

2012 Eastern District of Virginia Intellectual Property Year in Review

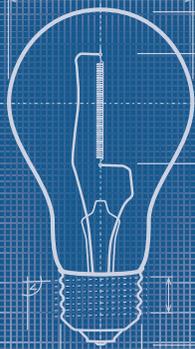


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Introduction and Overview

While it is not the Eastern District of Texas or the Northern District of California, the United States District Court for the Eastern District of Virginia (EDVA), remains one of the most popular forums for filing intellectual property cases. D deservedly referred to as the “rocket docket,” the divisions of the EDVA pride themselves on being able to try cases, including complex patent matters, within one year of filing. When combined with the speedy docket, judges with substantial intellectual property case experience and an IP-savvy legal community, the result is predictable — the EDVA is a preferred forum for intellectual property cases.

Below, we take a look at key decisions and findings resulting from intellectual property cases in the EDVA in 2012. In addition to important case summaries, we also attempt to synthesize trends that emerged from these cases. For example, the ongoing implementation of the Leahy-Smith America Invents Act resulted in the filing of numerous cases in the EDVA appealing the decisions from the United States Patent and Trademark Office regarding patent term adjustment. Likewise, transfer motions in patent cases were frequently filed. In the trademark arena, a significant number of anticybersquatting cases seeking to have domain name ownership transferred were filed. And for copyright cases, virtually all ultimately settle.

Patent Cases

In 2012, 160 patent cases were filed in the EDVA. This number is a bit inflated since it includes cases filed against the United States Patent and Trademark Office’s (USPTO) director, David Kappos, for patent term adjustment under the Leahy-Smith America Invents Act.¹ Excluding the 68 patent term adjustment cases, there were still 92 patent cases filed in the EDVA in 2012.² With respect to resolution, only one patent case was concluded via summary judgment, in which the court granted defendant’s motion for summary judgment of noninfringement and invalidity. See *Hamilton Beach Brands, Inc. v. Sunbeam Products, Inc.*, Civ. No. 3:11-cv-345, 2012 WL 6062545 (E.D. Va. July 13, 2012). And while several *Iqbal/Twombly*-type motions to dismiss were filed, none were successful. Three patent cases were tried to a jury along with one bench trial. Two of the jury trials resulted in verdicts for the plaintiffs, while the third resulted in a divided jury on the issue of infringement. The bench trial resulted in a defense verdict, which is currently on appeal to the Federal Circuit.

In total, four cases were appealed to the Federal Circuit, all of which are still pending.³ At least 27 patent term adjustment cases have been stayed awaiting the Federal Circuit’s decision in *Exelixis v. Kappos*. Fourteen cases were transferred out of the district (excluding cases transferred for discovery and claim construction pursuant to the United States Judicial Panel on Multidistrict Litigation), with four cases involving transfers from one division to another within the district. However, the vast majority of patent cases settled prior to trial — 61 in all.⁴



¹ Possibly tired of seeing his name as a defendant, Director Kappos announced his resignation in January of 2013.

² Additionally, the America Invents Act’s restrictions on naming multiple defendants in a single patent case have increased the number of cases filed. And for cases filed involving the same patent family against multiple defendants, the court frequently will consolidate the cases for discovery and claim construction purposes.

³ These cases include *Triangle Software LLC v. Garmin Int’l, Inc.*; *W.L. Gore & Assocs., Inc. v. Medtronic*; *Hamilton Beach Brands, Inc. v. Sunbeam Prods., Inc.*; and *Exelixis, Inc. v. Kappos*.

⁴ This total includes cases filed in 2010 and 2011 that settled in 2012.

Claim Construction

The EDVA strictly follows Federal Circuit precedent when construing claims in *Markman* hearings, five of which took place in 2012.⁵ Of these five, the court's constructions appeared to favor the plaintiffs in four of the cases.⁶ In the fifth case, *Morpho Detection, Inc. v. Smiths Detection, Inc.*, in which more of the defendant's constructions were adopted, the parties took atypical positions — the plaintiff sought a more narrow construction for the terms, whereas the defendant sought broader constructions. This role reversal allows us to conclude that in all of the court's claim constructions in 2012, broader constructions were favored.

The court's starting point in claim construction is the claim language itself. When the terms are clear and apparent from the claim language, no further construction is needed. See *I/P Engine, Inc. v. AOL, Inc.*, 874 F. Supp. 2d 510 (E.D. Va. 2012) (“[T]he Court finds that the plain and ordinary meaning of the term ... is clear and apparent from the claim language itself.”); *W.L. Gore & Assoc., Inc. v. Medtronic, Inc.*, 834 F. Supp. 2d 465 (E.D. Va. 2011) (“[I]t is appropriate in this case to allow the straightforward claim language to speak for itself.”); see also *Morpho Detection, Inc. v. Smiths Detection Inc.*, Civ. No. 2:11-cv-498, 2012 WL 5194076 (E.D. Va. Oct. 19, 2012) (“[T]he Court therefore opts not to add to, or subtract from, or otherwise modify, the plain meaning of the disputed term.”). It is “[t]he actual words of the claims that are the controlling focus” in claim construction and grammar within the claim is an important key. See *I/P Engine, Inc.* (quoting *Digital Biometrics, Inc. v. Indentix, Inc.*, 149 F.3d 1335, 1344 (Fed. Cir. 1998)); *Innovative Communications Tech., Inc. v. Vivox, Inc.*,

Civ. No. 2:12-cv-9, 2012 WL 5331573 (E.D. Va. Oct. 26, 2012).

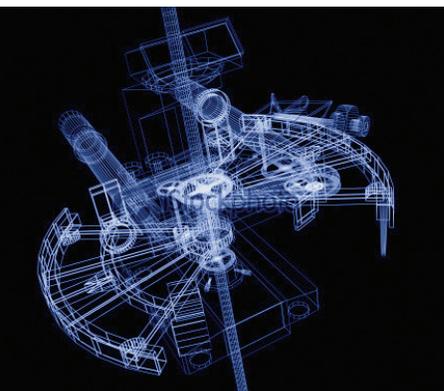
In *Innovative Communications*, the defendants unsuccessfully sought to narrow a claim term by relying on statements by one of the inventors and a prior owner of the patents-in-suit, which were made during litigation against another defendant and before another court. The court stated that since there was “no ambiguity in the claim language after consideration of the intrinsic evidence, [a] resort to this extrinsic evidence would be improper.” The disputed term was given its ordinary and customary meaning.

A patentee is always free to be his or her own lexicographer, but absent such intent or evidence of disavowal, the court gives the broadest scope possible to the claim terms. See *I/P Engine, Inc.* And any such disavowal by an inventor must be shown by a clear and unmistakable disclaimer of the full scope of the claim language. See *Morpho Detection, Inc.* (quoting *Home Diagnostics, Inc. v. LifeScan, Inc.*, 381 F.3d 1352, 1358 (Fed. Cir. 2004) (“Absent a clear disavowal or contrary definition in the specification or the prosecution history, the patentee is entitled to the full scope of its claim language.”)); *iHance, Inc. v. Eloqua Ltd.*, Civ. No. 2:11-cv-257, 2012 WL 1571327 (quoting *Brookhill-Wilk 1, LLC v. Intuitive Surgical, Inc.*, 334 F.3d 1294, 1301 (Fed. Cir. 2003)).

The defendants in *I/P Engine, Inc.* tried to narrow a claim term by relying on specific language in the specification. The court declined to limit the term because the “cited specification contains no clear and unmistakable disclaimer of the full scope of the claim language.” The court found that the ordinary and customary meaning of the claim term was readily apparent, even to a layperson, and, thus declined to construe the claim term.

⁵ The five cases involving claim construction orders in 2012 are: *I/P Engine, Inc. v. AOL, Inc.*, 874 F. Supp. 2d 510 (E.D. Va. 2012); *W.L. Gore & Assoc., Inc. v. Medtronic, Inc.*, 834 F. Supp. 2d 465 (E.D. Va. 2011); *Morpho Detection, Inc. v. Smiths Detection Inc.*, Civ. No. 2:11cv498, 2012 WL 5194076 (E.D. Va. Oct. 19, 2012); *Innovative Communications Tech., Inc. v. Vivox, Inc.*, Civ. No. 2:12-cv-9, 2012 WL 5331573 (E.D. Va. Oct. 26, 2012); and *iHance, Inc. v. Eloqua Ltd.*, Civ. No. 2:11-cv-257, 2012 WL 1571327 (E.D. Va. May 3, 2012).

