IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

Verisign, Inc., Plaintiff, v. XYZ.com, LLC and Daniel Negari, Defendants.	Case No. 1:14-cv-01749 CMH-MSN

DEFENDANTS' POST-REMAND SUBMISSION
IN SUPPORT OF MOTION FOR FEES UNDER 15 U.S.C. § 1117(A)

Table of Contents

Introduction 1

Facts 1

Issues 4

Legal Standard on Remand 4

Argument 6

A. This case is exceptional because there was an unusual discrepancy in the merits of the parties' positions. Verisign lacked evidence from the outset and could not establish four of the five elements governing its single claim. 6

B. This case is exceptional because Verisign litigated unreasonably and its actions harmed XYZ. 8

1. The ever-expanding scope and nature of Verisign's discovery sought irrelevant information that overwhelmed XYZ with expense and effort. 8

2. Verisign used discovery to access valuable trade secrets and confidential customer communications and then publicly filed detailed summaries of that information, irreparably harming XYZ. 9

3. Verisign's attempt to focus on XYZ's conduct is improper because the "unreasonable manner" standard only looks to the non-prevailing party's conduct. 10

C. Verisign should be deterred from bullying smaller competitors and XYZ should be compensated for the enormous resources spent defending this lawsuit. 10

D. Verisign's dogged pursuit of a weak, fatally flawed lawsuit made the case exceptional under the totality of the circumstances. 12

Conclusion 14

Table of Authorities

Cases

Appliance Recycling Ctrs. of Am., Inc. v. JACO Envtl., Inc.,
378 F. App'x 652 (9th Cir. 2010) 8

Bayer CropScience AG v. Dow AgroSciences LLC,
No. CV 12-256 (RMB/JS), 2015 WL 108415 (D. Del. Jan. 5, 2015) 10

Design Res., Inc. v. Leather Indus. of Am.,
789 F.3d 495 (4th Cir. 2015) 8, 13

Design Res., Inc. v. Leather Indus. of Am.,
No. 1:10CV157, 2016 WL 5477611 (M.D.N.C. Sept. 29, 2016) 5

eBay, Inc. v. MercExchange, L.L.C.,
547 U.S. 388 (2006) 7

Exclaim Mktg., LLC v. DirecTV, LLC,
674 F. App'x 250 (4th Cir. 2016) 10

Fair Wind Sailing, Inc. v. Dempster,
764 F.3d 303 (3d Cir. 2014) 8

Georgia-Pacific Consumer Prod. LP v. von Drehle Corp.,
781 F.3d 710 (4th Cir. 2015) 5, 10

Johnson & Johnson Vision Care, Inc. v. 1–800 Contacts, Inc.,
299 F.3d 1242 (11th Cir. 2002) 8

Mennen Co. v. Gillette Co.,
565 F. Supp. 648 (S.D.N.Y. 1983) 12

Michalic v. Cleveland Tankers, Inc.,
364 U.S. 325 (1960) 11

Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC,
626 F.3d 958 (7th Cir. 2010) 5, 11

Octane Fitness, LLC v. ICON Health & Fitness, Inc.,
134 S. Ct. 1749 (2014) 4, 5, 6

Sazerac Co., Inc. v. Fetzer Vineyards, Inc.,
No. 3:15-CV-04618-WHO, 2017 WL 6059271 (N.D. Cal. Dec. 7, 2017) 5, 6, 13

Scotts Co. v. United Industries,
315 F.3d 264 (4th Cir.2002) 6

Verisign, Inc. v. XYZ.COM LLC,
891 F.3d 481 (4th CIR. 2018) ..... passim

Winter v. Natural Res. Def. Council, Inc.,
55 U.S. 7 (2008) 7

Statutes

15 U.S.C. § 1117(a) 4

Introduction

There was a time when the Lanham Act's "exceptional case" fee-shifting remedies were reserved for the worst offenders—litigants who filed false declarations or frivolous claims. Established companies were undeterred from filing weak claims against smaller competitors, and litigating aggressively and endlessly for competitive advantage.

Those days are over.

