IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO

Civil Action No. 1:09-CV-00636-REB-KLM

VIDEO PROFESSOR, INC.

Plaintiff,

v.

AMAZON.COM, INC.

Defendant.

MOTION TO DECLARE CASE EXCEPTIONAL PURSUANT TO 15 U.S.C. § 1117 AND AWARD DEFENDANT ITS REASONABLE ATTORNEY FEES

Defendant Amazon.com, Inc. ("Amazon") moves the Court to declare this case exceptional pursuant to 15 U.S.C. § 1117 and award Amazon its reasonable attorneys' fees in an amount to be determined by the Court.[1]

CERTIFICATE OF CONSULTATION

Pursuant to D.C.COLO.LCivR 7.1(A), undersigned counsel for Amazon met and conferred with counsel for VPI regarding the subject matter of this Motion. VPI opposes the relief requested herein.

[1] Amazon has filed an unopposed motion seeking an extension of time to file the description of attorney fees, affidavits and summary of qualifications required by D.C.COLO.LCivR 54.3, until 14 days after the Court rules on this motion. *See* [#76]. Thus, should the Court grant this motion and find the case exceptional, Amazon respectfully requests that the Court allow Amazon 14 days from the date of its order to submit its documentation supporting the amount of reasonable attorney fees for later determination by the Court.

I. INTRODUCTION

In this case, Video Professor, Inc. ("VPI") claimed that Amazon was liable for its use of VPI's VIDEO PROFESSOR trademark in keyword advertising to promote Video Professor products, displayed along with other competing products, on the Amazon.com website. VPI asserted this claim despite the fact that VPI, as an Amazon vendor, granted to Amazon a perpetual license to use the VIDEO PROFESSOR trademark. Amazon sought summary judgment dismissing VPI's claims, in part, on the ground that VPI had expressly authorized the conduct to which it objected under the license.

In response to Amazon's motion, VPI failed to produce any facts or authority to support its position that VPI's license was actually limited, restricting Amazon's use of the VIDEO PROFESSOR trademark only to promote Video Professor products exclusively. VPI also failed to produce any facts or authority to support its claim that the license was not enforceable based on the implied covenant of good faith and fair dealing or the doctrine of unconscionability. For these reasons, the Court granted Amazon's motion for summary judgment dismissing VPI's complaint in its entirety.

Because VPI's arguments to overcome the plain language of its license lacked any reasonable basis in law or fact, Amazon respectfully requests that the Court find that this case is "exceptional" under Section 35(a) of the Lanham Act (15 U.S.C. § 1117(a)) and award Amazon its reasonable attorney fees.

II. FACTUAL BACKGROUND

A. The Vendor Manual.

In December 2003, VPI became an authorized Amazon vendor and signed Amazon's Vendor Manual. *See* Amazon's Motion for Summary Judgment [#30], Exhibit A-6 (hereinafter "Vendor Manual"), attached hereto as Ex. A. VPI has never disputed that the Vendor Manual constitutes an enforceable agreement between Amazon and VPI. Order Granting Defendant's Motion for Summary Judgment [#74] (hereinafter "Order"), at 3. The Vendor Manual contains an express perpetual license from VPI to Amazon for Amazon to use the VIDEO PROFESSOR trademark. Vendor Manual, at Section III, ¶ 4. The Vendor Manual further provides that this license (among other provisions of the Resale Terms and Conditions) "will survive the termination of any or all of this Vendor Manual." Order, at 4; Vendor Manual, at Section III, ¶ 19.

VPI was well aware that it had granted Amazon a license to use the VIDEO PROFESSOR trademark. VPI's 30(b)(6) corporate designee testified that VPI knew not only that it granted Amazon a license to use the VIDEO PROFESSOR trademark, but also that this license permitted Amazon to bid on the VIDEO PROFESSOR trademark for keyword advertising:

> Q. I guess also Video Professor has been aware that Amazon was bidding on "video professor" as a keyword. You are aware of that?
> A. We had an agreement.
> Q. What do you mean by that?
> A. The vendor manual, vendor agreement, I believe, specifically allowed them to utilize the "video professor" keyword in order to sell Video professor product.

