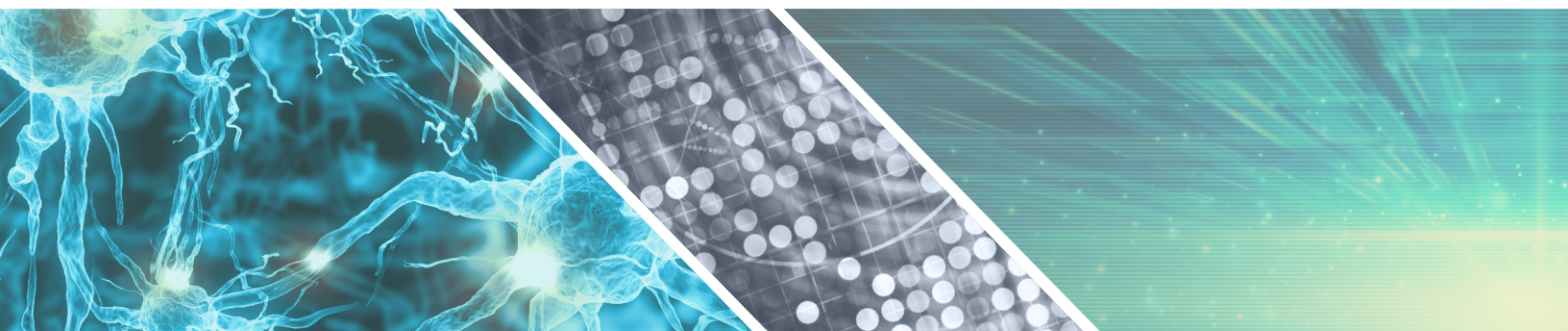
¹⁶² *Ariad Pharmaceuticals, Inc.*, 283 F. Supp. 3d at 506-507.

¹⁶³ *Id.* at 507.

¹⁶⁴ *Id.*

¹⁶⁵ *Id.* at 508.

¹⁶⁶ *Id.*



also looked to the overall statutory scheme, including the PTO regulations interpreting other exclusions from B-Delay, including “time consumed by ‘secrecy orders, appellate review, and proceedings pursuant to § 135(a).’”¹⁶⁷ The court noted that these regulations indicate that “the calculation of the ‘time consumed by’ begins when the event at issue actually occurs.”¹⁶⁸ Thus, the “time consumed by” an RCE “should start when the continued examination actually begins, and continued examination plainly cannot begin before the PTO acknowledges that it has even received a request and instead considers the application abandoned.”¹⁶⁹

Intra-Cellular Therapies, Inc. v Matal involved an offset for the patent owner’s delay in prosecution.¹⁷⁰ In this case, Judge Claude M. Hilton deferred to the agency’s interpretation of the statute.

The patent statute provides an offset to delay attributed to the PTO for any period of time “ ‘during which the applicant failed to engage in reasonable efforts to conclude prosecution of the application.’ ”¹⁷¹ The statute specifically identifies an applicant’s failure to respond to a PTO notice within three months as a type of applicant delay.¹⁷² The statute delegates authority to the PTO to “ ‘prescribe regulations establishing the circumstances that constitute a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application.’ ”¹⁷³

In *Intra-Cellular Therapies*, the PTO determined that the patent owner engaged in a 21-day delay by failing to properly reply to the PTO’s Final Office Action rejecting the patent application within the statutorily defined three-month period.¹⁷⁴ Although the patent owner submitted a reply within the three-month period, the reply did not address every rejection in the Final Office Action. Thus, the reply did not “place the [‘077] application in condition for allowance.”¹⁷⁵ The PTO determined that “ ‘the applicant failed to engage in reasonable efforts to conclude prosecution of the application’ ” by submitting an incomplete reply. The applicant argued that the reply, even if incomplete, advanced the prosecution, and thus was a “reasonable effort” to conclude prosecution.¹⁷⁶

The court deferred to the agency’s interpretation of its own regulations. The court held “that the USPTO’s determination was based on a permissible construction of the relevant statutes, and therefore should be afforded deference under *Chevron*.”¹⁷⁷ The court concluded that “[t]he USPTO’s Final Decision that the July 17, 2013 submission did not stop the clock ... for accruing applicant delay was not arbitrary and capricious, and should be affirmed.”¹⁷⁸

¹⁶⁷ *Id.* at 509.

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

¹⁷⁰ 2018 WL 852368.

¹⁷¹ 35 U.S.C. §154(b)(2)(C)(i).

