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.

AMAZON'S REPLY TO PLAINTIFF'S RESPONSE TO MOTION TO DECLARE CASE EXCEPTIONAL PURSUANT TO 15 U.S.C. § 1117 AND AWARD DEFENDANT ITS REASONABLE ATTORNEY FEES [#86, filed June 1, 2010]

Defendant Amazon.com, Inc. ("Amazon") submits the following Reply to Plaintiff's Response to Amazon's Motion to Declare Case Exceptional and Award Defendant its Reasonable Attorney Fees [#86, filed June 1, 2010].

I. INTRODUCTION

VPI granted Amazon an unconditional license that allowed Amazon to engage in the conduct that formed the basis for VPI's complaint for trademark infringement. As such, VPI's complaint lacked a reasonable foundation, which makes this an exceptional case under Section 35 of the Lanham Act, 15 U.S.C. § 1117.

In its Response, VPI simply re-asserts its own subjective interpretation of the license, namely, that Amazon's license to use VPI's marks was "limited to the promotion and sale of VPI products only" and that the license was "revocable at the will of VPI." Resp. at 3. As the Court held, this subjective interpretation contradicts and modifies the

express unconditional license that VPI granted to Amazon. As such, VPI's interpretation is contrary to law and therefore lacked any reasonable foundation. VPI is simply arguing for a different license, an argument that is baseless.

VPI's invocation of the implied covenant of good faith and fair dealing does nothing to remedy VPI's lack of authority for its position. The covenant applies only where a party has discretion to determine a contract term; it does not apply to contradict an unconditional contract term. VPI offers no authority to support its position that an implied covenant can narrow the scope of an unconditional license. Because VPI's complaint lacked any reasonable foundation, this case is exceptional, and Amazon should be awarded its reasonable attorney fees.

II. LEGAL ARGUMENT

A. VPI's Interpretation of the Vendor Manual is Contrary to the Language of the Vendor Manual and Washington Contract Interpretation Principles.

In granting Amazon's motion for summary judgment, the Court held that (1) the plain language of the license in the Vendor Manual authorized Amazon's use of the VIDEO PROFESSOR mark, and (2) nothing in the plain language of the trademark license provision prohibits Amazon from using VPI's marks to promote VPI's products alongside other competing products. Order (#74) at 6. VPI nonetheless claims it had a basis for its claims because it "reasonably believed that the license given Amazon was limited to the promotion and sale of VPI products only and was revocable at the will of VPI." Resp. at 3 (emphasis added). This interpretation contradicts and modifies the license in contravention of Washington law. As such, VPI's interpretation is baseless.

1. The Express Terms of the License Contradict VPI's Asserted Limitation on Amazon's License to Use VPI's Marks.

The terms of VPI's license grant to Amazon are unambiguous: VPI granted Amazon a "non-exclusive, worldwide, perpetual, and royalty-free license to . . . use all trademarks and trade names" of VPI's products. Order at 4. As the Court held, the Vendor Manual includes no limitations on the scope of this license. Order at 6. Thus, there is nothing to support VPI's claim that it "reasonably believed" that the license was "limited to the promotion and sale of VPI products only" and that the license was "revocable at the will of VPI." Resp. at 3. This interpretation is not only unreasonable, it is directly contrary to the express terms of the license.

With respect to VPI's belief that the license is revocable at VPI's will, the Court has already found that this interpretation is contradicted by the license. VPI's "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.

With respect to VPI's belief that Amazon's licensed use was limited to the promotion of VPI's products exclusively, VPI fails to cite anything in the Vendor Manual to support its interpretation that the license prohibits Amazon from using VPI's marks to display VPI's products alongside other competing products or in keywords. The license is broad and unconditional. VPI does not cite any authority to support its apparent view that a license must enumerate each and every way in which the licensee may use the marks. Such a view is contrary to law. The entire point of a broad license is to avoid having to enumerate each and every potential licensed use. *See* RAYMOND T. NIMMER

AND JEFF C. DODD, MODERN LICENSING LAW, § 6:6 (2009 ed.) ("Use of broadly inclusive language to describe scope indicates an intent to make a broad all-inclusive grant.").

Indeed, a federal district court rejected the very same argument by a licensee on a motion to dismiss. In *Rosati's Franchise Sys., Inc. v. Rosati*, No. 05-C-3146, 2006 WL 163145, at *7 (N.D. Ill. Jan. 17, 2006), a trademark owner claimed that despite granting a "perpetual, non-exclusive and royalty-free right and license to use . . . the [Rosati's mark] to operate Rosati's Pizza Restaurants," the license did not specifically authorize use of the Rosati Marks as domain names. *Id*. at *7. The *Rosati's* court dismissed plaintiff's trademark infringement claims, holding that the license "granted defendants broad rights in the Rosati marks and did not prohibit defendants from using the marks in domain names or from registering those domain names." *Id*.