Ex. B, Deposition of David Laughlin ("Laughlin Dep."), at 108:5-18 (emphasis added).[2]

On July 19, 2008, VPI sent a letter to Amazon providing notice of its intention to terminate the Vendor Manual. *See* Ex. C. This letter would have terminated the Vendor Manual effective on September 18, 2008,[3] except for one important fact: VPI continued to sell and ship its products to Amazon long after it sent its notice of termination. In fact, VPI continued to ship Video Professor products to Amazon as late as March 11, 2009, the same month it filed this lawsuit:

> Q. There was an order for 20 units of Office Essentials. Do you recognize that as a VPI product?
> A. Sure. Yes, I do.
> Q. And that apparently was ordered by Amazon on March 10, 2009, and it was shipped to Amazon on March 11, 2009. So this indicates that VPI was still shipping product to Amazon as late as March 2009; is that right?
> A. I agree. That's what it's showing.

Laughlin Dep. at 152:25-153:8 (emphasis added). Amazon was selling Video Professor products that it had obtained from VPI as late as May 2009. Ex. D, Deposition of Eric Herrmann ("Herrman Dep."), at 192:1-17; *see also* Ex. E.

Because VPI continued to fulfill Amazon purchase orders, VPI's attempt to terminate the Vendor Manual was not effective. The Vendor Manual "is effective for all Products that [VPI] provides to Amazon.com on or after the Effective Date" and every purchase order from Amazon accepted and fulfilled by VPI "becomes part of and subject to the Vendor Manual." Vendor Manual, at Section III, ¶¶ 1, 2.1.

[2] Mr. Laughlin testified in his capacity as the Fed. R. Civ. P. 30(b)(6) representative of VPI. Laughlin Dep. at 7:17-24.

[3] The Vendor Manual provides that a party may terminate upon 60 days notice. Vendor Manual, at Section III, ¶ 1.

B. Procedural History.

On March 23, 2009, while Amazon was still selling VPI products obtained from VPI, VPI filed its Complaint, asserting eight claims for relief against Amazon relating to Amazon's use of the VIDEO PROFESSOR trademark. Compl. [#1] at ¶¶ 31-76. Despite the fact that VPI had a signed copy of the Vendor Manual in its possession,[4] VPI's Complaint failed to even acknowledge the existence of the Vendor Manual or the license it granted to Amazon to use the VIDEO PROFESSOR trademark.

On October 27, 2009, after an initial round of written discovery, Amazon filed its Motion for Summary Judgment. [#30]. Amazon's primary argument in support of its motion was that VPI had authorized Amazon's use of the VIDEO PROFESSOR trademark through its grant of the perpetual license in the Vendor Manual. [#30] at 6-8. VPI opposed Amazon's motion and filed its own Cross-Motion for Summary Judgment ("VPI's Cross-Motion") on December 4, 2009. [#39 & #45].

In opposing Amazon's claim that the license in the Vendor Manual authorized Amazon's use of the VIDEO PROFESSOR trademark, VPI did not argue that the language of the license was ambiguous. Instead, VPI proposed an interpretation of the license contrary to its plain meaning and additionally contended that the license was unenforceable because it was either unconscionable or a violation of the implied covenant of good faith and fair dealing. VPI's Response to Amazon's Motion for Summary Judgment ("VPI's Response") [#39], at 6-8.

[4] On October 7, 2009, VPI produced to Amazon a signed copy of the Vendor Manual in response to Amazon's discovery requests. Further, VPI had already provided to Amazon a copy of its notice of termination of the Vendor Manual in its initial disclosures served on July 6, 2009.