¹⁷² *Id.* at §154(b)(2)(C)(ii).

¹⁷³ *Id.* at §154(b)(2)(C)(iii).

¹⁷⁴ 2018 WL 852368. at *1.

¹⁷⁵ *Id.* at *3.

¹⁷⁶ *Id.* at *2 (citation omitted).

¹⁷⁷ *Id.* at *5.

¹⁷⁸ *Id.*



COPYRIGHT

We review several copyright cases this year on a variety of issues, including fair use, contribution among joint tortfeasors and preemption.

Brammer v. Violent Hues Productions, LLC, provides a good discussion of the fair use defense in a copyright action.¹⁷⁹ That case involved a copyrighted photograph of the Adams Morgan area of Washington, DC. The plaintiff had posted the photo online on a few occasions without including the copyright notice. The defendant used a cropped version of the photograph on a website providing information about the “Northern Virginia Film Festival.” The website provided information about lodging, transportation and activities around town.¹⁸⁰

Plaintiff filed a copyright infringement action against the defendant. The defendant filed a motion for summary judgment based on the fair use defense, and Judge Hilton granted the motion. The court recited the factors to be considered for purposes of fair use: “(1) the purpose and character of the use, including whether such use is of a commercial nature ...; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.”¹⁸¹

In analyzing the first factor, the court observed that the inquiry is “‘whether the new work is transformative’” and “‘the extent to which the use serves a commercial purpose.’”¹⁸² In this regard, the use “‘need not alter or augment the work to be transformative. Rather, it can be transformative in function or purpose without altering or actually adding to the original work.’”¹⁸³ The court held that this factor weighed in favor of fair use, because defendant’s use of the photograph was not commercial—it was for informational purposes. In contrast, plaintiff’s purpose in taking and publishing the photograph was promotional and expressive.¹⁸⁴ The court also noted that defendant acted in good faith in using the photograph. The defendant found the photograph online and there was no indication it was copyrighted.¹⁸⁵

In continuing the analysis, the court determined that the second factor also favored fair use. The court described the copyrighted work as “factual” rather than “fictional.” The court noted that a “‘use is less likely to be deemed fair when the copyrighted work is a creative product.’”¹⁸⁶ The court recognized that the photograph contained some creative expression, but noted that it is “a factual depiction of a real-world location” and the defendant “used the photo purely for its factual content, to provide festival attendees a depiction of the Adams Morgan

¹⁷⁹ Civil Action No. 1-17-CV-01009, 2018 WL 2921089 (June 11, 2018 E.D. Va.) (**Appeal Noted**).

¹⁸⁰ *Id.* at *1.

¹⁸¹ *Id.* at *1 (citations omitted).


¹⁸² *Id.* at *2 (citations omitted).

¹⁸³ *Id.* (citations omitted).

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ *Id.* (citations omitted).



neighborhood.”¹⁸⁷ The court also stated that the “scope of fair use is broadened when a copyrighted work has been previously published.” Thus, “[t]his prior publication and [defendant’s] use of the photo for its factual content favors a finding of fair use.”¹⁸⁸

With respect to the third factor, the court held that it too weighed in favor of fair use because the defendant only used about 50 percent of the photograph, and “used no more of the photo than was necessary to convey the photo’s factual content and effectuate [defendant’s] informational purposes.”¹⁸⁹

The fourth factor also weighed in favor of fair use. There was no evidence that defendant’s use of the photograph impacted the market for the photo. The plaintiff had engaged in a total of six transactions related to the photograph, including at least two that occurred after the defendant’s publication. For its part, the defendant did not use the photograph for commercial purposes and did not sell or license its use.¹⁹⁰

Based on its analysis of the four factors, the court granted summary judgment in favor of the defendant.¹⁹¹ The court also granted summary judgment to an alleged infringer based on fair use in *Philpot v. Media Research Center Inc.*¹⁹² That case involved photographs of Kenny Chesney and Kid Rock performing. The plaintiff owned copyrights in both photographs, and posted the photographs

online in order to gain fame and increase the overall value of his work. Third parties were authorized to use the photographs free of charge, by agreeing to a license that included a provision that required the third party to identify plaintiff as the photographer.