⁶ One major reason for favorable plaintiff constructions is the court's tendency to frequently agree that the “plain and ordinary meaning” of a term should govern, which generally favors the plaintiffs.



Transfer Motions

Docket efficiency makes the EDVA a favorable forum for many plaintiffs. For example, in the Norfolk Division, a trial date is set at the Rule 16(b) Scheduling Conference, typically six to seven months in the future. And possibly for this same reason, numerous defendants seek to transfer cases out of the EDVA. Nearly 20 transfer motions⁷ were addressed in the EDVA during 2012,⁸ approximately three-quarters of which were granted.

In considering transfer motions under 28 U.S.C. §1404(a), the court considers the unique circumstances of each case, recognizing that the burden is on the movant to show that a transfer is proper. See *Civix-DDI, LLC v. Loopnet, Inc.*, Civ. No. 2:12-cv-2, 2012 WL 3776688 (E.D. Va. Aug. 30, 2012). In doing so, two inquiries must be made, including “(1) whether the claims might have been brought in the transferee forum, and (2) whether the interest of justice and convenience of the parties and witnesses justify transfer to that forum.” (quoting *Koh v. Microtek Intern., Inc.*, 250 F. Supp. 2d 627, 630 (E.D. Va. 2003)). The plaintiff’s choice of forum is given “substantial weight” as a “court should rarely disturb a plaintiff’s choice of forum unless the balance of hardships clearly favor transfer” (quoting *Verizon Online Servs., Inc. v. Ralsky*, 203 F. Supp. 2d 601, 623-24 (E.D. Va. 2002)).

In 2012, three factors seemed to tip the “balance of hardships” in favor of transfer. First, when the plaintiff has “tenuous” or potentially manufactured connections with Virginia, the plaintiff’s choice of forum is given substantially less weight. For example, in the *Bascom Research* cases, the court observed that the plaintiff was formed in Virginia only one month before the patents were acquired and four months before the lawsuits were filed. See *Bascom*

Research, LLC v. Facebook, Inc., Civ. No. 1:12-cv-1111, Dkt. No. 40 (E.D. Va. Dec. 11, 2012).⁹ The court also took note that the plaintiff was a nonpracticing entity with a purpose of “generating returns from patent monetization.”¹⁰

Second, the court looks at the convenience of the forum for witnesses and access to documents. The court starts by looking at the convenience to nonparty witnesses (“there are 68 non-party witnesses located in the Northern District of California By contrast, Bascom has not identified any non-party witnesses located in the Eastern District of Virginia”). But when the nonparty witnesses’ factor is neutral, the court may also look to the convenience of party witnesses. See, e.g., *Jaffe* (noting all employee witnesses who could testify to “marketing, sales, and revenues of the accused products work in the San Jose headquarters.”).¹¹

And third, the court considers whether there are or have been related actions in the transferee forum. “When related actions are pending in the transferee forum, the interest of justice is generally thought to ‘weigh heavily’ in favor of transfer.” *Civix-DDI*, Civ. No. 2:12-cv-2, 2012 WL 3776688 (quoting *Samsung Elecs. Co. v. Rambus, Inc.*, 386 F. Supp. 2d 708, 721 (E.D. Va. 2005)). In *Civix-DDI*, the court did not find the plaintiff’s choice of forum or the convenience to the witnesses or parties weighed heavily either for or against transfer. Thus, the fact that the Northern District of Illinois previously had experience with the patents-in-suit and technology, along with the fact that two other related actions were pending before that forum warranted transfer.

⁷ Four Bear Creek Technologies, Inc., cases were transferred pursuant to the United States Judicial Panel on Multidistrict Litigation for pretrial proceedings. Because these cases will likely be transferred back to the EDVA following the pretrial proceedings, they are not included in this transfer analysis.

⁸ Eight of these transfer motions involved two plaintiffs — Innovative Communications Technologies, Inc. (ICTI) (three) and Bascom Research, LLC (five). While eight separate transfer motions were filed, the court addressed the motions collectively for each plaintiff — denying transfer in the three ICTI cases and granting transfer in the five Bascom cases.

⁹ The four additional *Bascom Research* cases include the following defendants: LinkedIn Corp. (Civ. No. 1:12-cv-1112), Novell, Inc. (Civ. No. 1:12-cv-1113), Jive Software, Inc. (Civ. No. 1:12-cv-1114) and Broadvision, Inc. (Civ. No. 1:12-cv-1115).

¹⁰ See also *Jaffe v. LSI Corp.*, 874 F. Supp. 2d 499 (E.D. Va. 2012) (recognizing that a “non-practicing” entity whose main line of business was enforcing its intellectual property rights “had only weak connection with the EDVA.”) (citing *Pragmatus AV, LLC v. Facebook, Inc.*, 769 F. Supp. 2d 991 (E.D. Va. 2011)).

¹¹ The court also found the “interests of justice” factor favoring transfer because defendant “makes and sells its products [in the N.D. California].” *Jaffe*.

In contrast, two factors were noted by the court in denying transfers. First, in *Innovative Communications Technology, Inc. v. ooVoo*, Civ. No. 2:12-cv-8, 2012 WL 4738979 (E.D. Va. Oct. 3, 2012), the court found that the “interests of justice weigh heavily against transfer at this point in the proceedings after these three cases have been consolidated, right before the Markman hearing, and after the Markman hearing has been fully briefed.”¹² The court, however, did permit the defendants to refile their transfer motions after the *Markman* hearing. Likewise, the court denied transfer in *Uretek USA, Inc. v. Applied Polymerics, Inc.*, Civ. No. 3:11-cv-542, 2011 WL 6029964 (E.D. Va. Dec. 5, 2011) because “crucial non-party witnesses ... are located in Virginia.”

Dispositive Motions

Motions to dismiss under Rule 12(b)(6) are prevalent in patent infringement cases filed in the EDVA, as well as across the country. In the EDVA, courts have generally been reluctant to grant motions to dismiss that challenge the legal sufficiency of a complaint under *Twombly* and *Iqbal*. *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007); *Ashcroft v. Iqbal*, 129 S. Ct. 1937 (2009). To survive a 12(b)(6) motion, “a complaint must contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’” *Iqbal* (quoting *Twombly*). Courts in the EDVA overwhelmingly find that pleadings of facts — construed in the light most favorable to the nonmoving party — are sufficient to survive a Rule 12(b)(6) motion to dismiss. See *Bayer CropScience v. Dow Agrosciences LLC*, Civ. No. 2:12-cv-47, 2012 WL 2878495 (E.D. Va. July 13, 2012) (Denying motion to dismiss on the ground of failure to state a claim upon which relief may be granted, finding plaintiff pled the necessary element of infringement “without lawful authority.”); see also *The Informatics Applications Group, Inc. v. Shkolnikov*, 836 F. Supp. 2d 400 (E.D. Va. 2011) (The court found counts were sufficiently pled to survive on issues involving inventorship, conversion, trade secrets and breach of fiduciary duty. In addition, with regard to the meaning of contract terms, ambiguity was enough to survive 12(b)(6)).

¹² The other two cases included defendants Vivox, Inc. (Civ. No. 2:12-cv-7) and Stalker Software, Inc. (Civ. No. 2:12-cv-9).

Courts in the EDVA are similarly reluctant to dismiss a complaint for lack of subject matter jurisdiction under Rule 12(b)(1).¹³ See *Bayer* (Defendant moved to dismiss plaintiff’s infringement claim for lack of subject matter jurisdiction based on an arbitration clause; the court found that dismissal was not warranted); see also *Informatics* (Court rejected defendant’s argument that plaintiff lacked standing).

However, a court in the EDVA may be more inclined to grant a motion to stay in favor of arbitration. In *Bayer*, the parties differed on the issue of whether the plaintiffs’ infringement claim should be submitted to arbitration. The court paid particular interest to the plaintiff’s concession at oral argument that if an arbitrator found that defendants did not violate the license agreement, plaintiffs would not have a valid patent infringement claim. Because compelling arbitration and resolving the license agreement might also resolve the patent infringement claims, the court granted the defendants’ motion to stay.

With regards to the underlying basis, an emerging trend in the EDVA involves challenges to the sufficiency of fraud claims, such as inequitable conduct. Unlike other defenses, to survive a motion to dismiss under Rule 12(b)(6), an inequitable conduct defense must be pled with particularity. When addressing claims related to fraud, the EDVA courts are again reluctant to grant dismissal on these grounds and generally allow such claims to survive. See *Informatics* (Accepting the allegations as true and drawing all reasonable inferences in favor of the nonmoving party, the court found that the claim of fraud by silence was sufficiently pled with particularity required by Rule 9(b)).