While Amazon's motion was pending, the parties conducted depositions in February and March 2010. VPI took depositions of Eric Herrmann, Amazon's Senior Manager of Software Development (both in his individual capacity and as Amazon's corporate representative); and Mr. Jo-L Hendrickson, president of Individual Software, Inc., the manufacturer of the Professor Teaches software product. Amazon took depositions of VPI (through its designated representative David Laughlin); Bettye Harrison (VPI's President); and R.J. Schubert (VPI's Legal Contract and Compliance Manager).

In anticipation of the April 26, 2010, trial date, the parties engaged in necessary pretrial preparations according to the pretrial schedule. On April 14, 2010, the parties prepared and filed a proposed Final Pretrial Order, including witness and exhibit lists, on April 14, 2010. [#61]. On April 19, 2010, the parties filed their respective trial briefs and proposed findings of fact and conclusions of law. [##67-70].

C. Order Granting Amazon's Motion for Summary Judgment.

On April 21, 2010, the Court issued its Order Granting Defendant's Motion for Summary Judgment (hereinafter "Order"). [#74]. In the Order, the Court considered and rejected VPI's arguments concerning the interpretation of the Vendor Manual.

VPI first argued that "the license provisions of the Vendor Manual should be read as limited to Amazon's use of VPI's marks to permit Amazon to advertise and sell VPI's products." Order, at 5. The Court rejected this interpretation because it conflicted with the plain meaning of the license:

> The plain and unambiguous language of the trademark license provision of the Vendor Manual does not include the limitation proposed by VPI.

> Specifically, nothing in the plain language of the trademark license provision prohibits Amazon from using VPI's trademark, "video professor," to promote VPI's products along with other competing products, as VPI contends Amazon did on the Amazon landing page.

Order, at 5 (emphasis added).

Importantly, VPI did not argue that the language of the license was ambiguous. To the contrary, VPI maintained that it was entitled to summary judgment on the issue of lack of authorization because there was no genuine issue of material fact on the interpretation of the license. *See* VPI's Cross-Motion [#45], at 6. The Court rejected VPI's arguments because "[t]he plain language of the Vendor Agreement reflects the intent of the parties and defines the scope of the license." Order, at 8.

Second, VPI argued that the license "would expire when Amazon's stock of VPI's products expired following termination" of the Vendor Manual. Order, at 6 (quoting VPI's Response [#39], at 7). The Court rejected this interpretation because it contradicted the express provisions of the Vendor Manual stating that the license was "perpetual" and would survive termination:

> This proposed interpretation of the Vendor Manual is contrary to the word "perpetual," as used in the trademark license, and is contrary to the term that provides that the "Resale Terms and Conditions will survive the termination of any or all of this Vendor Manual."

Order, at 6.

Third, VPI argued that the implied covenant of good faith and fair dealing precludes Amazon from "claiming that VPI has authorized Amazon's intentional infringement of VPI's trademarks." Order, at 6-7. The Court rejected this argument

because under the governing law of the State of Washington, the "the covenant of good faith and fair dealing does not trump the unambiguous terms of a contract." Order, at 7.

Fourth, VPI claimed that Amazon's reading of the Vendor Manual license would render the license unconscionable, namely, "so one-sided or overly harsh that the term is shocking to the conscience, monstrously harsh, and exceedingly calloused." Order, at 7. The Court rejected this argument as well because the "terms at issue here do not even begin to approach this threshold." Order, at 7.

Having concluded that Amazon's use of the VIDEO PROFESSOR trademark was authorized, the Court held that VPI's trademark claims (namely, its first, second, fourth, and sixth claims for relief) "cannot succeed." Order, at 8. For the same reason, the Court held that VPI's remaining claims for violation of the Colorado Consumer Protection Act and Tortious Interference with Business Relationship also fail. Order, at 9-10.

In sum, through this litigation, VPI forced Amazon to defend conduct that was explicitly and unambiguously authorized by the license contained in the Vendor Manual. To defend against VPI's Complaint, Amazon has incurred attorney fees totaling approximately $330,000.00.