The Supreme Court's holding in *Octane Fitness*, the Fourth Circuit's analysis in *Georgia-Pacific*, and the decision on appeal in this case show that the law has changed. An "exceptional case" no longer requires a showing that Verisign's lawsuit was frivolous, that its conduct was egregious, or that it acted in bad faith. Rather, an "exceptional case" is simply one that, considering the totality of the circumstances, stands out from others with respect to the substantive strength of a party's litigating position, the unreasonable manner in which the case was litigated, or where there is otherwise the need to advance considerations of compensation or deterrence.

Verisign's unusually weak legal theories, deficient evidence, hyper-aggressive litigation tactics, and wrongful exploitation of its size and resource advantages make this an exceptional case. The Court should award XYZ fees under 15 U.S.C. § 1117(a).

Facts

Verisign and XYZ are in the business of domain name registrations. (Memorandum Opinion Granting Summary Judgment ("Dkt. No. 380") at 2.) Verisign has been in operation for decades, is a multi-billion dollar publicly traded company, and has amassed over 120 million registrations for its <.com> and <.net> domain names. (*See id.*) XYZ operates the <.xyz> domain name and is a newcomer, entering the market in 2014. (*Id.*) [redacted] (Pat Kane Deposition Transcript ("Kane Tr.") (Dkt. 315–10) at 211:9–212:11.)

Verisign filed this false-advertising lawsuit over XYZ's public statements that <.xyz> domain names were being sold fast, that XYZ was the next <.com>, and that all the good <.com> domain names were taken. (*See* Dkt. No. 1 at 7.) But as this Court found at summary judgment, each of the statements Verisign sued over were either non-actionable puffery or "verifiably true." (*See* Dkt. No. 380 at 8.)

Verisign's own data showed that <.com> registrations actually increased after XYZ's statements. (*Id.* at 12.) Verisign also asserted harm to sales of the <.net> domain. (*Id.* at 12–13). [redacted] (*See* Rebuttal Expert Report of Jothan Frakes ("Dkt. No. 240-11") ¶ 59.) And Verisign failed to support its claim of reputational damage with anything other than its own subjective, self-serving belief that it was harmed. (*See* Dkt. No. 380 at 14.) [redacted]

Before discovery commenced, XYZ sent Verisign a letter detailing why Verisign's claim lacked merit under longstanding legal precedent. (*See* Declaration of Sophy Tabandeh in Support of Defendants' Motion for Attorney Fees ("Dkt. No. 385") (Filed Under Seal at Dkt. 396) ¶ 22, Ex. N.) In that letter, XYZ expressed that it did not wish to engage in prolonged litigation. (*See id.* ¶ 23) XYZ willingly offered to modify its marketing practices to address Verisign's concerns. (*Id.*) After discovery, this Court and the Fourth Circuit granted and affirmed summary judgment, relying on much of the same authority that XYZ provided Verisign in its letter. (*See* Dkt. No. 380, 455.) While Verisign had the burden of proving five elements for its false-advertising claim, the Court found that Verisign failed to establish four of them. (*See* Dkt. 380 at 5–14.) Only the "interstate commerce" element was satisfied—and it was never in dispute.

Verisign's list of alleged false claims in the original complaint grew to 63 by the close of discovery. (Dkt. No. 385 ¶ 21.) Verisign argued it did not need to show that any single statement satisfied all five false advertising elements. Instead, Verisign contended it could combine

different statements to satisfy its burden. (*See* Dkt. No. 46 at 20.) But Verisign's theory was precluded by law. So much so that when the Fourth Circuit asked about it on appeal, Verisign immediately conceded the matter and moved on. (Declaration of Rachel Horvitz in Support of Defendants' Post-Remand Submission and Motion for Fees Under 15 U.S.C. § 1117(A) ("Horvitz Decl.") ¶ 2, Ex. A at 4:6–19.) That concession came too late for XYZ though—with so many statements in dispute, the scope and cost of discovery became enormous.