The defendant was the publisher of news and “conservative” commentary and operated a corresponding website. The website included a link to donate to the defendant and its mission. The defendant published articles about each of the musicians on its website highlighting their “conservative values,” and posted the plaintiff’s photographs with the articles. The defendant did not identify the plaintiff as the photographer as required by the license. The plaintiff sued the defendant for copyright infringement.¹⁹³

In considering defendant’s motion for summary judgment on fair use, Judge Ellis considered the same four factors analyzed in *Brammer*. The court further noted that “primary focus” is on the first factor under Fourth Circuit precedent.¹⁹⁴

Applying the factors, the court found that defendant’s use was transformative and non-commercial. While plaintiff, in his capacity as a professional photographer, took the photographs of the musicians performing, the “defendant used the images for the purposes of news reporting and commentary on issues of public concern.”¹⁹⁵ The court concluded that “the defendant’s use of the Chesney and Kid Rock Photographs is transformative because defendant’s purpose in using the Photographs—to identify

¹⁸⁷ *Id.*

¹⁸⁸ *Id.*

¹⁸⁹ *Id.*

¹⁹⁰ *Id.* at *3.

¹⁹¹ *Id.*

¹⁹² 279 F. Supp. 3d 708 (E.D. Va. 2018).

¹⁹³ *Id.* at 710-712.

¹⁹⁴ *Id.* at 714.

¹⁹⁵ *Id.* at 715.

celebrities as pro-life advocates or conservative Senate candidates—was different from plaintiff’s purpose in taking the Photographs.”¹⁹⁶ The court also found that the defendant’s use “was not essentially commercial,” even though defendant may have received a few modest donations through links on the website where the photographs were used.¹⁹⁷

The court determined that the second factor was neutral because the copyrighted work included both factual and creative elements, and that the third factor weighed against finding fair use because the defendant used the entire photograph.¹⁹⁸

The court further determined that the fourth factor “weighs in favor of a fair use finding because there is no showing on this record of any impact on any economic market for the Chesney or Kid Rock Photographs.”¹⁹⁹ Indeed, plaintiff allowed third parties to use the photographs for free, and had never sought to sell the photos. The court then “weigh[ed] [the results] together” and determined that “this case make[s] out a fair use defense as a matter of law.”²⁰⁰

Parks, Millican, & Mann, LLC v. Figures Toy Company addressed whether a defendant may seek contribution from another defendant for liability under the Copyright Act or the Digital Millennium Copyright Act (DMCA).²⁰¹ Judge Robert G. Doumar granted the defendant’s motion to dismiss a crossclaim for contribution filed against it by the other defendant, thereby rejecting the contribution argument.

The defendant seeking dismissal argued that contribution is available under a federal statute only if “(1) Congress explicitly or implicitly created such a right, or (2) the federal courts have created such a right through the common law.”²⁰² The defendant cited several cases outside the District “ruling that a party cannot sue another for contribution under the Copyright Act.” The other defendant filed no opposition to the motion to dismiss, and the court granted the motion “as unopposed and consistent with relevant authority.”²⁰³

Village Builders on the Bay, Inc. v. Cowling involved removal based on copyright preemption.²⁰⁴ In that case, the plaintiff-contractor filed suit in state court against the purchasers of a house and a competing builder, and asserted several claims, including tortious interference with contract, unjust enrichment and common law copyright infringement. The defendants removed the action based on federal question jurisdiction and preemption of any copyright claim by the Copyright Act.²⁰⁵

¹⁹⁶ *Id.*

¹⁹⁷ *Id.* at 718.

¹⁹⁸ *Id.* at 718-719.

¹⁹⁹ *Id.* at 719.

²⁰⁰ *Id.* at 721-722 (citations omitted).

²⁰¹ Civil No. 2:16CV522, 2018 WL 2023127 (Apr. 30, 2018 E.D. Va.).

²⁰² *Id.* at *2.

²⁰³ *Id.* at *3.

²⁰⁴ 321 F. Supp. 3d 624 (E.D. Va. 2018).

²⁰⁵ *Id.* at 626.



The plaintiff filed an amended complaint that eliminated the copyright claim, and then sought remand.²⁰⁶ In an effort to avoid remand, the defendants argued, *inter alia*, that the unjust enrichment claim was a disguised claim for copyright infringement. Judge Smith granted the motion for remand and held that the unjust enrichment claim was not subject to preemption because it relied on a “benefit” that was outside the scope of copyright protection.²⁰⁷ Specifically, the unjust enrichment claim included an allegation that the defendant-competitor was unjustly enriched by the plaintiff’s specifications and cost estimates, which the defendant used to undercut the plaintiff and secure a contract with the purchasers.²⁰⁸ These “specifications and costs are work-products that are outside the scope of copyright protection,” and thus the claim is not preempted.²⁰⁹

In *Levi v. Twentieth Century Fox Film Corp.*, the *pro se* plaintiff asserted a claim for copyright infringement against Twentieth Century Fox.²¹⁰ The defendant moved to dismiss, and Judge M. Hannah Lauck granted the motion.