III. LEGAL ARGUMENT

A. Where Defendant is the Prevailing Party, a Case is Exceptional Where the Plaintiff's Claims Lacked a Reasonable Foundation.

The Lanham Act provides that the Court "in exceptional cases may award reasonable attorney fees to the prevailing party." 15 U.S.C. § 1117(a). In the case of a prevailing defendant, "[t]he Lanham Act largely vests in the district court the discretion

to determine when a losing plaintiff's claims or conduct in the litigation are so 'exceptional' as to warrant the assessment of attorney fees." *Nat'l Assn. of Prof'l Baseball Leagues, Inc v. Very Minor Leagues, Inc*., 223 F.3d 1143, 1147 (10th Cir. 2000).

While the Lanham Act does not itself define "exceptional cases," the legislative history suggests at least three considerations where defendant is the prevailing party: "(1) whether the suit was 'unfounded,' (2) whether the suit was brought by the trademark owner 'for harassment and the like,' and (3) whether the award of attorney fees is otherwise 'justified by equitable considerations.'" *Lorillard Tobacco Co. v. Engida*, 556 F. Supp. 2d 1209, 1213 (D. Colo. 2008) (citing *Nat'l Assn. of Prof'l Baseball Leagues*, 223 F.3d at 1146-47). The Tenth Circuit has held that a court may declare a case exceptional, within its discretion, based on "(1) its lack of any foundation, (2) the plaintiff's bad faith in bringing the suit, (3) the unusually vexatious and oppressive manner in which it is prosecuted, or (4) perhaps for other reasons as well." *King v. PA Consulting Grp., Inc*., 485 F.3d 577, 592 (10th Cir. 2007) (quoting *Nat'l Assn. of Prof'l Baseball Leagues*, 223 F.3d at 1147).

Thus, a case may be "exceptional" within the meaning of the Lanham Act when the plaintiff's claims "lack any reasonable foundation." *Nat'l Assn. of Prof'l Baseball Leagues*, 223 F.3d at 1147. A finding of bad faith is <u>not</u> required to award attorneys' fees to a prevailing defendant. *See id*. at 1148 (rejecting plaintiff's argument that a strict "bad faith" standard should apply to prevailing defendants and noting that "when attorney fees are awarded against a plaintiff, the court looks to the plaintiff's <u>conduct in</u>

bringing the lawsuit and the manner in which it is prosecuted.") (emphasis in original). This view is in accord with other circuits. *See*, *e.g*., *Door Sys., Inc. v. Pro-Line Door Sys., Inc.*, 126 F.3d 1028, 1031 (7th Cir. 1997) ("bad faith is not the correct standard for determining whether to award attorneys' fees to the defendant in a Lanham Act case"); *Scotch Whisky Ass'n v. Majestic Distilling Co*., 958 F.2d 594, 599 (4th Cir. 1992) ("[A] finding of bad faith on the part of a plaintiff is not necessary for a prevailing defendant to prove an "exceptional" case under section 35(a) of the Lanham Act.").

B. This Case is Exceptional Because VPI's Arguments to Overcome the License Lacked Any Reasonable Foundation.

This is an exceptional case because VPI's arguments for reinterpreting the unambiguous terms of the license it granted to Amazon lacked any reasonable foundation. VPI explicitly and unambiguously authorized Amazon to engage in precisely the conduct which that formed the basis of its claims. Indeed, the lack of any reasonable foundation for its position raises the question of VPI true motivation for this lawsuit. That motivation is not hard to discern; VPI objects to the resale of its products by others. VPI's corporate representative, Mr. Laughlin, testified that "[w]e don't like our product being resold by anyone other than Video Professor." Ex. B, Laughlin Dep., at 34:6-18. Thus, after VPI attempted to terminate its vendor relationship with Amazon, VPI sued Amazon to attempt to stop or hinder the legitimate resale of its products on the Amazon.com website. For these reasons, Amazon should be awarded its reasonable attorneys' fees under § 1117(a).