In determining the sufficiency of pleading an inequitable conduct defense, the court in *W.L. Gore & Associates, Inc. v. Medtronic, Inc.*, 850 F. Supp. 2d 630 (E.D. Va. 2012) also addressed the effect of the Federal Circuit’s decision in *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276

¹³ Subject matter jurisdiction may be attacked in two ways: (1) defendants may contend that the complaint fails to allege facts upon which subject matter jurisdiction may be based and (2) defendants may argue that the jurisdictional facts alleged in the complaint are untrue. See *Informatics*. The burden of proving subject matter jurisdiction falls on the plaintiff.

(Fed. Cir. 2011) on the pleading requirement. While *Therasense* heightened the standards for inequitable conduct on the merits, the EDVA recognized that this heightened standard does not apply at the pleading stage.

In *Delano Farms Co. v. Cal. Table Grape Comm'n*, 655 F.3d 1337, 1350 (Fed. Cir. 2011), the Federal Circuit stated that to survive a motion to dismiss, an inequitable conduct claim simply must recite “facts from which the court may reasonably infer that a specific individual both knew of invalidating information that was withheld from the PTO and withheld that information with a specific intent to deceive the PTO.” The EDVA confirmed that *Therasense* does not raise requirements for pleading claims related to inequitable conduct and explicitly adopted the *Delano Farms* reasoning. See *W.L. Gore* (Noting that although the facts alleged may not be enough to satisfy the *Therasense* elements of clear and convincing evidence, the alleged facts are sufficient to satisfy the pleading requirements).

However, in *Cherdak v. Vock*, Civ. No. 1:11-cv-1311, 2012 WL 1427847 (E.D. Va. Apr. 23, 2012), the court dismissed fraud claims that alleged a patentee made misstatements and omissions regarding prior art during prosecution. The court found no fault with an attorney advocating on behalf of its client for procurement of a patent. In fact, the court relied on the Federal Circuit’s repeated comments that attorney argument, including interpretations of claims and prior art, does not amount to omission or misrepresentation. (citing *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363 (Fed. Cir. 2008)). Even presuming that the facts pled in the complaint were true, the court found no indicia of any fraud. Accordingly, the court was inclined to dismiss fraud claims and any claim dependent on the presence of fraud.

In the EDVA, parties are allowed to file one summary judgment motion, without requesting leave. As opposed to motions to dismiss, summary judgment briefs are exchanged at the close of discovery when facts, testimony and other evidence should be available. As such, when evidence is lacking to support a claim or defense at

this stage of the case, judges are more inclined to find in favor of the moving party to streamline the issues for trial. See *Heflin v. Coleman Music and Entertainment, L.L.C.*, Civ. No. 2:10-cv-566, 2011 WL 6130802 (E.D. Va. Dec. 5, 2011) (Defendants failed to show any evidence to support tortious interference and false advertising claims).

Patent Term Adjustment

Patent term adjustment (PTA) as set forth in 35 U.S.C. § 154(b)(1)(B) provides a guarantee of a one-day extension of patent term for every additional day it takes the patent to issue after three years from the filing date (“the B period”), subject to certain conditions. See 35 U.S.C. § 154(b)(1)(B); see also 37 C.F.R. § 1.702(b). The statutory scheme exempts certain applicant-initiated activities from the calculation of the B-period delay, including (i) filing of a Request for Continued Examination (RCE); (ii) notice of appeal; or (iii) applicant request for a delay of processing. The USPTO interpreted this statutory provision such that if any of these events occurred during prosecution, the further accrual of PTA during the B-period would stop.

In *Exelixis v. Kappos*, a patentee successfully challenged the USPTO’s interpretation of a statute providing additional patent term awarded in compensation for USPTO delays in patent examination. The USPTO granted Exelixis 368 days of PTA for U.S. Patent No. 7,989,622, tolling the B period at April 11, 2011, due to the filing of a RCE, instead of August 2, 2011, at the grant of the patent. The patentee challenged the USPTO’s interpretation of § 154(b)(1)(B) because the RCE was filed after the three-year pendency guarantee period.

In *Exelixis* the court addressed “whether [35 U.S.C.] § 154(b)(1)(B) requires that ... any PTA be reduced by time attributable to an RCE, where ... the RCE is filed after the expiration of the three-year guarantee period specified in that statute.” *Exelixis, Inc. v. Kappos*, Civ. No. 1:12-cv-96, 2012 WL 5398876 (E.D. Va. Nov. 1, 2012). Under the USPTO’s interpretation, once a RCE is filed, the patent application no longer accrues B period PTA (i.e., the RCE “tolls” the applicability of the B period). The court



did not agree with the USPTO. The court held that the filing of a RCE after the three-year time period does not toll the calculation of the PTA. The court's interpretation was guided by the language of the statute, which provides a guarantee of patent term if the USPTO takes more than three years to issue a patent, unless the enumerated applicant-initiated activities occurred within the three-year period. Therefore, if a RCE is filed after the three-year time period, the patent application continues to accrue PTA during the B period.

The logical extension of the holding in *Exelixis* is that any of the three conditions listed — RCE, appellate review and/or delay in processing at applicant's request — do not toll the B period if they occur after the three-year time period. Past experience tells us that the USPTO will not begin implementing the *Exelixis* decision unless and until the Federal Circuit affirms the district court. For example, after the *Wyeth* district court decision, the USPTO refused to correct the "Wyeth error" until the district court's decision was upheld by the Federal Circuit. Although the USPTO accepted requests for reconsideration of PTA decisions for patents having issued within 180 days of the *Wyeth* decision, requests for reconsideration outside this window were not accepted. See, e.g., *Bristol-Myers Squibb Co. v. Kappos*, 841 F. Supp. 2d 238 (D.D.C. 2012); *Novartis AG v. Kappos*, No. 10-cv-1138, slip. op. (D.D.C. 2012). The USPTO filed an appeal with the Federal Circuit on December 31, 2012.

Laches

Laches is often cited in a defendant's affirmative defenses, occasionally moved upon, but less frequently granted. However, on consecutive days in 2012, the EDVA granted two laches motions in *I/P Engine, Inc. v. AOL Inc.*, Civ. No. 2:11-cv-512, 2012 WL 5880265 (E.D. Va. Nov. 20, 2012) (Jackson, J.) and *Morpho Detection, Inc. v. Smiths Detection, Inc.*, Civ. No. 2:11-cv-498, 2012 WL 5879851 (E.D. Va. Nov. 21, 2012) (Davis, J.).

The "equitable doctrine of laches may bar a patentee's recovery of pre-filing damages where (1) the patentee knew of his claim,

but unreasonably delayed in filing suit and (2) that delay caused material prejudice to the alleged infringer." See *I/P Engine* (citing *Hair v. United States*, 350 F.3d 1253 (Fed. Cir. 2003)).¹⁴ "[T]he plaintiff is chargeable with such knowledge as he might have obtained upon inquiry, provided the facts already known by him were such as to put upon a man of ordinary intelligence the duty of inquiry." (quoting *Johnston v. Standard Mining Co.*, 148 U.S. 350, 370 (1893)). Moreover, "[t]he presumption of laches arising from a more than six-year delay in filing suit is consonant with the mainstream of the law." (quoting *A. C. Aukerman Co. v. R. L. Chaides Constr. Co.*, 960 F.2d 1020, 1032 (Fed. Cir. 1992)). But the "length of time which may be deemed unreasonable has no fixed boundaries but rather depends on the circumstances." (quoting *A. C. Aukerman*, 960 F.2d at 1032). Once such delay has been established, the patentee may overcome the presumption by showing via a preponderance of the evidence that its delay was reasonable or by showing a lack of prejudice to the defendant. (citing *Odetics, Inc. v. Storage Tech. Corp.*, 919 F. Supp. 911 (E.D. Va. 1996)).

Examples of excusable delay include "ongoing litigation involving the patent at issue ... and the patentee [has] give[n] notice to the accused infringer" or when litigation is delayed due to negotiations between the patentee and alleged infringer. (quoting and citing *Odetics*, 919 F. Supp. at 918-19). "The authority to impose laches lies with the sound discretion of the district court." (citing *Gasser Chair Co. v. Infanti Chair Mfg. Corp.*, 60 F.3d 770 (Fed. Cir. 1995)).