The burden the discovery process placed on XYZ—a fledgling startup with limited resources—was oppressive. Verisign sought to depose every XYZ employee and demanded nearly every document in XYZ's short history, including its most commercially sensitive information. (*See* Declaration of Daniel Negari in Support of Defendants' Motion for Attorney Fees ("Dkt. No. 384") ¶ 2.) Verisign received XYZ's pricing strategies; communications and confidential agreements with business partners; XYZ's internal business and marketing practices, plans, and expenditures; and XYZ's financial statements. (Dkt. No. 385 ¶ 18, Ex. K) Verisign even served a third-party subpoena on an accountant seeking XYZ's CEO's personal tax returns. (*Id.* ¶ 8, Ex. A.)

Verisign's access to XYZ's commercially-sensitive trade secrets was governed by this Court's protective order. (Dkt. No. 57.) The order placed strict requirements on who could see designated materials and what documents had to be filed under seal. (*See id.*) Verisign violated that order by publicly filing a trial exhibit list detailing XYZ's sensitive commercial information. (*See* Verisign's Trial Exhibit List ("Dkt. No. 219–1").) Verisign's filing described XYZ's confidential business deals and the substance of dozens of highly confidential and sensitive emails with business partners. (*See id.*; Dkt. No. 384 ¶ 4.) This disclosure caused immediate and irreparable harm to XYZ. (Dkt. No. 384 ¶¶ 6, 13.)

Shortly after Verisign's violation, two popular domain-industry publications reproduced the trial exhibit list and described a confidential business deal. (*See* Dkt. No. 384 ¶¶ 7–8, Exs. A, B.) Although Verisign eventually sealed its trial exhibit list, XYZ's commercially sensitive information is still available on the Internet. (Dkt. No. 384 ¶ 7, Ex. A.) Numerous customers

contacted XYZ upset that their confidential information had been released to the public. (*See* Dkt. No. 384 ¶ 11.)

Issues

1. A case is exceptional when there is an unusual discrepancy in the merits of the parties' positions. When Verisign filed this false-advertising case, it had no evidence of harm and it should have known that XYZ's alleged false statements were true or mere opinions. The Court found that Verisign lacked sufficient evidence for four of five elements of its only claim. Is this case exceptional?

2. A case is exceptional when the losing party litigated unreasonably. Verisign engaged in hyper-aggressive litigation tactics—taking the deposition of every XYZ employee and pursuing third-party discovery across the country when the only real issue was whether statements were false. Verisign also violated this Court's protective order resulting in direct, irreparable harm to XYZ. Is this case exceptional?

3. A case is exceptional when interests of compensation and deterrence weigh in favor of a fee award. The Fourth Circuit indicated this may be established through "motives Verisign might have had, like eliminating a new competitor through expensive litigation." Verisign, a multi-billion-dollar corporation with an unlimited legal budget, almost destroyed XYZ by pursuing weak claims long after they should have been abandoned. Is this case exceptional?

Legal Standard on Remand

15 U.S.C. § 1117(a) provides that the "court in exceptional cases may award reasonable attorney fees to the prevailing party." The Supreme Court's 2014 decision in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* defined what is an exceptional case. 134 S. Ct. 1749, 1756, 188 L. Ed. 2d 816 (2014). The Court rejected the prevailing view that only frivolous filings, egregious conduct, or bad faith could trigger fee-shifting. Instead, the Court concluded that an exceptional case "is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the

unreasonable manner in which the case was litigated." 134 S. Ct. at 1756. District courts can use their discretion on a case-by-basis and must consider the totality of the circumstances and equitable considerations. *Id.* The Court found that Congress intended "exceptional" to carry its ordinary dictionary meaning of uncommon, rare, or not ordinary. *Id.*

After *Octane Fitness*, the Fourth Circuit held that a court may find a case exceptional and award fees to the prevailing party when it determines, in light of the totality of the circumstances, that any one of three factors are met. *Georgia-Pacific Consumer Prod. LP v. von Drehle Corp.*, 781 F.3d 710, 721 (4th Cir. 2015). First, a case is exceptional when there is an unusual discrepancy in the merits of the positions taken by the parties, based on the non-prevailing party's position as either frivolous or objectively unreasonable. But the Fourth Circuit did "clarify…a prevailing party is not *required* to establish objective baselessness in order to receive attorney fees under the first factor." *Verisign, Inc. v. XYZ.COM LLC*, 891 F.3d 481, 488 n.4. (4th Cir. 2018) (emphasis original). The plaintiff filing a claim that no reasonable litigant would bring is just an example of how this first factor can render a case exceptional, not a prerequisite. *Id.*