1. VPI's pursuit of claims against Amazon based on conduct it explicitly licensed makes this case exceptional.

VPI's license to Amazon deprived VPI's infringement claims of any reasonable basis in fact. As the Court held, "[t]he purpose of a trademark license is to authorize the licensee to use the mark in a manner that otherwise might be an infringement." Order, at 7. In this case, the Court found that "the broad and unambiguous terms of the license provision in the Vendor Agreement authorize Amazon intentionally to use VPI's mark." *Id*.

To the extent VPI argued that the license should be read as a limited license permitting Amazon to use the mark only to advertise and promote VPI's products exclusively, the Court held that such a limitation simply did not exist in the Vendor Agreement: "The plain and unambiguous language of the trademark license provision of the Vendor Manual does not include the limitation proposed by VPI." Order, at 6. "Specifically, nothing in the plain language of the trademark license provision prohibits Amazon from using VPI's trademark, "video professor," to promote VPI's products along with other competing products, as VPI contends Amazon did on the Amazon landing page." *Id*. There was no reasonable basis in fact for VPI's proposed interpretation which contradicted the broad and unambiguous terms of the license.

Claims that are not supported in fact lack reasonable foundation. *See Lorillard Tobacco*, 556 F. Supp. 2d at 1214 (finding claim lacked foundation where, at most, factual basis of claim consisted of merely two packs of allegedly counterfeit cigarettes). In this case, the existence of the license authorizing Amazon's use of the VIDEO PROFESSOR mark deprives VPI's claims of any reasonable basis in fact and makes

this case exceptional. In infringement cases against terminated licensees, courts are quick to find cases exceptional based on the expiration of the license. For example, in *Texas Tech Univ. v. Spielberg*, 461 F. Supp. 2d 510, 526 (N.D. Tex. 2006), the court granted summary judgment in favor of Texas Tech University because it had revoked its license to the defendant, a collegiate apparel reseller, to use the university's trademarks prior to the date on which the trademark owner filed suit for infringement. *Id*. The *Spielberg* court found the case to be "exceptional," because the licensee continued to sell the licensed merchandise after its license to sell the university logo products at issue had been revoked. *Id*.

In another case involving a terminated licensee, the Seventh Circuit commented: "So weak are the Gorensteins' arguments regarding their infringement of Quality Care's trademark, and so deliberate the infringement, that it might have been an abuse of discretion for the district judge *not* to have awarded Quality Care treble damages, attorney's fees, and prejudgment interest." *Gorenstein Enters., Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) (upholding award of attorney's fees where defendant continued to use plaintiff's trademarks after termination of the franchise and licensing agreement); *see also Ramada Franchise Sys., Inc.*, *v. Boychuk*, 283 F. Supp. 2d 777, 792-93 (N.D.N.Y. 2003), *aff'd*, 124 Fed. Appx. 28 (2d Cir. 2005) (use of licensed trademark after termination of franchise agreement was willful infringement which made case exceptional); *Choice Hotels Int'l., Inc. v. Pennave Assocs.*, 159 F. Supp. 2d 780, 786 (E.D. Pa. 2001), *aff'd*, 43 Fed. Appx. 517 (3d Cir. 2002) (same); *KFC Corp. v. Lilleoren*, 821 F. Supp. 1191, 1194 (W.D. Ky. 1993) (same).

This case is the mirror image of these terminated licensee cases. Here, the trademark owner, VPI, granted Amazon a perpetual, worldwide license to use VPI's trademarks. Despite the existence of this license, VPI nonetheless sued Amazon for trademark infringement. If the absence of a license is sufficient to make an infringement case against a licensee exceptional for a prevailing plaintiff, as in the cases cited above, the presence of a license should be sufficient to make an infringement case against a licensee exceptional for a prevailing defendant.