In *I/P Engines*, the court concluded that the plaintiff waited for more than six years to file its complaint, despite having constructive knowledge of defendants' infringing activities. Specifically, the plaintiff's predecessor, Lycos, had constructive notice of the Google AdWords system as of July of 2005. Because of Google's publication of information pertaining to AdWords, these activities made the information "sufficiently prevalent in the inventor's field of endeavor" that actual knowledge was not required. In

¹⁴ The laches doctrine is used in place of a limitation period.

response, plaintiff cited to its predecessor's "strategic indecision" and ongoing litigation over related patents as an excuse for not filing sooner. The court rejected both arguments, noting first that not a single case supports "strategic indecision" as justifiable. Second, litigation involving "related" patents does not justify delay, and, even if it did, plaintiff never provided defendants with the required notice of such litigation.

The court also rejected plaintiff's argument that the delay in bringing the litigation did not result in prejudice to defendants. While the plaintiff argued that the delay did not result in witnesses' failure to recall relevant information, the court concluded that as speculative and without evidentiary support. Thus, the court exercised its equitable discretion and applied the doctrine of laches.

In *Morpho Detection, Inc. v. Smiths Detection, Inc.*, the defendant introduced evidence that it was openly marketing and selling its allegedly infringing product more than six years prior to plaintiff's filing the lawsuit. Further, Morpho Detection's own documents, revealed in discovery, confirmed that the company was aware of "potentially infringing activities." In response, plaintiff argued that defendant had not effectively shifted the burden nor had defendant established that the delay was unreasonable or caused prejudice. Since the plaintiff had, at a minimum, constructive knowledge of the allegedly infringing activities, the court rejected Morpho's argument. Without effective rebuttal, the presumption of laches applied, resulting in its application.

Foreign Defendants

A number of 2012 EDVA cases highlight the numerous difficulties patent owners face in enforcing United States patents in the Federal Court system against foreign defendants. These difficulties include: limited insight into complex importation patterns, assertions of foreign blocking statutes to preclude discovery, more limited discovery options, foreign language issues (e.g., translation difficulties and expenses), and often limiting and highly complex theories of infringement.

W.L. Gore & Associates v. Medtronic, Inc., 874 F. Supp. 2d 526 (E.D. Va. 2012) highlights just some of these challenges. There, plaintiffs W.L. Gore & Associates, Inc., and Gore Enterprise Holdings, Inc., accused related defendants Medtronic, Inc., Medtronic USA Inc. and Medtronic Vascular Inc. of infringing Gore's patent covering a method of making a tubular intraluminal stent graft.

The court first concluded that infringement as a "sale" or "offer for sale" under § 271(a) did not occur. Applying *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), the court found that the alleged infringing devices were not "made" or "used" in the United States since the accused products were largely manufactured in Mexico. Noting ambiguity as to whether a method claim can be infringed under the "sell" prong of § 271(a), the court found that "Gore put forth no evidence during trial to assist the Court in analyzing this prong other than the conclusory fact, upon which both parties appear to agree, that the Medtronic Talent products were sold in the United States beginning in December of 2008." Similarly, the court did not find infringement under the "import" prong of § 271(a) because the plaintiffs did not argue that it occurred, while questioning whether § 271(a) importation could ever protect a patented method or process.

Finally, the court considered whether the Medtronic defendants infringed the patented method by importation under § 271(g). Among its noninfringement findings, the court concluded that many of the plaintiffs' claims failed because the named defendants do not import into the United States. Instead, it appeared that a subsidiary corporation, "Medtronic Mexico," which was not a named defendant, manufactured the accused devices in Mexico. Thus, the court considered whether one of the parent companies, which were named defendants, could qualify as importers under § 271(g) because they control Medtronic Mexico. Citing *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007) and *Muniacution, Inc. v. Thomas Corp.*, 532 F.3d 1318 (Fed. Cir. 2008), the court examined

contracts and agreements between the various Medtronic defendants and Medtronic Mexico for evidence of “control” over Medtronic Mexico. Finding none, the court concluded that the Medtronic defendants were not liable as importers under § 271(g).

MeadWestvaco Corp. v. Rexam PLC, Civ. No. 1:10-cv-511, 2012 WL 2153165 (E.D. Va. June 12, 2012) highlights additional barriers when pursuing foreign entities in patent cases. MeadWestvaco sued the foreign counterparts of Rexam Beauty & Closures, Inc., and Valois of America, Inc., alleging infringement of patents related to perfume packaging, specifically packaging with invisible dip tubes made of fluoropolymers.

While the market for perfume packaging is global, the foreign defendants did not actually import their products into the United States, instead selling to global perfume houses, knowing that the global perfume houses imported the products into the United States among other countries. Accordingly, plaintiffs alleged that the foreign defendants induced infringement of the United States patents in the United States. The plaintiffs failed to prove induced infringement against the foreign defendants because they could not prove that the defendants *knew* that their products infringe, even though the foreign

defendants were ultimately wrong and the court concluded that the packaging products at issue did infringe. Accordingly, the court did not enter judgment against the foreign defendants.

Furthermore, the court refused to enjoin the foreign defendants from importing their admittedly infringing products into the United States because the foreign defendants were not ultimately held liable for patent infringement. The court found no evidence that the foreign defendants were likely to infringe the patents-in-suit. Finally, the court also denied plaintiffs’ requests that the defendants be enjoined from indemnifying customers against the infringement of the patents-in-suit in their sales of products found to infringe.

As these cases demonstrate, patentees seeking to enforce their patents against foreign defendants must do much more than simply prove that the actual product or process infringes. Cases brought against foreign defendants require plaintiffs to provide both evidence and argument regarding complicated corporate structures and the exact paths that the accused products and processes take to arrive in the United States.



Trademark Cases

Like patent cases, the vast majority of trademark cases settle. While 79 new trademark cases were filed in the EDVA in 2012, 52 trademark cases filed in the EDVA were concluded via settlement in 2012.¹⁵ Three trademark cases went to trial, with two bench trials and one jury trial — all of which resulted in judgments in favor of the plaintiff. Only two cases were transferred out of the district, and one case was transferred to another division within the EDVA. Two cases were appealed to the Fourth Circuit, and one case was resolved on summary judgment. But the statistic that stands out the most is that 22 trademark cases concluded via default judgments. Thirteen of the default judgments were anticybersquatting cases, which resulted in transfer of domain name ownership.

Anticybersquatting

Because VeriSign, a primary Internet domain name registry is located in Northern Virginia, numerous ACPA cases have been brought in the Alexandria Division of the EDVA. As seen with patent cases, seeking relief against foreign entities provides numerous challenges in trademark cases as well. As one might guess, arguments in most of these cases analyze whether courts in the United States even have jurisdiction over foreign defendants.

In both *United Air Lines, Inc. v. UNITEDAIR.com*, Civ. No. 1:12-cv-143, 2012 WL 2838629 (E.D. Va. June 11, 2012) and *Enterprise Holdings, Inc. v. Enterprisecarrentals.com*, Civ. No. 1:11-cv-1152, 2012 WL 527355 (E.D. Va. Jan. 30, 2012), the court considered whether a particular domain name registry, which is a Virginia corporation with facilities in the district, could be ordered to transfer a domain name when neither the domain name registrant nor the domain name registrar is located in the United States. In both suits, the plaintiffs first brought actions under the Uniform Domain-Name Dispute-Resolution Policy (UDRP) seeking transfer of the domain names, and both plaintiffs filed actions in Virginia because the domain

name registry, VeriSign, Inc., was located in Virginia.

At the threshold, the plaintiffs prevailed on their UDRP actions based on findings that the domain names were confusingly similar to the registered marks; that the respondents had no legitimate interests in the domain names; and that the respondents registered and used the domain names in bad faith. As a result, the UDRP decision ordered transfer of the domain names. In response, the foreign registrants initiated proceedings in their home courts contesting the UDRP rulings, which resulted in the registrars of the domain names not transferring the registrations to the plaintiffs as ordered by the UDRP panels. The plaintiffs then filed complaints under the Anticybersquatting Consumer Protection Action (ACPA) in the EDVA, seeking *in rem* rulings on the actual domain names.