Second, a case is exceptional when the non-prevailing party litigated the case in an unreasonable manner. While a party may have acted reasonably in filing a case, it could have acted unreasonably in continuing to pursue it. *See Design Res., Inc. v. Leather Indus. of Am.*, No. 1:10CV157, 2016 WL 5477611, at *4 (M.D.N.C. Sept. 29, 2016); *Sazerac Co., Inc. v. Fetzer Vineyards, Inc.*, No. 3:15-CV-04618-WHO, 2017 WL 6059271, at *1 (N.D. Cal. Dec. 7, 2017).

Third, a case is exceptional when there is the need in particular circumstances to advance considerations of compensation and deterrence. In evaluating that factor, this Court should consider "any possible motives Verisign might have had, like eliminating a new competitor through expensive litigation." *Id.* at 486-87 (citing *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958, 962–63 (7th Cir. 2010).)

Further, the Fourth Circuit held "that an award of attorney fees under § 1117(a) of the Lanham Act requires that a party prove an 'exceptional case' by a preponderance of the evidence." *Verisign*, 891 F.3d at 486.

Argument

A. This case is exceptional because there was an unusual discrepancy in the merits of the parties' positions. Verisign lacked evidence from the outset and could not establish four of the five elements governing its single claim.

To qualify for fees under 15 U.S.C. § 1117(a), a prevailing party need only establish that under the totality of circumstances, there was an unusual discrepancy in the merits of the parties' positions. *See Verisign*, 381 F.3d at 483, 488-89, n. 4. Or as the Supreme Court put it, this Court must evaluate the "substantive strength of [the losing party's] litigating position (considering both the governing law and the facts of the case)." *Octane Fitness*, . 134 S. Ct. at 1756. And a "prevailing party is not *required* to establish objective baselessness in order to receive attorney fees." *Verisign, Inc.*, 891 F.3d 481, n.4. (emphasis original).

Like every false-advertising plaintiff, Verisign was required to prove money damages caused by specific statements or show evidence of reputational harm other than its own subjective belief. *See Scotts Co. v. United Industries*, 315 F.3d 264, 272 (4th Cir. 2002). Verisign's figures showed that <.com> domain name sales were on the rise, even after the alleged false statements. [redacted] So, from the earliest stages of this case, Verisign should have known it could not prove the required causal link between XYZ's alleged false statements and damages or harm. The fact that this knowledge was within Verisign's possession makes its decision to file and maintain the lawsuit even more unreasonable. *See Sazerac,* 2017 WL 6059271, at *4 (awarding fees even after plaintiff survived summary judgment because it was unreasonable to proceed to trial without evidence of actual harm, "knowledge which was exclusively within [plaintiff's] possession.")

Verisign tried to rely on a presumption of reputational damage. But, as this Court pointed out, two Supreme Court decisions precluded this. (*See* Dkt. No. 380 at 13–14 (citing *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393-94 (2006) and *Winter v. Natural Res. Def. Council, Inc.*,

55 U.S. 7 (2008)).) For Verisign to ignore that authority, and allow the case to proceed as far as it did without satisfactory evidence of harm or damage, was unreasonable and exceptional.