In granting Amazon's motion for summary judgment, the Court applied the same sound reasoning. Here, as in *Rosati's*, VPI granted Amazon broad rights to use the VIDEO PROFESSOR mark, and nothing in the Vendor Manual prohibits Amazon from using VPI's mark in keywords or from displaying VPI's products along with other competing products. To the contrary, Amazon's use of VIDEO PROFESSOR in keywords or otherwise to advertise VPI products, whether with or without other products, is consistent with both the letter and the purpose of the Vendor Manual. Amazon is an Internet retailer. Internet advertising, including keyword advertising, is precisely the type of use contemplated in the license. In fact, with respect to the use of the VIDEO PROFESSOR mark in keywords, VPI testified that it understood that the Vendor Manual "allowed [Amazon] to utilize the 'video professor' keyword in order to

sell Video Professor product."[1] *See* Motion, Ex. B., Laughlin Dep. at 108:5-18. VPI offers no authority to support its position that the broad and unconditional license is not enforceable. As such, VPI's interpretation which is contrary to the license is baseless.

2. Washington Contract Interpretation Principles do not Support VPI's Asserted Limitation on Amazon's License to Use VPI's Marks.

VPI's citations to Washington contract interpretation authority demonstrate why VPI's interpretation lacks any reasonable foundation in law. Washington, like most other jurisdictions, follows the "objective manifestation theory of contracts." *Hearst Commcn's, Inc. v. Seattle Times Co*., 115 P.3d 262, 267 (Wash. 2005). Washington courts "attempt to determine the parties' intent by focusing on the objective manifestations of the agreement, rather than on the unexpressed subjective intent of the parties." *Id*. "Thus, when interpreting contracts, the subjective intent of the parties is generally irrelevant if the intent can be determined from the actual words used." *Id*.

Under this approach, extrinsic evidence may not be used to "'show an intention independent of the instrument' or to 'vary, contradict or modify the written word.'" *Id*. (*quoting Hollis v. Garwall, Inc*., 974 P.2d 836, 843 (Wash. 1999)). Extrinsic evidence may only be used to "determine the meaning of *specific words and terms used*." *Id*. (emphasis in original).

Here, VPI asked the Court to do precisely what it may not do under Washington law, namely, to accept VPI's subjective interpretation of the license to vary, contradict

[1] VPI's attempt to distance itself from this admission fails. Mr. Laughlin was testifying as the corporate representative of VPI, and thus testified to VPI's knowledge of the implications of the license—this was not merely a qualified statement of Mr. Laughlin's personal belief.

and modify the license. As the Court found, VPI's subjective interpretation that the license was "revocable at the will of VPI" directly contradicts the express terms of the Vendor Manual providing that the license is "perpetual" and that it survives termination. Order at 6. Similarly, VPI's subjective interpretation that the license included a limitation prohibiting Amazon from using VPI's trademark to advertise VPI products alongside other competing products is impermissible because it would vary or modify the express terms of the unconditional license that included no such limitation. Order at 6.

VPI pleads that it only seeks to interpret the contract, not modify it. But this is demonstrably wrong. VPI fails to even identify the "specific words" that it claims it only seeks to interpret, let alone identify relevant extrinsic evidence of the meaning of such words. The license is "perpetual" and the license lacks the limitation that VPI wishes it possessed. VPI is arguing for a different license, an argument that is baseless.

B. <u>The Implied Covenant of Good Faith and Fair Dealing Does not Apply to the Unconditional License Granted in the Vendor Manual</u>.

VPI's reliance on the implied covenant of good faith and fair dealing to attempt to avoid its license grant to Amazon similarly has no foundation in law. As the Court held, "an implied covenant of good faith and fair dealing will be read into a contract when the contract gives one party discretionary authority to determine a contract term." Order at 7 (*citing Myers v. State*, 218 P.3d 241, 244 (Wash. App. 2009)). "But the covenant of good faith and fair dealing does not trump the unambiguous terms of a contract." *Id*.

Yet, that is precisely what VPI sought to do. VPI is confusing an express contract term that is unconditional with a contract term that grants discretion to a party to determine that term. The Amazon license is an express unconditional license; it does

not confer on Amazon the discretion to determine its scope. Therefore, the implied covenant of good faith and fair dealing does not apply to contradict the license.

One of the cases VPI cites in its brief makes this distinction crystal clear. *Goodyear Tire & Rubber Co. v. Whiteman Tire, Inc.*, 935 P.2d 628, 632 (Wash. App. 1997). In *Goodyear*, Goodyear entered into a dealership agreement with Whiteman Tire, but reserved the unconditional right to sell tires in Whiteman's trade area. *Id*. at 631. Whiteman claimed that the implied covenant of good faith and fair dealing prevented Goodyear from exercising its right to sell tires in a manner that competed with Whiteman (*id*. at 632), much like VPI claims that Amazon used the VIDEO PROFESSOR mark to direct consumers to Amazon's landing page where VPI products were available for sale, alongside competing products. The *Goodyear* court held that the implied covenant of good faith and fair dealing did not apply because Goodyear's right to sell in Whiteman's area was "unconditional, and does not call for the exercise of discretion and the consequent implied covenant to exercise that discretion in good faith." *Id.* at 633. In the same way, because Amazon's right to use VPI's marks is unconditional, and not discretionary, the covenant of good faith and fair dealing has no application in this case, and does not support VPI's claims.