The court first evaluated whether it had *in rem* jurisdiction over the domain names. The court concluded that, pursuant to 15 U.S.C. § 1125(d)(2) it did have jurisdiction. The court noted that the trademark owners were unable to obtain personal jurisdiction over the registrants or the registrars and that the registrants did not appear to have any ongoing business in the United States. Thus, under these facts, plaintiffs could not obtain personal jurisdiction over the registrants, as required for *in rem* jurisdiction to be available. Next, the court noted that venue was proper under 15 U.S.C. § 1125(d)(2)(c) (i), which places venue for *in rem* actions in the judicial district in which the domain name registrar, registry or other domain name authority that had registered or assigned the domain name is located. Here, VeriSign, Inc., was the exclusive registry controlling the “.com” top-level domain name, including the domain names at issue. As a result, *in rem* jurisdiction and venue were appropriate. Once these were established, the court evaluated whether the plaintiffs had satisfied the elements of the ACPA. Like the UDRP panel before it, the court quickly disposed of this issue, finding that plaintiffs had satisfied the elements. The court ordered that VeriSign transfer the domain names to the plaintiffs.



¹⁵ Again, this represents cases settled in 2012, some of which were filed in prior years.

In another ACPA case, Directi Internet Services, one of the defendants in *3M Company v. Christian Investments LLC*, Civ. No. 1:11-cv-627, 2012 WL 5531343 (E.D. Va. Aug. 2, 2012), was also a foreign entity. Directi did not own or control either the domain names or the content of the websites associated with the domain names. Instead, it merely registered the domain names and provided the actual registrants with a domain name registration privacy service. 3M sought default judgment against Directi, including an order directing Directi to transfer the domain names to 3M.

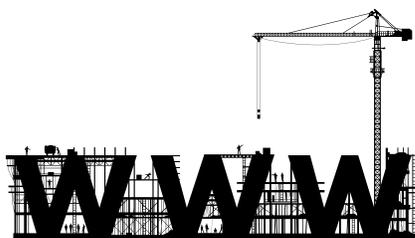
In its analysis, the court first observed that being a domain name registration privacy service provider alone would not support an inference of bad faith. The court next observed that there was evidence sufficient to show that the domain names themselves infringed the 3M mark. “Given ... the use of the 3M mark in connection with the operation of online gambling websites, that use constitutes dilution by tarnishment.” Accordingly, the court stressed that under its equitable powers granted pursuant to 15 U.S.C. § 1116 of the Lanham Act, it had the powers to order Directi to transfer the registrations of the domain names to 3M.

In *Coach, Inc. v. 1941 COACHOUTLETSTORE.COM*, Civ. No. 1:11-cv-309, 2012 WL 27918 (E.D. Va. Jan. 5, 2012), the court considered how many domain name defendants can be joined in one action under the ACPA when the domain names are not related. Initially, Coach sought injunctive relief under the ACPA against 419 domain names. The magistrate expressed concern about the appropriateness of joining all the domain names in one action. Coach responded by filing an amended complaint identifying 360 different domain names and dividing the defendants into 11 subgroups based on similarities in postal addresses, email addresses and/or the registrar of the domain names.

Coach served via publication, and when none of the defendants answered, moved for default judgment. The clerk entered default, but the magistrate refused to enter judgment, instead ordering Coach to provide “the legal authority it relies upon to support the joining of these defendants in one action.” The magistrate’s proposed findings of fact and recommendations concluded that joinder of all the domain name defendants did not satisfy Federal Rule of Civil Procedure 20. Specifically, he found that joinder was appropriate as to 11 of the domain names and inappropriate to the remaining 345, which he recommended be severed. Coach objected and sought review pursuant to 28 U.S.C. § 636(b)(1) and Federal Rule of Civil Procedure 72(b).

The district judge agreed that joinder under Rule 20 was inappropriate, specifically noting that nothing in the ACPA displaces the requirements of Rule 20. But the judge also looked to Rule 21, permitting a court to exercise discretion to add, drop or sever a party instead of dismissing for misjoinder. In light of Rule 21, the judge determined that all 356 domain name defendants could remain in a single action (four defendants were voluntarily dismissed). “This is because each Domain Name Defendant is individually subject to default. And, ‘there is no prejudice to any defaulting defendant, whose liability may be established upon default irrespective of the presence of any other defendant.’ ” Accordingly, the court “must disregard any potential defects related to joinder, as they do not affect any party’s substantive right, and the Court’s correction of those defects under Rule 21 would not be on just terms.” Default judgment was, therefore, entered against all the domain name defendants.

The court also considered the appropriateness of entering default judgment under the ACPA in *Bright Imperial Ltd. v. RT MediaSolutions, S.R.O.*, Civ. No. 1:11-cv-935, 2012 WL 4338632 (E.D. Va. Aug. 9, 2012). Here, some of the domain name registrant defendants had responded and objected to the entry of default judgment, stressing the possibility of inconsistent judgments.



The court noted that under Federal Rule of Civil Procedure 54, default judgment may be entered against defaulting defendants only upon an express determination that there is no just reason for delay. Under the particular circumstances in *Bright Imperial*, the court noted that there was just reason for delay. The plaintiff's claim was based in large part upon allegations that the website content of the defaulting defendants was identical or nearly identical to that of the defendants that had appeared. As such, it posed a risk of inconsistent judgments, which constituted just reason for the delay of the entry of default judgment.

Exceptional Cases

Under the Lanham Act, attorneys' fees and costs may be awarded "in exceptional cases." And while designation as "exceptional" may be the exception and not the rule, the court did just that in *Lorillard Tobacco Co. v. California Imports, LLC*, Civ. No. 3:10-cv-817, 2012 WL 3249638 (E.D. Va. Aug. 7, 2012).

The Lorillard plaintiffs filed a trademark infringement and dilution action against California Imports, LLC, arising from its use of the name "NEWPROT" to identify and advertise a new "spice" or smoking-related product. Lorillard alleged that the use of the NEWPROT mark infringed and diluted its previously registered and famous NEWPORT mark. Following a bench trial and post-trial briefing, the court found in Lorillard's favor. The likelihood of confusion and dilution analysis was straightforward and consistent with EDVA and Fourth Circuit precedent.

While the Lanham Act has not specifically defined "exceptional cases," the Fourth Circuit has interpreted the language to mean those involving "deliberate and flagrant infringement." Additionally, a prevailing plaintiff must show that the defendant acted in "bad faith." Moreover, an exceptional case can occur during the infringement or during the litigation, but must be demonstrated by "clear and convincing evidence."

With respect to willfulness, the court stressed that such action must be voluntary and intentional, but not necessarily

malicious. In *Lorillard*, the court found that the defendants acted willfully and deliberately. One of the defendants testified that he was familiar with the plaintiff's NEWPORT cigarettes and that the majority of people probably know NEWPORT. When asked whether the NEWPROT label looks like the font of the NEWPORT packaging, he responded "very familiar, very similar to it." Such testimony demonstrated a clear link between the defendants' products and the famous NEWPORT design. And while the defendants' actions did not constitute a malicious intent to harm the plaintiffs, the defendants' actions were willful and deliberate because of their awareness of the famous NEWPORT brand and their decision to market the NEWPROT product to merchants selling NEWPORT. "[T]hese were not acts of negligence, but rather deliberate decisions to trade on the popularity and widespread recognition of Lorillard's established brand. The evidence in this case is clear and convincing that the defendants deliberately used the NEWPROT mark to infringe the plaintiff's mark."

Regarding bad faith, the court concluded that bad faith was present because the defendants' conduct amounted to "misfeasant behavior." The court noted the following: (i) defendants failed to appear for their noticed depositions; (ii) defendants did not respond to plaintiff's first set of interrogatories for more than two months; (iii) defendants' first production of documents contained factual inaccuracies, particularly concerning the sale and distribution of the infringing product; and (iv) defendants destroyed packaging contrary to a restraining order. Further, there was a lack of candor in the defendants' testimony during trial concerning the sale and distribution of the product. The court rejected California Import's argument that awarding attorney's fees was inappropriate because Lorillard had not suffered actual damages, noting that this was but one of many factors in their decision.



Copyright Cases

The one virtual certainty about copyright cases in the EDVA in 2012 is that they will ultimately settle. Seventy-eight new copyright cases were filed in the EDVA in 2012. Sixty-eight copyright cases settled in 2012,¹⁶ and no case primarily designated as a copyright case went to trial.¹⁷ Thus, no copyright cases were appealed. Two cases were transferred within the district and one case was stayed based upon a bankruptcy filing. Statistics aside, prior to settlement, these cases provided some noteworthy opinions.