Shortly after the case was filed, XYZ sent Verisign a letter explaining that the alleged false statements were true, opinion, or puffery. That letter provided legal authority which walked through why Verisign's claims could not support any false advertising claims. In its summary-judgment ruling, the Court evaluated Verisign's legal theories and, citing much of the same authority XYZ's letter had provided to Verisign, found the case lacking as a matter of law. The Court concluded that:

- Verisign could not establish that many of the statements at issue were anything other than non-actionable puffery and hyperbole. (Dkt. No. 380 at 6–8.)
- The remaining statements were "verifiably true." (Dkt. No. 380 at 8–9.)
- Verisign did not have sufficient evidence of materiality. (Dkt. No. 380 at 10.)
- Verisign did not have sufficient evidence of consumer deception because Verisign's own survey evidence was flawed. (Dkt. No. 380 at 10–11.)
- Verisign did not have sufficient evidence of damages. (Dkt. No. 380 at 12–13.)
- Verisign claimed a presumption of irreparable harm that the Supreme Court had *twice* rejected. (Dkt. No. 380 at 13–14.)
- Verisign "[did] not proffer evidence beyond their subjective belief that Defendants' statements caused harm.…[Verisign did not show] any evidence of irreparable harm to [Verisign's] reputation or goodwill." (Dkt. No. 380 at 14.)

Throughout this case, Verisign claimed that it could mix-and-match different statements by XYZ to satisfy the different elements of its Lanham Act claim. According to Verisign, if one statement was material, another statement deceived customers, a third was a statement of fact rather than opinion, and a fourth was linked to lost sales, Verisign would succeed on its claim. But Verisign's argument had already been rejected by courts across the country. *See, e.g., Johnson & Johnson Vision Care, Inc. v. 1-800 Contacts, Inc.*, 299 F.3d 1242, 1248 (11th Cir. 2002) (rejecting argument that challenged statements should be evaluated "in concert" to determine

whether any or all violated Lanham Act); *Design Res., Inc. v. Leather Indus. of Am.*, 789 F.3d 495, 501-05 (4th Cir. 2015) (analyzing each alleged false statement individually); *Scotts*, 315 F.3d 264 (same); *Appliance Recycling Ctrs. of Am., Inc. v. JACO Envtl., Inc.*, 378 F. App'x 652, 654 (9th Cir. 2010) (dismissing Lanham Act claims after evaluating each statement independently and concluding that "[n]one of the statements at issue here satisfies all the necessary elements.")

When the Fourth Circuit asked Verisign to justify this theory, Verisign abruptly abandoned it. The opinion dismissed the theory in a single sentence observing that, thanks to Verisign's concession, "the parties agree, a Lanham Act claimant may not mix and match statements, with some satisfying one Lanham Act element and some satisfying others." (Dkt. No. 455 at 8; *see also* Horvitz Decl., Ex. A at 4:6–19.) By refusing to concede the issue until appeal, Verisign forced the parties to unnecessarily litigate dozens of statements instead of, at most, a handful. Verisign's unreasonable action led to many thousands of dollars in unnecessary costs.

Verisign's actions were not normal, were out of the ordinary, and this is not a mill-run case. Under the totality of the circumstances, there was an unusual discrepancy between the parties' positions, making this an exceptional case under the Lanham Act.

B. This case is exceptional because Verisign litigated unreasonably and its actions harmed XYZ.

When a losing party litigates in an unreasonable manner, the prevailing party is entitled to fees under 15 U.S.C. § 1117(a). *Verisign*, 891 F.3d at 487–88. The prevailing party does not need to prove a losing party's litigation conduct was sanctionable or in bad faith. *Id.* ; *see also Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303, 315 (3d Cir. 2014) (Supreme Court's decision in *Octane* eliminated any "threshold requirement that the losing party acted culpably.").

1. The ever-expanding scope and nature of Verisign's discovery sought irrelevant information that overwhelmed XYZ with expense and effort.

The contrast between the unyielding scope of Verisign's discovery compared to the fragility of its legal theories makes this case exceptional. Based on the complaint—a single claim

for false advertising—this should have been a simple case. Instead, Verisign launched an enormous fishing expedition that XYZ had to defend.

Verisign insisted on taking the deposition of each and every XYZ employee—even those far removed from the statements at issue. Verisign probed into XYZ's most valuable confidential information, including private commercial contracts and price negotiations.

Verisign used this litigation to chase down information for its competitive advantage, including confidential documents from competitors like Donuts, Inc. Verisign also tried—and failed—to subpoena an accountant for the the personal tax returns of XYZ's CEO, Daniel Negari, even though his personal tax returns could not possibly relate to false advertising.

