

# 2014 Eastern District of Virginia IP year in review



The Eastern District of Virginia Court remains the fastest docket in the US. Hunton & Williams' **Shelley L Spalding** explores notable cases and key developments

**T**his article examines trends and key decisions in intellectual property cases in the US District Court for the Eastern District of Virginia ("ED Va") in 2014, the "rocket docket".

The Eastern District of Virginia has an overall median time from filing to disposition of civil cases of 5.5 months.<sup>1</sup> Even cases proceeding through trial had a median time from filing to disposition of 12.5 months. Thus, the rocket docket maintains its speed and, accordingly, its popularity with plaintiffs willing to litigate.

But there are fewer patent plaintiffs willing to litigate. Like other jurisdictions, the number of patent cases filed in the ED Va in 2014 compared to 2013 decreased dramatically, likely the result of *Alice Corp Pty Ltd v CLS Bank Int'l* and other post-grant proceedings at the US Patent & Trademark Office ("USPTO"). There is no question the pendulum has swung away from the patent owner toward the accused infringer. Patent cases are also more likely to be stayed and/or transferred,

and dispositive motions are more likely to be granted than in years past.

By contrast, copyright cases filed in the ED Va this year rose dramatically, due to many filings by the same controversial plaintiff in the Alexandria Division. Malibu Media, an adult film producer, filed 153 lawsuits against John Doe IP addresses purportedly illegally downloading adult films. Trademark cases filed in 2014 remained steady.

**“Successful litigants also focus the court’s attention on the ‘best’ arguments, rather than pursuing every possible exit ramp simultaneously.”**

Intellectual property litigation in the ED Va requires in-depth knowledge of the law in the relevant subject area, and the development and presentation of complex factual scenarios, all while maintaining the court's rapid trial schedule. Successful litigants also focus the court's attention on the "best" arguments, rather than pursuing every possible exit ramp simultaneously.

## Patent Transfer

Though the ED Va remains a forum beloved by plaintiffs, it is not available to those with only tangential connections, and properly made transfer motions continue to be regularly granted.

For example, in *Capital Security Systems, Inc v ABNB Federal Credit Union* and *Capital Security Systems, Inc v Capital One, NA*, the defendants sought to stay their cases and, in the alternative, to transfer their cases to the venue of a co-pending case, brought by the

plaintiff against the manufacturer of some of the accused products in the Northern District of Georgia (the “manufacturer suit”).<sup>2</sup> The patents-at-issue were directed to envelope-free check deposits at ATMs. The defendants were banks that used no-envelope ATMs, while the manufacturer suit involved the manufacturer of the no-envelope ATMs that were purchased by the defendants in the *Capital Security Systems* cases. Although the customer suit was filed before the manufacturer suit, Judge Morgan granted the motion to transfer based on the “customer suit exception”.

Traditionally, when evaluating motions transfer in view of a related case, courts give preference to the first-filed case. However, the customer suit exception permits a court to give preference to a subsequently filed suit involving the manufacturer of the products accused of patent infringement. The key question is whether the manufacturer’s case has the potential to resolve the “major issues” (eg, validity, enforceability and infringement) concerning the claims against the customer, and whether applying the customer suit exception would promote efficiency and judicial economy. Here, the bank defendants in the *Capital Security Systems* cases argued that because their cases involved the same patents and same accused products (no-envelope ATMs) as the manufacturer suit, the major issues were identical, and the court should either stay their cases pending resolution of the manufacturer suit, or transfer their cases to the venue of the manufacturer suit.

The plaintiff raised a number of arguments as to why the customer suit exception should not apply to these facts, but the court rejected them all. First, while the issues of damages and wilfulness would be different in the customer suits versus the manufacturer suit, these were not “major issues” and could easily be dealt with after the manufacturer suit was resolved. Next, the plaintiff argued that the bank defendants made substantial modifications to the accused ATMs by installing third-party software platforms on the ATMs, but this argument was controverted by declarations from the customer defendants. Finally, the plaintiff argued that the customer suits would be significantly delayed given the much longer average time to trial in the ND Ga versus the ED Va – a difference of nearly 12 months. The court found that “docket conditions” were only a “minor consideration”.