Attorneys' Fees

Prevailing defendants seeking attorneys' fees in copyright cases in the EDVA have gotten a mixed bag of results. In *Charles W. Ross Builder, Inc. v. Olsen Fine Home Building, LLC*, Civ. No. 4:10-cv-129, 2012 WL 48027 (E.D. Va. Jan. 9, 2012) ("Ross Builder II") (Doumar, J.), the district court had in 2011 granted homebuilders' and homeowners' motions to dismiss a builder's architectural copyright claims arising under the Digital Millennium Copyright Act (DMCA) and the Lanham Act. The court found that the defendants were entitled to fees under the DMCA because the plaintiff failed to plead any facts to support its contention that the defendants removed information on the plaintiff's copyrighted building plans that identified the copyrighted work. The court denied fees for the Lanham Act claims, however, because the claims were not made in bad faith, nor were they objectively unreasonable.

Pleading Standard

The EDVA rigorously applies the *Twombly/Iqbal* heightened pleading standard in copyright cases, requiring plaintiffs to plead facts in support of each element with something approaching particularity. In *Home Design Services, Inc. v. J.F. Schoch Building Corp.*, Civ. No. 2:11-cv-574, 2012 WL 442008 (E.D. Va. Feb. 10, 2012), Judge Doumar granted the defendants' motion to dismiss the plaintiff's complaint for failure to

state a claim. The plaintiff, an architectural firm, alleged that the defendants — a custom homebuilder and one of the builder's customers — had infringed several architectural copyrights registered by the plaintiff.

The court found that the plaintiff had failed to adequately plead (i) the location of the allegedly infringing home and (ii) that the allegedly infringing home was substantially similar to the plaintiff's copyrighted models. The court found unavailing the plaintiff's response that the defendants knew, for instance, where the allegedly infringing home was: while the defendants may have known the location, the court could not discern it from the complaint. The court found the plaintiff's factual allegations insufficient even though its complaint was based on the sample complaint for copyright infringement found in the Federal Rules of Civil Procedure. Subsequently, the court granted the plaintiff leave to file an amended complaint, and the plaintiff was ultimately able to allege sufficient facts to force the defendants to answer.

Perhaps tellingly, the court reiterated its holding from *Ross Builder* that "architectural works are ... entitled only to 'thin' copyright protection and, as such, require a showing of 'supersubstantial similarity' before an infringement claim will be sustained." (quoting *Charles W. Ross Builder, Inc. v. Olsen Fine Home Bldg., LLC*, 4:10-cv-129, 2011 WL 4590003 (E.D. Va. Sept. 29, 2011) ("Ross Builder I") The flipside of that "thin" protection might be a pleading standard in architectural copyright cases implicitly raised even higher than *Iqbal*.

Civil Contempt for Violating an Injunction

In *Tattoo Art, Inc. v. Tat International, LLC*, Civ. No. 2:10-cv-323, 2012 WL 3912572 (E.D. Va. Sept. 7, 2012), the court considered plaintiff's motion for an order to show cause. Plaintiff alleged that defendant and third parties were violating the court's June 29, 2011, permanent injunction order as well as the court's May 18, 2011, order.

¹⁶ As with patent and trademark cases, some of the copyright cases that settled in 2012 were filed in prior years.

¹⁷ This statement does not encompass cases where a copyright count may have been included with other noncopyright counts (e.g., patent, trademark, trade secret, breach of contract, etc.).

Tattoo Art's original complaint alleged copyright infringement and breach of a licensing agreement related to their temporary tattoo designs. The court granted partial summary judgment on liability and then, in a later order, permanently enjoined the defendants "from infringing upon Plaintiff's copyrighted tattoo designs or otherwise violating Plaintiff's exclusive rights by manufacturing, selling, distributing, copying, reproducing, or otherwise deriving any artwork or product from such designs." The court also ordered that Tat International return the infringing materials to the plaintiff. The defendants appealed to the Fourth Circuit, but the court noted the defendants were under a continued obligation to safeguard the materials.

Tattoo Art subsequently discovered that Tat International had signed a confession of judgment in favor of Pehrson Capital Corporation, transferring all of defendants' assets to Pehrson, which were then placed in a wholly owned subsidiary, TatStore. Plaintiff filed this motion alleging that defendants "1) were violating this Court's May 18, 2011 Order, ECF No. 66, by not properly preserving business records; and 2) were violating this Court's permanent injunction order, ECF Nos. 77 & 84, by continuing to display infringing designs and by improperly conveying its business records and assets." Tattoo Art alleged that the third parties "actively aided" the defendants in violating the court's order.

The court first determined that it had personal jurisdiction over Pehrson Capital Corporation pursuant to Federal Rule of Civil Procedure 65(d), because the third parties had actual notice of the order and were in active concert or participation with the defendants. Next, the court reviewed the facts to determine whether the plaintiff demonstrated civil contempt by clear and convincing evidence. The four requirements are: "1) the existence of a valid decree of which the alleged contemnor had actual or constructive knowledge; 2) that the decree was in the movant's 'favor'; 3) that the alleged contemnor by its conduct violated the terms of the decree and had knowledge (at least constructive knowledge) of such

violations; and 4) that [the] movant suffered harm as a result." (citing *Ashcroft v. Conoco, Inc.*, 218 F.3d 288 (4th Cir. 2000)).

The parties agreed that the first two requirements were not at issue. The court then determined that the defendants had violated the injunction order, which specifically enjoined the sale or conveyance of infringing assets. Further, the defendants and third parties failed to "maintain and preserve the original client files." Thus, the third requirement was met. As far as the fourth requirement, the plaintiff acknowledged that the harm was not quantifiable. The court noted that defendant's behavior "has fallen 'closer to the willful end of the spectrum than the innocent end'" and that the judicial system also suffers a separate harm when there is a violation of a court order. The court then held,

[b]ecause Plaintiff has demonstrated the first three elements by clear and convincing evidence, and because the blatant contempt for this Court's decrees is a harm against the system, the Court finds Defendants in contempt of this Court's permanent injunction order, and further finds Defendants also in violation of the Court's May 18, 2011 Order. While the Third Parties have not previously demonstrated the same behavior as Defendants, the evidence nonetheless reflects that they are also in contempt of both the Court's permanent injunction and May 18, 2011 Order.

The plaintiff also alleged an additional violation of the orders, arguing that defendants and third parties continued to display the infringing designs on the website. Plaintiff alleged that through a "cloaked" portion of the website, defendant and third parties were still claiming plaintiff's copyrighted works were for sale and also that the website contained a video file that displayed plaintiff's copyrighted work. The court found there to be a lack of evidence to establish a violation. The video file was not played for the court and defendants testified that plaintiff's work had been made "invisible" and not available to the public. The only evidence offered by the plaintiff

was a screenshot of the video and a single blog entry from July 2008 referencing the infringing work.

Furthermore, the plaintiff was unable to show harm by clear and convincing evidence. The court noted that in some cases harm can be inferred, but “unlike [those] cases, here there is no evidence that anyone had seen the images or video, thus making it unlikely that any individual was confused as to the source of the goods.” The plaintiff had failed to meet its burden.

The court also noted that “civil contempt is only an appropriate sanction when the Court Order is ‘specific in detail and unequivocal in command.’” (citing *In re General Motors Corp.*, 61 F.3d 256, 258 (4th Cir. 1995)). The court reasoned that its permanent injunction order was ambiguous in that it did not specifically address whether maintaining “invisible” images on a webpage violated the order. Thus, defendants and third parties were not found in civil contempt for displaying infringing designs on the website.

Joinder

Unlike patent cases under the AIA, joinder is less restrictive in copyright cases. However, limits still exist. In *Malibu Media, LLC v. John Does 1-23, 1-26, 1-26, 1-16, 1-15, 1-20, 1-27, and 1-8*; and *Patrick Collins, Inc. v. John Does 1-26*, 878 F. Supp. 2d 628 (E.D. Va. May 30, 2012), the defendants were alleged to have illegally downloaded copyrighted works through BitTorrent, which is a file sharing protocol, and to have purportedly participated in the same BitTorrent “swarm.” The cases came before the magistrate judge on the plaintiffs’ motion for leave to serve third party subpoenas prior to a Rule 26(f) conference. The court ordered the plaintiffs to file supplemental briefing addressing the question of whether defendants are properly joined pursuant to Federal Rule of Civil Procedure 20 in light of Judge Gibney’s October 13, 2011, order in *K-Beech, Inc. v. Does 1-85*, Civil Action No. 3:11-cv-469 (E.D. Va.).