When the dust finally settled, Verisign's 17 third-party document subpoenas, 25 depositions, and seven ancillary actions across the country yielded the same result a more reasonable approach would have. None of the discovery could turn true statements into false advertising. None of the discovery could turn statements of opinion into statements of fact. And none of the discovery could establish Verisign suffered harm. Verisign should have known all this from the beginning.

2. Verisign used discovery to access valuable trade secrets and confidential customer communications and then publicly filed detailed summaries of that information, irreparably harming XYZ.

Verisign's conduct stands out because its open disregard of the protective order caused XYZ irreparable harm. Specifically, Verisign filed an unredacted 25-page exhibit list that described XYZ's competitive-pricing strategies and confidential business relationships. Immediately after the information was posted, an industry news website published an article titled, "Here are the Exhibit and Witness lists for the Verisign v. XYZ trial." (Dkt. No. 384, 384-1.) The article warned that "it's clear that if you emailed Daniel Negari about .xyz, there's a good chance Verisign has reviewed that email." *Id.* Worse yet, that article contained a copy of the exhibit list that remained available even after the list itself was sealed. (*See* Dkt. No. 384-1.)

The article caused immediate irreparable harm to XYZ's relationships with its clients and customers who, understandably, questioned whether they could expect their messages to remain confidential. Because of Verisign's violation of the protective order, XYZ was forced to expend resources defending itself from Verisign's misleading descriptions of the exhibits. (*See* Dkt. No. 384 ¶ 14.) And since then, it has struggled to repair fractured trust with individuals and business partners whose confidential communications with XYZ were made public. (*See id.*)

Verisign argues it should be given a pass for violating the protective order because it cooperated when XYZ demanded the document be sealed. But this misses the point entirely. By the time the sealing occurred, the information was already permanently in the public domain. Verisign's corrective action was akin to closing the stable door after the last horse bolts—the damage was already done.

3. Verisign's attempt to focus on XYZ's conduct is improper because the "unreasonable manner" standard only looks to the non-prevailing party's conduct.

The Fourth Circuit has discussed the "unreasonable manner" prong three times. And all three times it has confined the issue to whether "the non-prevailing party litigated the case in an unreasonable manner." *Georgia-Pacific*, 781 F.3d at 722 (emphasis added); *Exclaim Mktg., LLC v. DirecTV, LLC*, 674 F. App'x 250, 259 (4th Cir. 2016) (same); *Verisign*, 891 F.3d 483-84 (same).

Since Verisign is the non-prevailing party, any attempt to point the finger at XYZ's conduct is "an unneeded distraction and is irrelevant" to the analysis. *Bayer CropScience AG v. Dow AgroSciences LLC*, No. CV 12-256 (RMB/JS), 2015 WL 108415, at *7 (D. Del. Jan. 5, 2015). The Court should disregard any argument about XYZ's discovery conduct in analyzing the unreasonable manner prong.

C. Verisign should be deterred from bullying smaller competitors and XYZ should be compensated for the enormous resources spent defending this lawsuit.

To qualify for fees under 15 U.S.C. § 1117(a), the prevailing party need only show that considerations of compensation and deterrence weigh in its favor. In remanding, the Fourth

Circuit noted that this Court could consider "any possible motives Verisign might have had, like eliminating a new competitor through expensive litigation." *Verisign*, 891 F.3d at 486-87. So even if XYZ does not have direct evidence of Verisign's improper motive—such as a confession or a "smoking gun" document—the Court may rely on circumstantial evidence and inferences. *See Michalic v. Cleveland Tankers, Inc.*, 364 U.S. 325, 330 (1960) ("direct evidence of a fact is not required. Circumstantial evidence is not only sufficient, but may also be more certain, satisfying and persuasive than direct evidence.")