²⁰⁶ *Id.*

²⁰⁷ *Id.* at 629-630.

²⁰⁸ *Id.*

²⁰⁹ *Id.* at 630.

²¹⁰ Civil Action No. 3:16cv129, 2018 WL 1542239 (March 29, 2018 E.D. Va.).

The plaintiff alleged that he owned a copyright in an unpublished book called *Unity Incorporated*, and that Twentieth Century Fox’s television series *Empire* infringed that copyright.²¹¹ Plaintiff did not have any direct evidence of copying. Thus, in order to prove copying by indirect evidence, he was required to plead facts sufficient to show that the defendant had access to the copyrighted work and that defendant’s work was substantially similar to the copyrighted work.²¹² Plaintiff admitted that he could not prove “access.” Instead, he sought to rely on the “strikingly similar” doctrine to infer access without direct proof.²¹³ The court noted the uncertainty as to whether the Fourth Circuit had even adopted this doctrine, but held that regardless, the plaintiff had failed to allege facts sufficient to show “substantial similarity” much less “striking similarity.”²¹⁴

²¹¹ *Id.* at *1.

²¹² *Id.* at *4.

²¹³ *Id.* at *5.

²¹⁴ *Id.*





CONCLUSION

2018 was an active year for intellectual property litigation in the Eastern District of Virginia, and 2019 is likely to be even busier. The cases reviewed above demonstrate, once again, that the District is an attractive forum for intellectual property litigants, both plaintiffs and defendants—at least, those who are prepared to deal with the demanding schedule that befalls all litigants in the “rocket docket,” no matter how complex the case.

But there are some deeper “takeaways” from 2018 that future litigants would be wise to bear in mind going forward in 2019 and beyond:

- The District Judges are well-versed in the intricacies of intellectual property law, and are exacting in demanding strict adherence to the law. Those who attempt to circumvent well-established legal requirements, particularly in the area of damages as seen above, with the hope of just getting to a jury trial will be disappointed to find that they will likely never get there.
- The District Judges will not hesitate to dismiss a complaint, or counterclaims and affirmative defenses, at the pleading stage, or more importantly on summary judgment, if there is a failure of proof. Just because trials are scheduled with astonishing speed does

not mean that close scrutiny will not be applied to both the plaintiff’s and defendant’s case prior to trial. If the law dictates a certain outcome, or if one side fails to present sufficient proof to create a genuine issue of material fact, the District Judges will not allow such a case to reach the jury trial stage.

- The District Judges will rule decisively on legal issues presented in intellectual property cases, and will not let unresolved questions linger to be dealt with at trial or after. This is one of the principal benefits of litigating intellectual property cases in the District; the Judges are not shy to rule on difficult questions, and litigants will know where they stand before trial. It’s not for the faint-hearted—but it is ideal for those who are committed to the litigation path (and for those who welcome judicial resolution of questions that lead to a settlement).

We shall see what 2019 brings, but most assuredly, it will bring a plethora of new intellectual property litigation to the District. The District’s adherence to the guiding principle of “Justice Delayed is Justice Denied,” emblazoned above the courthouse door, will continue to attract interesting cases with the promise of a quick and decisive resolution.

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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
Arenda Laretta Wright Allen	Norfolk	1	0	1	2
Leonie M. Brinkema	Alexandria	2	7	43	52
Mark Steven Davis	Norfolk	2	0	0	2
Robert George Doumar	Norfolk	3	2	0	5
Thomas Selby Ellis III	Alexandria	3	12	21	36
John Adrian Gibney	Richmond	1	0	0	1
Liam O'Grady	Alexandria	1	13	34	48
Claude M. Hilton	Alexandria	4	2	33	39
Henry E. Hudson	Richmond	2	1	4	7
Raymond Alvin Jackson	Norfolk	1	0	0	1
Mary Hannah Lauck	Richmond	1	0	3	4
Henry Coke Morgan Jr.	Norfolk	2	1	3	6
Robert E. Payne	Richmond	0	1	1	2
Rebecca Beach Smith	Norfolk	0	0	2	2
Anthony John Trenga	Alexandria	1	7	31	39
TOTALS		24	46	176	246



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