VPI's attempt to avoid the consequences of the license by claiming that the license had terminated lacked any reasonable grounds. This is for two reasons. First, the unambiguous terms of the Vendor Manual stated that the license granted was "perpetual" and "survived termination." Ex. A, Vendor Manual, at Section III, ¶¶ 4, 19. This fact alone supports a finding that VPI's infringement claims lacked any reasonable basis. Second, even under VPI's baseless interpretation that the license "would expire when Amazon's stock of VPI's products expired following termination" of the Vendor Manual (VPI's Response [#39], at 7), the license still would have been effective as of the time that VPI filed its Complaint. VPI admits that it continued to sell and ship its products to Amazon long after it purportedly terminated the license and even admits that it sold products to Amazon as late as March 2009 when it filed the lawsuit. Ex. B, Laughlin Dep., at 152:25-153:8. Thus, even under VPI's deliberately erroneous interpretation of the license – which contradicts the express terms that the license is "perpetual" – VPI still would have had no reasonable basis to file this lawsuit.

2. VPI's invocation of the implied covenant of good faith and fair dealing and the doctrine of unconscionability lacked any legal basis.

Faced with the broad, unambiguous language of the license that authorized Amazon's use of the mark that VPI challenged, VPI attempted to overcome the effect of the license by invoking the implied covenant of good faith and fair dealing and the doctrine of unconscionability. VPI lacked any reasonable grounds to invoke either doctrine.

As the Court held, the implied covenant of good faith and fair dealing provided no assistance to VPI because the covenant cannot be read to trump the express terms of a contract. Order, at 7 (citing *Myers v. State*, 218 P.3d 241, 244 (Wash. Ct. App. 2009)). The covenant only applies where a contract gives one party discretionary authority to determine a contract term. *Myers*, 218 P.3d at 244. In opposing Amazon's motion for summary judgment, VPI failed to cite any authority to support its position that the implied covenant of good faith and fair dealing could be relied on to overcome the express terms of an agreement.

With respect to the doctrine of unconscionability, VPI made no effort, either factually or legally, to support an argument that the license was unconscionable. As the Court held, the "terms at issue here do not even begin to approach [the] threshold" for a claim of unconscionability. Order, at 7.

IV. CONCLUSION

VPI granted Amazon a "non-exclusive, worldwide, perpetual, and royalty-free license to . . . use all trademarks and trade names" of VPI, then claimed that this conduct constituted infringement under the Lanham Act and common law. Amazon has

unfairly incurred substantial attorney fees in having to defend against these claims of infringement. This is precisely the type of case that should be found exceptional pursuant to 15 U.S.C. § 1117(a) entitling Amazon to an award of its reasonable attorney fees.

Respectfully submitted this 7th day of May, 2010.

s/ *Jared B. Briant*
Marc C. Levy
Jared B. Briant
FAEGRE & BENSON LLP
3200 Wells Fargo Center
1700 Lincoln Street
Denver, Colorado 80203
Phone: (303) 607-3500
Email: mlevy@faegre.com
jbriant@faegre.com

Attorneys for Defendant Amazon.com, Inc.

CERTIFICATE OF SERVICE (CM/ECF)

I hereby certify that on May 7, 2010, I electronically filed the foregoing **MOTION TO DECLARE CASE EXCEPTIONAL PURSUANT TO 15 U.S.C. § 1117 AND AWARD DEFENDANT ITS REASONABLE ATTORNEYS' FEES** with the Clerk of Court using the CM/ECF system which will send notification of such filing to the following persons at the given email addresses:

Gregory C. Smith
Kieran A. Lasater
Fairfield & Woods, P.C.
1700 Lincoln Street
Wells Fargo Center #2400
Denver, CO 80203
Email: gsmith@fwlaw.com
klasater@fwlaw.com

/s/ Jared B. Briant
Jared B. Briant