The court noted that permissive joinder of defendants is proper if “(A) any right to relief is asserted against them jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences; and (B) any question of law or fact common to all defendants will arise in the action.” (citing Fed. R. Civ. P. 21).

In *K-Beech*, the court held that participation in the same “swarm” was insufficient to link defendants for the purposes of joinder. Plaintiffs in this case sought to differentiate *K-Beech* and put forth four arguments in support of joinder: i) joinder is appropriate when the group of defendants is limited to those who were part of the “same swarm”; ii) joinder promotes judicial efficiency and does not prejudice defendants at this stage; iii) if defendants are severed, plaintiffs will file 10 individual suits a week for 18 weeks; and iv) disallowing joinder would have the effect of preventing plaintiffs from enforcing their copyrights.

The court determined that “the principal question to be decided is whether uploading and/or downloading pieces of the exact same digital copy of a work through BitTorrent protocol necessarily gives rise to the inference that defendants’ actions are transactionally related.” The proper test for joinder, the court reasoned, was whether any of the defendants “acted in concert” with each other such that they were transactionally related for purposes of joinder. (citing *Hard Drive Productions, Inc. v. Does 1-188*, 809 F. Supp. 2d 1150 (N.D. Cal. 2011)).

Where, as here, a plaintiff seeks to join several defendants in an action based on file-sharing activity, the magistrate judge finds that a plaintiff must allege facts that permit the court at least to infer some actual, concerted exchange of data between those defendants. In these cases, as in *K-Beech* and *Hard Drive Productions*, the spans of time shown in plaintiffs’ investigations make it difficult to draw the conclusion that there has been any actual exchange of data between and among the defendants in each case.

The court also dismissed plaintiffs' other arguments. Concerns of judicial efficiency fail if joinder is inappropriate under Federal Rule of Civil Procedure 20. The third and fourth arguments concern the cost of enforcing plaintiffs' copyrights, which the court found to be "outweighed by the risk of 'coercing unjust settlements from innocent defendants' and inflation of copyright value by enhancement of settlement leverage." (citing *K-Beech, Inc. v. Does 1-41*, No. V-11-46, 2012 WL 773683 (S.D. Tex. Mar. 8, 2012)). Consequently, the magistrate judge ordered the defendants be severed.

Copyright Joint Authorship

In *L. Foster Consulting Group, LLC v. XL Group, Inc.*, Civ. No. 3:11-cv-800, 2012 WL 2785904 (E.D. Va. June 1, 2012), the plaintiff sued the defendant over a joint venture gone wrong. Plaintiff and defendant had teamed up to create pharmaceutical software, with plaintiff providing the content and defendant writing the software itself. After the software was completed, plaintiff terminated the joint venture when it became concerned about defendant's poor performance with regard to the software's implementation. After the termination, the defendant claimed full ownership of the software, and failed to provide an accurate accounting of its profits and losses as required by the joint venture agreement.

L. Foster sued, seeking a declaration that it was entitled to 50 percent ownership of the software, and claiming breach of contract, fraud and breach of fiduciary duty. In response, XL Group counterclaimed, asking the court to declare it the sole owner of the software, and alleging that the plaintiff failed to pay its share of the joint venture losses.

First, the defendant moved to dismiss plaintiff's claims of copyright ownership, an argument that was rejected by the court because the plaintiff had alleged the elements of work for hire. Because the software was completed during the period covered by the joint venture, a showing of work for hire would make the software copyright the property of the joint venture.

Further, the court found that plaintiff had successfully pled facts that would support a finding of co-authorship, noting that there were two competing standards for co-authorship in federal courts. First, the majority of courts require both co-authors to provide material that is itself copyrightable. Other courts require only a "substantial original contribution" by each co-author. Under this standard, one co-author could provide ideas, and the other co-author could reduce those ideas into a tangible, copyrightable form. The court further noted that the Fourth Circuit has not expressly adopted either standard, and refused to reach the issue, because under either standard the plaintiff had sufficiently pled facts supporting its claim of authorship.

In this case, the plaintiff pled that it provided the defendant with "form templates" and "system triggers." The court, reading the pleading in favor of the plaintiff, held that these might themselves be copyrightable. And under the second standard, there was no question that plaintiff pled that it provided original content to the defendant. As a result, the plaintiff's claim of ownership survived dismissal.

The court also found that the plaintiff's breach of contract claim was properly pled, that the fraud claim alleging only a bare intent to deceive was not pled with particularity as required by the Federal Rules and that the fiduciary duty claim was not properly supported by factual allegations.

Finally, the court denied the plaintiff's motion to dismiss the defendant's counterclaim for a declaration that it was the rightful copyright owner. There, the court found that defendant had properly pled a claim of ownership by work for hire by pleading that the software was developed within the scope of its employees' duties, and further pleading the nature of its employees' work, which aligned with the nature of the work performed to develop the copyrighted software.





Additional Cases of Interest

Trade Secret Damages

In *Alliance Storage Technologies, Inc. v. Engstrom, et. al.*, Civ. No. 4:11-cv-46, 2012 WL 1580544 (E.D. Va. May 3, 2012), a plaintiff seeking a final default judgment against a previous employee who misappropriated trade secrets and violated a noncompete clause was denied an injunction, awarded treble compensatory damages and attorneys' fees, and also denied punitive damages. The court, without explanation, denied the plaintiff's request for a permanent injunction, but instead agreed to enforce the provisions of a confidentiality and noncompete agreement between the parties.

As per the agreement, the court ordered the defendants to return the confidential information taken and not to compete within 50 miles for two years. The court awarded the plaintiff its lost profits of \$66,252 for customers who had been lost, but denied — again without explanation — compensatory damages for loss of goodwill, loss of value of trade secrets and lost employee time spent attempting to preserve customers. The court did, however, agree to treble the compensatory damages it awarded, because the plaintiff had successfully demonstrated legal malice (intentional, purposeful acts without legal justification taken to injure the plaintiff) as required by Virginia's civil conspiracy statute. Punitive damages, on the other hand, were denied, because the plaintiff could not show actual malice (a sinister or corrupt motive such as hatred, spite, ill will or desire to injure the plaintiff). Finally, the court awarded attorney's fees for 181.6 hours of legal work at a total cost of \$53,486.62, and held those fees to be reasonable.

Trade Secrets – Injunctive Relief

In *E.I. Du Pont De Nemours and Company v. Kolon Industries, Inc.*, Civ. No. 3:09-cv-58, 2012 WL 1203327 (E.D. Va. Apr. 10, 2012), a contentious, hard-fought trade secret dispute, resulted in a jury verdict for the plaintiff and more than \$900 million in damages against a Korean competitor, Kolon Industries, Inc. The court held that DuPont was entitled to register its judgment against

Kolon in other district courts outside the EDVA pursuant to 28 U.S.C. § 1963, even before an appeal had been filed, because Kolon had not posted a supersedeas bond, did not indicate that it would post a bond and had only limited assets in the United States to secure the large judgment. Following this decision, the court issued several significant decisions concerning injunctive relief.

In May, the court rejected Kolon's request to stay a prior order that required Kolon to give DuPont advance notice of any asset transfers. Kolon argued that the order effectively amounted to an injunction that was immediately appealable under 28 U.S.C. §1292(a), and therefore subject to a stay pursuant to Federal Rule of Civil Procedure 62(c). The court, however, held that the notification requirement did not have an injunctive effect, but rather was merely an order compelling discovery that did not grant or withhold substantive relief. See *E.I. Du Pont De Nemours and Company v. Kolon Industries, Inc.*, 871 F. Supp. 2d 513 (E.D. Va. 2012).

In August 2012, the court denied Kolon's motion for a separate evidentiary hearing on the scope of injunctive relief on the grounds that collateral estoppel precludes Kolon from raising arguments that amounted to nothing more than re-litigation of issues already decided by the jury, some of which were specifically addressed in the jury's 41-page verdict form, or at other proceedings before the court. *E.I. Du Pont De Nemours and Company v. Kolon Industries, Inc.*, Civ. No. 3:09-cv-58, slip op., Dkt. No. 2049 (E.D. Va. Aug. 30, 2012).

In a contemporaneous decision granting a broad "production injunction" in favor of DuPont, the court held that the federal standards for injunctive relief set forth by the Supreme Court in *eBay v. MercExchange* did not apply to Kolon's violation of the Virginia Uniform Trade Secrets Act. See *E.I. Du Pont De Nemours and Company v. Kolon Industries, Inc.*, Civ. No. 3:09-cv-58, 2012 WL 4490547 (E.D. Va. Aug. 30, 2012). The Eastern District of Virginia followed pre-*eBay* precedent from the Fourth Circuit analyzing injunctive relief under state laws consistent with the longstanding doctrine of *Erie v.*

Tompkins, and concluded that Virginia state law regarding the standards for injunctive relief, not federal law, should apply.