VPI fails to cite a single authority to support its position that the implied covenant of good faith and fair dealing limits the scope of an unconditional right. Each and every case relied on by VPI in which the court applied the implied covenant of good faith and fair dealing involved a discretionary contract term, not an unconditional term such as the license in the Vendor Manual to use VPI's marks. *See*, *e.g.*, *Curtis v. Northern Life Ins.*

Co., No. 61372-3-I, 2008 WL 4927365, at *5 (Wash. App. Nov. 17, 2008) (interpreting insurance contract providing that insurer would set interest rates at a three percent minimum, while also providing that insurer "may" credit higher rates in a way set by its board); *Craig v. Pillsbury Non-Qualified Pension Plan*, 458 F.3d 748, 752 (8th Cir. 2006) (interpreting "Top Hat" pension plan, which "grant[ed] its administrator discretion to interpret its terms"). As such, VPI's position has no reasonable foundation.

C. VPI Does Not Argue that its Proposed Limitation of the License is Necessary to Avoid Unconscionability or a Public Policy Violation.

VPI makes no argument in its Response even attempting to justify its baseless assertion that Amazon's license in the Vendor Manual was void as unconscionable or in violation of public policy. As the Court has already found, the broad license grant is far from unconscionable: "the terms at issue here do not even begin to approach" the threshold for substantive unconscionability." Order at 7. VPI does not even attempt to demonstrate how the license "is so one-sided or overly harsh that the term is shocking to the conscience, monstrously harsh, and exceedingly calloused." Order at 7 (citing *Torgerson v. One Lincoln Tower, LLC*, 218 P.3d 318, 322-23 (Wash. 2009)). Likewise, VPI has not demonstrated, in its Response or anywhere else in the record, how the license could violate public policy, when the policy behind a license is to authorize acts that might otherwise constitute infringement. *See* Order at 7-8.

D. VPI Has Not Identified any Reasonable Foundation for its Claims, Making this an Exceptional Case.

A case is exceptional where the plaintiff's claims "lack any reasonable foundation." *Nat'l Assn. of Prof'l Baseball Leagues, Inc. v. Very Minor Leagues, Inc.*,

223 F.3d 1143, 1147 (10th Cir. 2000). This is such a case. Although identifying "some evidence" may demonstrate that a case was not "objectively unfounded," VPI cannot point to <u>any</u> evidence to support its unfounded claims. VPI's attempts to overcome the license are based solely on legal arguments that, as discussed above, lack any reasonable foundation.

The existence of the license between Amazon and VPI places this case squarely within a type of case commonly found exceptional under the Lanham Act. In cases where a terminated licensee continues to use a licensed trademark after the license expires, courts commonly find that such cases merit exceptional status. Motion at 12. If the <u>absence</u> of a license is sufficient to make an infringement case against a licensee exceptional for a prevailing plaintiff, the <u>presence</u> of a license should be sufficient to make an infringement case against a licensee exceptional for a prevailing defendant. *See*, *e.g.*, *Texas Tech Univ. v. Spielberg*, 461 F. Supp. 2d 510, 526 (N.D. Tex. 2006); *Gorenstein Enters., Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989).

As VPI correctly notes, the standard for an exceptional case where the plaintiff prevails is different from and <u>more stringent</u> than that which applies to defendants. Unlike successful defendants, prevailing plaintiffs must show subjective bad faith. *See Very Minor Leagues*, 223 F.3d at 1148. But this only serves to make the analogy that much more persuasive for Amazon. If a plaintiff is entitled to attorney's fees under the more stringent standard against a defendant licensee who unsuccessfully defends an infringement suit based on an expired license, the defendant licensee should be entitled to attorney's fees under the less stringent standard against a plaintiff who brings an

unsuccessful infringement action despite that an active license authorized the conduct alleged to be infringing. Such a claim by the plaintiff licensor lacks any foundation and merits an award of attorney's fees to the defendant licensee.

III. CONCLUSION

VPI granted Amazon a "non-exclusive, worldwide, perpetual, and royalty-free license to . . . use all trademarks and trade names" of VPI. VPI's attempts to elude the plain meaning of the license by invoking contract interpretation principles and the implied covenant of good faith and fair dealing simply lack any reasonable legal foundation. Nevertheless, VPI forced Amazon to defend a trademark infringement complaint that presumed that the license had no force or effect. In the interests of justice, Amazon should not have to bear the burden of the attorney's fees reasonably incurred to defend this baseless case. Amazon respectfully requests that the Court find that this case is exceptional and award Amazon its reasonable attorneys' fees in an amount to be determined after additional briefing.

Respectfully submitted this 18th day of June, 2010.

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CERTIFICATE OF SERVICE (CM/ECF)

I hereby certify that on June 18, 2010, I electronically filed the foregoing **AMAZON'S REPLY TO PLAINTIFF'S RESPONSE TO MOTION TO DECLARE CASE EXCEPTIONAL PURSUANT TO 15 U.S.C. § 1117 AND AWARD DEFENDANT ITS REASONABLE ATTORNEY FEES [#86, filed June 1, 2010]** 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:

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