In commenting on this issue, the Fourth Circuit highlighted the Seventh Circuit's opinion in *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958, 962 (7th Cir. 2010). There, the court warned of "the potential for businesses to use Lanham Act litigation for strategic purposes—not to obtain a judgment or defeat a claim but to obtain a competitive advantage independent of the outcome of the case by piling litigation costs on a competitor," especially when the plaintiff is the larger business. *Id.* Here, Verisign is undeniably the Goliath to XYZ's David. And as a new entrant to the competitive domain-name market, Verisign's tactics posed an especially grave risk to tiny upstart XYZ. *See Nightingale*, 626 F.3d. at 962–63.

Similarly, the circumstantial evidence of improper motive here is robust and sufficient under the preponderance of the evidence standard. At the time it filed this lawsuit, [redacted] —together with the filing of a meritless lawsuit—gives rise to the inference that Verisign intended to bury XYZ in expensive litigation.

In similar circumstances to those found here, a New York district court awarded fees against deodorant-maker Mennen. Even though there was no direct evidence of animus and Mennen's claims survived summary judgment, the court still awarded fees for two reasons. First, Mennen's claims and evidence failed "for a number of reasons" and, second, the parties'

competitive relationship "warrant[ed] an inference that this suit was initiated as a competitive ploy." *Mennen Co. v. Gillette Co.*, 565 F. Supp. 648, 657 (S.D.N.Y. 1983), *aff'd sub nom. Mennen v. Gillette*, 742 F.2d 1437 (2d Cir. 1984).

Verisign's claims and evidence also failed for multiple reasons, and unlike Mennen, it didn't even have enough evidence to get to trial. And Verisign and XYZ's competitive relationship supports the same inference of an improper motive that the *Mennen* court drew.

Why would a sophisticated company with competent legal counsel file such a flimsy case? XYZ said nothing about <.com> that hadn't been said before, and Verisign's own numbers showed <.com> registrations continued to grow even after XYZ's statements. Why draw further attention to those statements by filing a lawsuit over them? Why drag that suit on as the odds of victory grew ever longer, all the while refusing to ever meaningfully discuss settlement? The reasonable inference is that Verisign's primary motive wasn't winning the lawsuit so much as sending a message, not only to XYZ but to all of the other new top-level domains that entered the market and presented Verisign with meaningful competition for the first time in decades.

The circumstantial evidence supports an inference that Verisign's true motive in pursuing a claim this weak, this aggressively, was to drain XYZ's resources, intimidate its principal, and send a message to its other new competitors. [redacted] Under these circumstances, fee-shifting is warranted to both deter such conduct going forward and to compensate XYZ for enduring, defending and defeating Verisign's tenuous claims and faulty lawsuit.

D. Verisign's dogged pursuit of a weak, fatally flawed lawsuit made the case exceptional under the totality of the circumstances.

The Court should consider a decision from the Middle District of North Carolina awarding fees to a prevailing defendant in a similar case. *Design, Res., Inc. v. Leather Indus. of Am.*, 2016 WL 5477611, (M.D.N.C. Sept. 29, 2016). Because *Design Res.* was decided after briefing closed on the

original motion for fees, XYZ could not bring it to the Court's attention at that time. But the parallels in facts and law are striking.

Like here, the plaintiff in *Design Res.* filed a false-advertising case that survived early motions but was thoroughly dismissed on summary judgment, which the Fourth Circuit affirmed on appeal. *See Design Res.*, 789 F.3d at 505. On remand, the district court awarded fees. It reasoned that "over time, a party's position and litigation approach may move from being objectively reasonable to becoming unreasonable and perhaps exceptional." 2016 WL 5477611, at *4. Each party "has an on-going responsibility to evaluate the merits of its case and positions." *Id.* And "a party should continue to evaluate the reasonableness of its litigation strategy as the case progresses to ensure that conduct does not cross the line from reasonable to questionable." *Id., see also Sazerac,* 2017 WL 6059271, at *4 (awarding fees).