Garnishing Domain Names

The EDVA, applying maritime law, held that plaintiff failed to carry its burden of showing the defendant owned a specific domain name and, as a result, granted summary judgment to the garnishee (a domain registrar) in *Bunkers Int'l Corp. v. Carreira Pitti, P.C.*, Civ. No. 1:11-cv-803, 2012 WL 996855 (E.D. Va. Mar. 22, 2012). The plaintiff — under Fed. R. Civ. P. Supp. Rule B — sought to garnish a defaulting defendant's property. Namely, a domain name allegedly belonging to the defendant. In response, the domain registrar for the garnished domain submitted significant evidence that the domain name was not actually owned by the defendant. Despite the opportunity for discovery, the plaintiff did not produce any evidence showing that the domain name belonged to the defendant, or that there was a connection between the actual owner of the domain name and the defendant. Because the burden of proof to establish ownership is on the plaintiff, the court found in favor of the garnishee. Further, because the action was *quasi in rem* and the court's subject matter jurisdiction was predicated on the defendant's property interest in the domain name, plaintiff's failure to establish the defendant's ownership of the domain name mandated dismissal of the entire action.

Expert Testimony

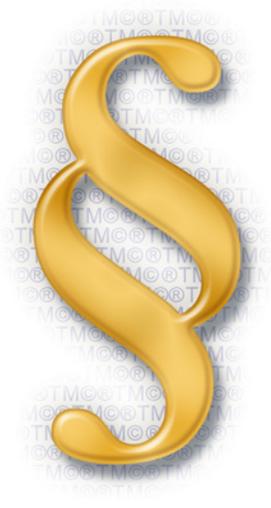
The EDVA granted summary judgment against a plaintiff on all counts for failing to introduce expert testimony on technical issues. See *Trident Products and Services, LLC v. Canadian Soiless Wholesale, LTD.*, 859 F. Supp. 2d. 771 (E.D. Va. 2012). Plaintiff asserted that defendant had misappropriated its trade secret and breached a confidentiality agreement by disclosing a formula for root growth stimulant.

On summary judgment, the court found that defendant not only published the supposedly confidential formula on its packaging, but allegedly sent the product and formula

to a competitor of the plaintiff who began making a similar product and selling it to the defendant. Despite these actions, the court granted summary judgment in favor of the defendant on all counts because the plaintiff failed to provide any expert testimony.

Instead of expert testimony, the plaintiff asserted that "common sense" dictated that the competitor's independent development of a root stimulant with the five same essential ingredients as plaintiff's product was impossible without misappropriation. The court, however, held that neither it nor a jury could evaluate the likelihood of such independent development without expert testimony.

The lack of expert testimony was fatal to all of the plaintiff's claims: First, the plaintiff's breach of contract claim failed because the plaintiff could not show harm. There was no expert testimony to show that the information disclosed by the defendant in violation of the agreement had any commercial value and was not already known in the industry. As a result, the breach of the confidentiality agreement might not have been the cause of the harm allegedly stemming from the introduction of a competitive product. Second, the plaintiff's claim for misappropriation of trade secret failed because the lack of scientific evidence made it impossible for the court to find that the formula was not known or readily ascertainable by proper means — an essential element of misappropriation. Finally, the court rejected plaintiff's unjust enrichment claim because i) as with the breach of contract claim, harm could not be established without scientific evidence; ii) the existence of an express contract precluded an unjust enrichment claim under Virginia law; and iii) the claim was preempted by the Virginia Uniform Trade Secrets Act because it stemmed solely from the allegations of misappropriation of a trade secret.



Conclusion

Despite increased numbers of filings in recent years — including intellectual property cases — the court’s reputation as a “rocket docket” remains well deserved. With an ever-increasing number of patent term adjustment cases (under the AIA) and anticybersquatting trademark cases being filed in the EDVA, only time will tell whether the increased docket load will slow the historically fast pace.

It is our hope that you have found this review, the first edition of what will be an annual publication, both interesting and informative. We welcome your feedback, and look forward to keeping our clients, colleagues and peers abreast of developments and trends in the Eastern District of Virginia.

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	1	11	12
Arenda Wright Allen	Norfolk/Newport News	4	3	1	8
John F. Allen	Alexandria	0	0	0	0
Leonie M. Brinkema	Alexandria	25	4	31	60
James C. Cacheris	Alexandria	0	2	1	3
Mark S. Davis	Norfolk/Newport News	6	5	1	12
Robert G. Doumar	Norfolk/Newport News	3	0	3	6
T.S. Ellis, III	Alexandria	14	14	0	28
John A. Gibney, Jr.	Richmond	16	2	9	27
Claude M. Hilton	Alexandria	15	3	10	28
Henry E. Hudson	Richmond	2	5	5	12
Raymond A. Jackson	Norfolk/Newport News	3	4	0	7
Gerald Bruce Lee	Alexandria	16	9	2	27
Henry Coke Morgan, Jr	Norfolk/Newport News	10	4	0	14
Liam O'Grady	Alexandria	18	9	1	28
Robert E. Payne	Richmond	5	2	0	7
James R. Spencer	Richmond	2	3	1	6
Anthony J. Trenga	Alexandria	21	9	2	32
TOTAL		160	79	78	317

Editor

Brent L. VanNorman

Brent's practice focuses on patent and trademark litigation, unfair competition, business torts, information technology, and contract disputes in both federal and Virginia state courts. Brent regularly practices in the U.S. District Court for the Eastern District of Virginia, where he is a member. Brent is also a member of the Western District of Virginia, U.S. Court of Appeals for the Fourth and Federal Circuits, and is also registered to practice before the U.S. Patent and Trademark Office. In addition, he is a Certified Public Accountant, a Certified Computer Programmer and is also certified in Production and Inventory Management.

Brent has represented both plaintiffs and defendants in numerous patent and trademark cases filed in the EDVA, encompassing all phases of the litigation process, from pre-litigation due diligence to post-trial appellate work.

Relevant Experience

- *X-IT Products, L.L.C. v. Walter Kidde Portable Equipment, Inc.* (EDVA, 2002). Served as trial counsel in a copyright, trade dress, and patent trade secrets case, resulting in a jury verdict in excess of \$116 million for client, the then largest jury verdict in Virginia.
- *MercExchange, LLC v. eBay, Inc., Half.com, Inc. and Returnbuy.com* (EDVA, 2007, Fed. Cir. 2008). Served as appellate counsel in suit involving online auction technology. After a five-week trial in the EDVA, the jury returned a \$35 million verdict for willful patent infringement against eBay for MercExchange, LLC. The judgment was affirmed by the Federal Circuit, which also ruled that a permanent injunction should be granted. The U.S. Supreme Court granted eBay's petition for certiorari on the injunction issue and reversed and remanded for further proceedings, after which the case settled favorably for MercExchange.

- *Verve LLC v. Hypercom Corp.* (D. Ariz. 2006). Served as lead trial counsel in interlocutory appeal of transfer and dismissal of patent infringement claims in case involving patented credit card processing technology. The case was settled favorably while on appeal.
- Served as lead trial counsel for the defendant in a significant patent infringement matter in the EDVA. The case involved video on demand and streaming video technology.
- *Innovative Communications v. Vivox, Inc., ooVoo and Stalker Software* (EDVA, 2012). Served as counsel in patent case involving voice over Internet Protocol (VoIP).
- *Sanford v. SCG International LLC* (EDVA, 2011). Lead trial counsel in securities fraud case involving a \$12.5 million promissory note.
- Successfully defended numerous financial institutions in TILA, RESPA, FDCPA and FCRA matters.
- Managed entire corporate staff, including data processing, accounting and marketing departments and 15 offices for title insurance company; directed corporate reengineering efforts, developed a long-range corporate strategic plan and an enterprise-wide technology plan; and created a wholly owned subsidiary corporation to market nationally a Computer Loan Origination (CLO) system.
- Oversaw manufacturing, business process reengineering and system consulting engagements, managed staff, performed recruiting and career development counseling for national CPA firm.

Memberships

Member, Virginia State Bar
Member, James Kent American Inn of Court
Member, Thomas Jefferson Intellectual Property Inn of Court
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