Accordingly, the court determined that the principles of efficiency and judicial economy were best served by a transfer instead of a stay. Because the accused products were designed and manufactured in the Northern District of Georgia, this was the “nucleus of operative facts”, favouring transfer. By contrast, the

ED Va was neither the plaintiff’s home forum nor the nucleus of operative facts. Furthermore, transfer minimised the possibility of inconsistent judgments. Therefore, the customer cases were transferred to the Northern District of Georgia.

### Applying *Alice*

Patent law saw sweeping changes in 2014 with respect to the application of 35 USC § 101 in light of the *Alice* decision.<sup>3</sup> *Alice* provided a two-step process for determining whether a claim was directed to patent-eligible subject matter. First, one must “determine whether the claims at issue are directed to a patent-ineligible concept”. If so, a court “search[es] for an inventive concept – ie, an element or combination of elements that is sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the ineligible concept itself.”

The ED Va was no stranger to these changes, granting a motion for judgment on the pleadings and a motion for summary judgment, based on patent-ineligible subject matter under § 101.<sup>4</sup> The court reasoned that it “may invalidate patent claims directed to non-eligible subject matter on the pleadings”, because “Section 101 patent eligibility is a question of law”.<sup>5</sup>

### Claim construction

The ED Va remained faithful to Federal Circuit precedent in construing patent claim terms in 2014. The courts generally favoured the patent owner’s constructions, preferring the plain and ordinary meaning and rejecting narrow constructions with unnecessary terms.

More often than not, the courts adopted a plain and ordinary meaning where advocated by one of the parties.<sup>6</sup> ED Va courts used the plain and ordinary (or customary) meaning as an objective baseline from which to begin claim construction, recognising that a jury is more than capable of understanding everyday words. ED Va courts consistently rejected more elaborate constructions proposed by defendants as an attempt to read in extraneous terms and constrain the patents’ claims.

### Trademark

#### “All expenses” includes attorney fees

In a case of first impression, an ED Va court held “all expenses” under 15 USC § 1071(b)(3) includes the allocated salaries of the attorneys and paralegals of the USPTO.<sup>7</sup>

The plaintiff, Milo Shammass, attempted to register the mark ‘PROBIOTIC’ for fertilisers. The Trademark Trial and Appeal Board (“TTAB”) denied the application. Shammass elected not to appeal to the Court of Appeals for the Federal Circuit, but instead filed an

action before the district court. After the close of discovery, and upon a motion for summary judgment by the USPTO, the district court affirmed the USPTO’s findings.

The USPTO moved for an award of all expenses, including attorney fees, under 15 USC § 1071(b)(3). Judge Ellis agreed: “[w]hen the word ‘expenses’ is prefaced with the word ‘all,’ it is pellucidly clear Congress intended that the plaintiff in such an action pay for all the resources expended by the USPTO during the litigation, including attorney’s fees.”

### Standing to appeal TTAB decision

The dispute over the “Redskins” trademark before the TTAB has a long history. In *Pro-Football, Inc v Blackhorse*, an ED Va court considered whether parties to a successful petition to cancel a federal registration are properly parties to an appeal of that cancellation.<sup>8</sup>

On 18 June 2014, the TTAB held that the Redskins trademark should be cancelled because a “substantial composite of Native Americans found the term ‘REDSKINS’ to be disparaging”. Pro-Football, the owner of the cancelled Redskins registration, filed a complaint seeking a *de novo* review of the TTAB’s decision.