The court found that "Plaintiff's failure to continually assess the substantive strength of its litigation position, particularly by the conclusion of discovery" supported an award of attorney's fees under *Georgia-Pacific*'s "unusual discrepancy in the merits" factor. 2016 WL 5477611 at *6. Similarly, this same "failure to continually assess the plausibility of its claims" was sufficient to establish an "unreasonable manner of litigation." *Id.* And "the importance of deterring litigants from pursuing their claims even when the claim has fallen apart" reinforced the court's decision to award fees under the "compensation or deterrence" factor. *Id.* at *7.

The similarity between *Design Res.* and this case is uncanny. Both plaintiffs brought weak suits that nonetheless survived motions to dismiss. Both lost at summary judgment for reasons that were forseeable at the time of filing, and particularly by the close of discovery. Both lost their subsequent appeals. This Court should hold Verisign accountable in the same way Judge Osteen held the plaintiff accountable in *Design Res*.

Design Res.'s most important insight is that the exceptional-case inquiry is not fixed to any single point in time. Verisign knew at the time it filed this case that its damages were remote and speculative at best. It knew after receiving XYZ's letter that the bulk of legal authority cut against it. It knew by the close of discovery that it didn't have evidence of materiality and that its

damages expert had made a fatal error—substituting correlation for causation. But Verisign failed in its "ongoing duty to continually assess the substantive strength of its litigation position." Instead it continued tilting at windmills, refusing any talk of settlement, and forcing XYZ to continue to defend the lawsuit long past the point of viability. So, even if the Court concludes that Verisign acted reasonably in filing the lawsuit, the Court can still conclude that Verisign acted unreasonably in continuing to litigate as long and as hard as it did. Under these totality of the circumstances, this case was exceptional.

Conclusion

The Court considers this motion in light of the Supreme Court's guidance in *Octane*. XYZ need not show Verisign filed a frivolous case or acted culpably. Instead it need only show, by a preponderance of evidence and under a totality of the circumstances, that this case stands out from others. XYZ has met that burden.

Verisign filed a weak case, without any evidence of damage, and its conduct only worsened from there. It engaged in unreasonably burdensome discovery and published some of XYZ's most sensitive business secrets for all the world to see, resulting in real harm to XYZ. The Fourth and Seventh Circuits have warned of "the potential for businesses to use Lanham Act litigation for strategic purposes—not to obtain a judgment or defeat a claim but to obtain a competitive advantage independent of the outcome of the case by piling litigation costs on a competitor." This is that very case. It is not ordinary, it is not run of the mill, it is exceptional and the Court should award XYZ its fees.

Dated September 14, 2018.

Respectfully Submitted,

/s/ Timothy J. Battle

Timothy J. Battle
Timothy J. Battle Law Offices
VSB# 18538
524 King Street
Alexandria, VA 22320-4593

(703) 836-1216 Tel
(703) 549-3335 Fax
tjbattle@verizon.net

Derek A. Newman, admitted *pro hac vice*
Jason B. Sykes, admitted *pro hac vice*
NEWMAN DU WORS LLP
100 Wilshire Blvd., Suite 700
Santa Monica, CA 90401
(310) 359-8200 Tel
(310) 359-8190 Fax
dn@nemanlaw.com
jason@newmanlaw.com

Counsel for Defendants XYZ<.com> LLC and Daniel Negari

CERTIFICATE OF SERVICE

I certify that on September 14, 2018, I electrically filed the foregoing with the Clerk of Court using the CM/ECF system, which will send a notification of such filing (NEF) to the following:

Nicholas Martin DePalma
Kevin William Weigand
Taylor S. Chapman
VENABLE LLP
8010 Towers Crescent Drive
Suite 300
Tysons Corner, VA 22182
nmdepalma@venable<.com>
kwweigand@venable<.com>
tschapman@venable<.com>
racolaizzi@venable<.com>

Stephen Keith Marsh
Marsh PLLC
1940 Duke Street
Suite 200
Alexandria, VA 22314
stephen.marsh@marshpllc<.com>

/s/_____
Timothy J. Battle
VSB# 18538
524 King Street
Alexandria, VA 22320-4593
(703) 836-1216 Tel
(703) 549-3335 Fax
tjbattle@verizon<.net>
Counsel for Defendants XYZ<.com> LLC and Daniel Negari