While conceding that 15 USC § 1071(b) afforded the district court with statutory jurisdiction, defendants nonetheless maintained that there was no “case or controversy” for the court to exercise jurisdiction under Article III of the Constitution. The court disagreed. Having demonstrated standing to bring the petition to cancel before the TTAB, it necessarily follows that standing exists to review the TTAB’s decision on appeal. Moreover, despite their protests to the contrary, the defendants do have an interest in this case. “The TTAB’s recognition of defendants’ standing necessarily means that defendants sufficiently demonstrated that they have a real interest in the outcome of the case and a reasonable belief that the mark has caused them harm.”

The defendants’ next argued that their lack of use of the disputed trademarks prevents them from being a proper party. The court disagreed, noting that (i) defendants were the “sole representatives on behalf of the petition for cancellation”; (ii) defendants were listed as adverse parties and heavily involved in the cancellation proceedings; and (iii) defendants “produced discovery, sat for depositions, participated in the TTAB conferences, submitted more than 7,000 pages of purported evidence.” Equally important, the court observed that a “party in interest does not have to demonstrate proprietary interests in the mark; it must only

demonstrate a direct and personal stake in the outcome”, an element easily satisfied here as “defendants’ claim of disparagement before the TTAB constitutes a direct and personal stake in the outcome of the appeal before this court.”

### Copyright

In *Princeton Payment Solutions, LLC v ACI Worldwide, Inc*, the court addressed several copyright issues related to computer software used for processing electronic payments on summary judgment.<sup>9</sup> The plaintiff, Princeton Payment Solutions (“PPS”), had been providing ACI and ACI’s predecessors in interest (collectively “ACI”) with electronic bill payment software systems since 2003. Over 10 years, PPS and its independent contractor authored customised software programs for ACI and installed various updates on its servers pursuant to more than a dozen statements of work.

In 2012, ACI elected to use a different software vendor. PPS informed ACI that one of its subsidiaries had no rights to use PPS software from 2006-2012, because ACI had never obtained PPS’ written authorisation to assign its rights for the software after an acquisition. PPS filed copyright applications for different versions of the electronic bill payment software programs, then sued ACI alleging copyright infringement.

First, ACI argued that PPS lacked standing to bring suit because PPS’ independent contractor created the asserted software programs and the contractor never assigned her rights in the works to PPS until after the lawsuit was initiated. Ownership of copyrights resides with the creator when the author is an independent contractor absent an assignment agreement. PPS attempted to have the independent contractor retroactively assign her rights to PPS in a “Confirmatory *Nunc Pro Tunc* Assignment. The court held that PPS’ attempt could not cure the standing deficiency. Standing “may not be retroactively created”.

Further, ACI argued that any copying portions of code in random access memory as part of running the software program did not constitute infringement, because such copying was an “essential step” that was protected under 17 USC §117(a). The Fourth Circuit had not definitively addressed the issue. Relying primarily on a decision from the Second Circuit, the court concluded that when temporary RAM copies of a program are necessarily made in order to run and use the software, such copies should be considered “essential steps” under §117(a). The court granted summary judgment in favour of the defendants.

### Trade Secret

In *Audio-Video Group, LLC v C Green*,<sup>10</sup> the plaintiff sought a temporary restraining order and preliminary injunction against a former employee, alleging violations of the Virginia Uniform Trade Secrets Act (“VUTSA”), among other claims. This case highlights the advance preparation necessary to prove the elements necessary to obtain a temporary restraining order or preliminary injunction: a likelihood of success on the merits, irreparable harm and balancing of the equities. As to the merits of a violation of the VUTSA, the plaintiff must show the existence of a trade secret, and the improper acquisition, disclosure or use of that trade secret. The plaintiff had a confidentiality agreement with the defendant, which covered “all data, materials, products, technology, computer programs, specifications, manuals, business plans, software, marketing plans, financial information and other information disclosed... to [employee] by [employer].” Moreover, the plaintiff was able to prove via the defendant employee’s laptop that “at the time [he] was terminated he was in the process of quoting 29 separate projects to existing or potential customers.” However, the defendant employee returned only six of those files. The plaintiff employer also provided invoices found on defendant’s laptop for work done by a competitor for some of the defendant’s 29 identified potential customers. Accordingly, the court found that the plaintiff was likely to succeed on the merits of its trade secret claim and would suffer irreparable harm, and that the balance of the equities favoured an injunction.

## “The ED Va remains a popular venue for intellectual property cases.”

### Summary

The ED Va remains a popular venue for intellectual property cases. The expertise of the judiciary and the local bar combined with the speedy resolution of cases make the ED Va a top choice among plaintiffs. But these cases and trends highlight the value of experienced intellectual property litigators who help the judges maintain tight schedules and can handle these complex cases in an efficient manner.

### Footnotes

1. See *Judicial Business of the United States Courts Annual Report of the Director 2014* at Table C-5.
2. *Capital Security Systems, Inc v ABNB Federal*

*Credit Union and Capital Security Systems, Inc v Capital One, NA*, (Civ Nos 2:14-cv-265 and 2:14-cv-166, consolidated as 2014 US Dist. LEXIS 148783) (ED Va 17 Oct 2014, HC Morgan, Jr).

3. *Alice Corp v CLS Bank Int’l*, 134 S Ct 2347 (2014).
4. See *Amdocs Ltd v Openet Telecom, Inc*, Civ No 1:10-cv-910, 2014 US Dist LEXIS 152447 (ED Va 24 October 2014, L M Brinkema); *Intellectual Ventures LLC, v Capital One Financial Corp*, Civ No 1:13-cv-740, 2014 US Dist LEXIS 53001 (ED Va 16 April 2014, A J Trenga).
5. *Amdocs*, 2014 US Dist. LEXIS 152447 at\*3 (citing *In re Roslin Institute (Edinburgh)*, 750 F.3d 1333, 1335 (Fed Cir 2014); *buySAFE, Inc v Google, Inc*, 765 F.3d 1350 (Fed Cir 2014)).
6. See *Swimways Corp v Zuru, LLC*, Civ No 2:13-cv-334, 2014 US Dist. LEXIS 31571, at \*9-10 (ED Va 10 Mar 2014, MS Davis); *Promontory Interfinancial Network, LLC v Anova Financial Corp*, Civ No 2:13-cv-243, 2014 US Dist LEXIS 9745, at \*31 (ED Va 24 Jan 2014, MS Davis); *Certusview Tech, LLC v S&N Locating Services, LLC*, Civ No 2:13-cv-346, 2014 US Dist. LEXIS 69861, at \*40-41 (ED Va 15 May 2014, MS Davis).
7. *Shammas v Focarino*, Civ No. 1:12-cv-1462, 2014 US Dist. LEXIS 583 (ED Va 2014, TS Ellis, III).
8. *Pro-Football, Inc v Blackhorse*, Civ No. 1:14-cv-1043, 2014 US Dist. LEXIS 166889 (ED Va 25 Nov 2014, GB Lee).
9. *Princeton Payment Solutions, LLC v ACI Worldwide, Inc*, Civ No 1:13-cv-852, 2014 US Dist. LEXIS 114865 (ED Va 15 Aug 2014, TS Ellis, III).
10. *Audio-Video Group, LLC v C Green*, 1:14-cv-169 (ED Va 2014, J Cacheris).

*This article presents the views of the author and does not necessarily reflect those of Hunton & Williams or its clients. The information presented is for general information and education purposes. No legal advice is intended to be conveyed; readers should consult with legal counsel with respect to any legal advice they require related to the subject matter of the article.*

### Author



Shelley L Spalding is an associate in the Richmond office of Hunton & Williams. Her practice focuses on all aspects of intellectual property law including patent litigation and

preparation related to ecommerce, business methods, software-related inventions and other technical areas. Shelley also has experience handling complex litigation for both plaintiffs and defendants.